



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #787

State Highway Rehabilitation Funding (DOT -- State Highway Program)

Bill Agency

[LFB 2007-09 Budget Summary: Page 544, #4]

CURRENT LAW

The state highway rehabilitation program is responsible for the reconstruction, reconditioning, and resurfacing of the highways and bridges of the state highway system, except for the southeast Wisconsin freeway system. Base funding for the program is \$612,547,800, which includes \$264,584,600 SEG and \$347,963,200 FED.

GOVERNOR

Provide increases of \$18,055,600 in 2007-08 and \$43,252,400 in 2008-09 for the state highway rehabilitation program. Of these amounts, the funding in 2007-08 would be provided with SEG funds, while the funding in 2008-09 is the net effect of an increase of \$45,972,400 SEG and a decrease of \$2,720,000 FED.

DISCUSSION POINTS

1. The funding increases under the bill for the state highway rehabilitation program would increase funding for the program by 3.0% in 2007-08 and 4.1% in 2008-09, calculated on a base that excludes state-funded salary and fringe benefit costs. The following table shows the total amount of funding for the program under the bill, by fund source, in relation to the 2006-07 base. The changes reflect the effect of this item, standard budget adjustments (\$1,611,800 SEG annually), and a separate item that would transfer funding out of the program to reflect realignment of

responsibilities and funding associated with departmental reorganization (-\$3,702,500 SEG annually).

<u>Fund</u>	<u>2006-07 Base</u>	<u>Governor</u>	
		<u>2007-08</u>	<u>2008-09</u>
SEG	\$264,584,600	\$280,549,500	\$308,466,300
FED	<u>347,963,200</u>	<u>347,963,200</u>	<u>345,243,200</u>
Total	\$612,547,800	\$628,512,700	\$653,709,500

2. Under the bill as submitted, the estimated, biennium-ending balance in the transportation fund was \$30,919,600. Subsequent to the introduction of the bill, the Department of Administration issued an errata, indicating that the Governor's intent was to leave a balance of approximately \$3.0 million. Consequently, the Governor recommends that a portion of the projected ending balance be used to provide additional increases to the state highway rehabilitation program, as well as the major highway development and local transportation aid programs. Under this recommendation, the state highway rehabilitation program would be provided with additional increases of \$8,073,500 in 2007-08 and \$8,355,000 in 2008-09, which would result in total increases above the base of 4.3% in 2007-08 and 4.1% in 2008-09.

3. Since the budget was introduced, transportation fund revenues have been reestimated. As described in LFB Issue Paper #760, the biennium-ending balance in the transportation fund is now estimated at \$99,814,900. The higher projected balance could be used to provide additional increases to transportation programs, reduce the use of bonds in transportation programs, reduce the transportation fund taxes and fees in the bill, or a combination of these actions.

4. The bill would provide higher increases for the state highway rehabilitation program, on a percentage basis, than many other programs, such as the major highway development and local aid programs. In addition, the proposed increases under the errata would also favor the state highway rehabilitation program, since a disproportionate share of the additional funds would be allocated to that program. The Executive Budget Book indicates that the increases for the state highway rehabilitation program are to adjust for increased costs resulting from high construction inflation rates.

5. Although the cost of highway construction has exceeded the general rate of inflation over the past several years and has been particularly high in the last three years, these trends have an impact on all street and highway related programs, not just the state highway rehabilitation program. It could be argued, however, that during a period in which the purchasing power of highway and street construction program budgets are declining due to inflation, one of the most important goals is to maintain the quality of the existing state highway system. It may be justified, therefore, to provide disproportionate increases for the state highway rehabilitation program, as opposed to the major highway development program or local road aid programs.

6. The increasing cost of highway construction could have an impact on DOT's ability to maintain the quality of state highways. However, this has not yet had a clear impact on the measures that the Department uses to measure the average condition of state highways. Under one such measure of pavement quality, the average "roughness" of state highways increased in 2004 and 2005 from prior years, suggesting that the funding for highway improvement programs has fallen below the level needed to maintain the condition of highways at a stable level. However, in 2006, this roughness measure showed an improvement to the same or slightly better level than in the years prior to 2004. Similarly, a measure of pavement distress showed improvement in 2006 from prior years.

