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

[LFB 2011-13 Budget Summary: Page 439, #3]

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 highways on the southeast Wisconsin freeway rehabilitation system, and except for highway projects that exceed the capacity expansion thresholds established for the major highway development program.

In 2010-11, the program is funded at a total level of $738,100,000, which consists of the following funding by source: (a) $292,189,400 SEG; (b) $313,554,500 FED; (c) $30,000,000 in transportation fund-supported general obligation bonds; and (d) $102,356,100 in general fund-supported, general obligation bonds. A provision of the 2009-11 budget directed the Department of Transportation to increase the SEG base for the program by $102,356,100, for the purposes of the preparation of the 2011-13 budget, to, in effect, replace the $102.4 million in general fund supported bonds for the program. With other adjustments, the 2010-11 appropriation base for the program (excluding bonds) is $708,518,400.

GOVERNOR

Adjust the funding for the state highway rehabilitation program as follows: (a) provide $85,529,100 FED in 2011-12 and $90,379,200 FED in 2012-13; (b) reduce funding by $8,679,600 SEG in 2011-12 and provide an increase of $640,800 SEG in 2012-13; (c) reduce the SEG appropriation by $115,351,500 in 2011-12 and authorize an equal amount of general fund-supported, general obligation bonds to replace the SEG funds; and (d) authorize $50,000,000 in transportation fund-supported, general obligation bonds for state highway rehabilitation projects.

DISCUSSION POINTS

1. The item discussed in this paper would provide the following for the state highway rehabilitation program: (a) a net increase in SEG and FED funds for the state highway rehabilitation program of $76,849,500 in 2011-12 and $91,020,000 in 2012-13; (b) $115,351,500 of general fund-supported bonds to replace an equal amount of SEG funds in 2012-13; and (c) $50,000,000 in transportation fund-supported bonds. In addition to these changes, smaller modifications would be made under other decision items. The following table shows the total proposed funding for the program in relation to the current level of funding. The table reflects the Department's intended allocation of bond authorization between the two years of the biennium.

Current and Proposed Funding for the State Highway Rehabilitation Program Under SB 27/AB 40

	2010-11 Base	SB 27/AB 40	
	Plus Bonding	2011-12	2012-13
SEG	$292,607,800*	$270,150,900	$394,822,800
FED	313,554,500	394,320,800	399,170,900
Gen. Ob. Bonds (GPR)	102,356,100	115,351,500	0
Gen. Ob. Bonds (SEG)	30,000,000	32,000,000	18,000,000
Total	$738,518,400	$811,823,200	$811,993,700

* In order to avoid double counting, this figure excludes $102,356,100, which was added to the base under a provision of 2009 Act 28 to replace bonding.

2. As the table shows, total funding for the program would increase from the 2010-11 level. However, drawing comparisons between the current funding level and the proposed funding level is complicated by changes in program responsibilities, which are described below.

3. Under current law, the appropriations for the southeast Wisconsin freeway rehabilitation program, which is responsible for highway improvement projects on the southeast Wisconsin freeway system, would be sunset after June 30, 2011. However, provisions that prohibit those projects from being funded from the state highway rehabilitation program appropriations are retained. The bill would generally eliminate those restrictions as part of an initiative to allocate responsibility for southeast Wisconsin freeway projects among other programs. Southeast Wisconsin freeway rehabilitation projects with an estimated cost of under $75 million would become the responsibility of the state highway rehabilitation program, while projects with a cost exceeding $75 million would be the responsibility of the major highway development program or a new program, called southeast Wisconsin freeway megaprojects, depending upon their cost. [For more information on these larger, southeast Wisconsin freeway rehabilitation projects, see LFB Issue Paper #666 on the major highway development program, or LFB Issue Paper #667 on the megaprojects.]

4. The Department indicates that within the current southeast Wisconsin freeway rehabilitation program, approximately $48 million annually has been allocated for freeway rehabilitation projects that would, under provisions of the bill, be funded under the state highway rehabilitation program. Consequently, the comparison of the current funding level for the state highway rehabilitation program with the proposed funding level for the program should take into account additional program responsibilities equal to $48 million for these more "routine" southeast Wisconsin freeway rehabilitation projects. The following table compares the proposed funding level in the bill with a level of funding that represents a continuation of the 2010-11 funding level, adjusted by the addition of $48 million annually, to reflect the inclusion of the "routine" southeast Wisconsin freeway rehabilitation projects. In addition, to provide a truer comparison, the "current" scenario makes the same adjustments to the program that the bill would make to the 2011-13 funding levels that are tied to specific changes in administrative costs, such as standard budget adjustments and a decision item that reduces funding to reflect reductions in employee compensation.

Comparison of Proposed Funding for the State Highway Rehabilitation Program with Adjusted Current Funding Scenario
($ in Millions)

	2011-12	2012-13
Proposed Funding Under the Bill	$811.8	$812.0
Comparison to "Current Funding" Scenario		
2010-11 Funding Level	$738.1	$738.1
Southeast Freeway Adjustment	+48.0	+48.0
Misc. Cost-Based Adjustments*	-2.8	-2.8
Adjusted Total Scenario	$783.3	$783.3
Difference	+$28.5	+$28.7
Percent Difference	3.6%	3.7%

* This amount reflects the sum of cost-based adjustments to current funding to allow a comparison with the proposed funding under the bill. This includes base adjustments (+$0.4 million), standard budget adjustments (+$1.0 million), and a decision item to reduce funding to reflect a reduction in employee compensation (-$4.2 million).