7. In the recent past, the state highway rehabilitation program has generally received funding increases in excess of the general rate of inflation. Between 1995-96 and the present, funding for the program has been increased at an average, annual rate of 5.1%, while the general rate of inflation increased by 2.6% annually during that time. The following table shows the funding for the program over the past 12 years, including the annual percentage increases.

Total Funding for the State Highway Rehabilitation Program Since 1995-96

<u>Fiscal Year</u>	<u>Total Funding</u>	<u>Percentage Increase</u>
1995-96	\$354,104,400	--
1996-97	380,551,200	7.5%
1997-98	425,250,100	11.7
1998-99	481,749,500	13.3
1999-00	495,824,200	2.9
2000-01	513,294,200	3.5
2001-02	531,120,100	3.5
2002-03	561,592,700	5.7
2003-04	538,508,700	-4.1
2004-05	559,849,500	4.0
2005-06	593,449,000	6.0
2006-07	612,364,200	3.2

8. If the Committee determines that additional increases for the program are warranted, one funding benchmark that could be used for the program is the recommendation of the Joint Legislative Committee on Transportation Needs and Financing, commonly known as the "Road to the Future Committee." In December, 2006, that Committee issued its final report, recommending funding increases in several key surface transportation programs. For state highway programs, the Committee recommended that the highway improvement programs (the state highway rehabilitation, major highway development, and southeast Wisconsin freeway rehabilitation programs) be funded at the level needed to achieve the goals of the Department of Transportation's Highway Plan 2020. That highway plan outlined a scenario that would increase highway program funding for the 21-year period between 2000 and 2020 to achieve a set of highway improvement

goals related to pavement and bridge condition, congestion relief, and safety. The state has now budgeted for eight of the 21 years of the planning period, but funding levels during that time have fallen below the Highway Plan 2020 recommended levels. Consequently, the funding recommendations of the "Road to the Future Committee" were intended to both meet the plan's annual recommended funding levels and make up for the fact that funding during the first eight years of the planning period fell below the plan's recommendations. Furthermore, since highway construction inflation has reduced the purchasing power of the programs, a large part of the Committee's recommended increase would be to compensate for that loss.

9. "The Road to the Future Committee's" recommended annual increase for all the highway improvement programs totals \$544.6 million, in 2006 dollars. The amount of that total associated with the state highway rehabilitation program is \$59.4 million. However, since this amount is expressed in 2006 dollars, it would have to be increased by the rate of highway construction inflation to maintain the purchasing power recommended by the Committee. For the purpose of making this adjustment, it could be assumed that construction inflation will continue to increase in the next two years, but at the more moderate rate of 2.0% annually. Under this assumption, the program would have to be increased by \$60,588,000 in 2007-08 and \$61,799,800 in 2008-09, on top of a 2.0% increase to the base. Relative to the bill, this level of funding would require increases of \$54,588,000 in 2007-08 and \$42,899,700 in 2008-09. This would amount to total percentage increases of 12.1% in 2007-08 and 2.0% in 2008-09.

10. The "Road to the Future Committee's" recommendations were based on achieving the goals of DOT's most recent long-range highway plan, which was completed in 2000. Over time, changing conditions and policy priorities can alter the assumptions that are used to develop long-range transportation plans. The Department is currently in the process of developing a new long-range transportation plan that will replace the 2000 plan. However, this plan, known as "Connections 2030," will not be complete until later in the year, likely after the Committee completes its deliberations on the budget.

11. The Committee could determine that, while providing the level of funding recommended by the "Road to the Future Committee" would be desirable, other priorities, such as providing increases to other programs, reducing the use of bonds in transportation, or holding down transportation fund taxes and fees must also be considered. In this case, the Committee could decide to provide a more modest funding increase. Instead of the increases of 12.1% and 2.0% that would be required to attain the levels recommended by the "Road to the Future Committee," one alternative would be to provide increases of 6.0% in 2007-08 and 2.0% in 2008-09. This alternative would provide roughly one-half of the "base" increase as recommended by the "Road to the Future Committee." Additional adjustments could be considered in the 2009-11 biennium in light of information included in DOT's "Connections 2030" highway plan. Relative to the bill, this would require funding increases of \$18,111,300 in 2007-08 and \$5,693,500 in 2008-09.

12. The funding decision for the state highway rehabilitation program needs to be made in the context of a consideration of the availability of revenues and competing priorities in other programs. With regards to funding availability, if the Committee makes a decision to reduce or

eliminate the transportation tax and fee changes in the Governor's bill, it may be necessary to reduce or eliminate any above-base increases for transportation programs, including the state highway rehabilitation program, or otherwise reallocate base resources between programs. One alternative would be to provide increases equal to the general rate of inflation for 2007-08 and 2008-09. Global Insight, Inc., projects increases in the consumer price index of 1.8% for calendar year 2007, 2.1% for 2008, and 1.9% for 2009. Consequently, providing 2.0% annual increases for the program would approximate the projected general rate of inflation. Relative to the bill, this would allow decreases of \$6,000,000 in 2007-08 and \$18,900,100 in 2008-09.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide increases of \$18,055,600 SEG in 2007-08 and \$45,972,400 SEG in 2008-09 and a decrease of \$2,720,000 FED in 2008-09 for the state highway rehabilitation program, to provide total funding increases of 3.0% in 2007-08 and 4.1% in 2008-09 for the program.

ALT 1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$64,028,000
FED	<u>0</u>	<u>- 2,720,000</u>
Total	\$0	\$61,308,000

2. Modify the Governor's recommendation by providing additional increases of \$8,073,500 SEG in 2007-08 and \$8,355,000 SEG in 2008-09, to provide total increases of 4.3% in 2007-08 and 4.1% in 2008-09. This alternative would provide the amount of funding recommended by the Governor in an errata submitted after the introduction of the bill.

ALT 2	Change to Bill Funding	Change to Base Funding
SEG	\$16,428,500	\$80,456,500
FED	<u>0</u>	<u>- 2,720,000</u>
Total	\$16,428,500	\$77,736,500

3. Modify the Governor's recommendation by providing additional increases of \$54,588,000 SEG in 2007-08 and \$42,899,700 SEG in 2008-09, to provide the level of funding recommended by the "Road to the Future Committee," which would fund percentage increases of 12.1% in 2007-08 and 2.0% in 2008-09.

ALT 3	Change to Bill Funding	Change to Base Funding
SEG	\$97,487,700	\$161,515,700
FED	<u>0</u>	<u>- 2,720,000</u>
Total	\$97,487,700	\$158,795,700

4. Modify the Governor's recommendation by providing additional increases of \$18,111,300 SEG in 2007-08 and \$5,693,500 SEG in 2008-09, to provide about one-half of the "base" increase recommended by the "Road to the Future Committee," which would fund percentage increases of 6.0% in 2007-08 and 2.0% in 2008-09.

ALT 4	Change to Bill Funding	Change to Base Funding
SEG	\$23,804,800	\$87,832,800
FED	<u>0</u>	<u>- 2,720,000</u>
Total	\$23,804,800	\$85,112,800

5. Modify the Governor's recommendation by deleting \$6,000,000 SEG in 2007-08 and \$18,900,100 SEG in 2008-09, to provide total funding increases of 2.0% annually for the program.

ALT 5	Change to Bill Funding	Change to Base Funding
SEG	- \$24,900,100	\$39,127,900
FED	<u>0</u>	<u>- 2,720,000</u>
Total	- \$24,900,100	\$36,407,900

6. Delete provision.

ALT 6	Change to Bill Funding	Change to Base Funding
SEG	- \$64,028,000	\$0
FED	<u>2,720,000</u>	<u>0</u>
Total	- \$61,308,000	\$0

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