5. The analysis shown in the previous table is intended to compare the proposed funding for the state highway rehabilitation program with the current level of funding for the same set of program responsibilities under the current highway program structure. As the table shows, the bill would provide an increase of $28.5 million in 2011-12 and $28.7 million in 2012-13 for this set of program responsibilities, which is 3.6% and 3.7%, respectively, above the baseline scenario.

6. In addition to the provision that would shift responsibility for the routine southeast Wisconsin freeway rehabilitation projects to the state highway rehabilitation program, another

change would shift certain project responsibilities out of the program. Projects that involve capacity expansion over certain thresholds (most significantly, adding at least five miles of new lanes to an existing highway), are currently the responsibility of the major highway development program. Under the bill, any project that does not meet the capacity expansion thresholds, but that has an estimated cost exceeding $75 million, would also become the responsibility of the major highway development program (except for southeast Wisconsin freeway megaprojects). Although this provision, if enacted, would remove costs from the state highway rehabilitation program, the amount would vary from year to year depending upon project schedules. In the 2011-13 biennium, the provision would affect two projects that are expected to be in the design and real estate acquisition phase (although a technical change to the bill would be required to accomplish the Department's intent with respect to the applicability of the provision). One of these projects involves the reconstruction of the USH 151/USH 18 interchange in the City of Madison, plus related work on those highways extending from the interchange (sometimes referred to as the "Verona Road" project), while the other is the reconstruction of the Hoan Bridge in the City of Milwaukee. Together, the Department estimates that the project expenditures will total $15 million in 2011-12 and $27 million in 2012-13.

7. The decision to remove the high-cost rehabilitation projects out of the state highway rehabilitation program would be a benefit to all other rehabilitation projects. That is, in the absence of this change, the costs of the Verona Road and Hoan Bridge projects would have to be absorbed within the state highway rehabilitation program. Additionally, in future biennia, the value of this benefit for other rehabilitation projects would be greater, since project expenditures for the high-cost rehabilitation projects will grow as those projects move toward construction. The total cost of the Verona Road project (excluding the third phase, which the Department has proposed be delayed until after 2030) is estimated at between $141 million and $145 million (in 2010 dollars), and the cost of the Hoan Bridge project is preliminarily estimated at between $275 million and $350 million.

8. The analysis presented above provides a comparison of funding for highway rehabilitation from the current year to the funding that would be provided under the bill. The proposed funding can also be examined in relation to the overall transportation budget, including the sufficiency of revenues for providing the proposed funding. Although there may be several facets to this issue, one in particular involves the use of general fund-supported bonds for the program. Of the funding provided for the state highway rehabilitation program in the 2009-11 biennium, $102.4 million annually was provided using general fund-supported, general obligation bonds. A provision of the 2009-11 budget required that the portion of the program funded with general fund-supported bonds in 2010-11 be replaced with an equal SEG appropriation increase for the purposes of the preparation of the 2011-13 biennial budget bill. In effect, this adjustment provides an automatic, annual increase in the program's SEG appropriation, relative to the actual SEG appropriation in 2010-11, to offset the bonds. However, without significant growth in transportation fund revenue or reallocation of funding between programs, transportation revenues would be insufficient to provide this increase.

9. In general terms, the bill would address the problem described in the previous point

by continuing the use of general fund-supported bonds in 2011-12, although at a slightly higher level ($115,351,300 in bonds to replace an equal amount of SEG). In 2012-13, the use of general fund bonds would be discontinued, but the SEG appropriation would be increased (that is, restored to the "base" level) to replace the bonds. Although various budget decisions play a role in making this SEG increase possible, a key part would be the use of a total of $141.6 million in general fund revenues for transportation programs, including $106.5 million in general fund revenues for providing mass transit aid (to replace SEG funds in that program), and the transfer of $35.1 million in general sales tax revenue to the transportation fund.

10. Debt service on the proposed general fund-supported bonds is estimated at $4,084,100 GPR in 2012-13, an amount that was reflected in the Department's GPR debt service appropriation. When fully issued, annual debt service would be an estimated $12.8 million.

11. In some respects, the bill's treatment of funding for the state highway rehabilitation program, and the related use of general fund revenues for transportation programs, continues a policy begun in the 2009-11 budget of using general fund resources (in the form of bonds) to provide a higher level of transportation program spending than would otherwise be the case with transportation fund revenues alone. Furthermore, because these funding shifts would continue in future biennia (and, in the case of sales tax revenue, would increase in size), the bill would establish a new policy of using general fund resources for transportation on an ongoing basis.

12. In contrast to the previous point, a case could be made that the bill's use of general fund revenues to support the overall level of transportation program spending continues what was an unsustainable level of overall transportation funding that was established in 2009-11. Without the use of general fund-supported bonds in the state highway rehabilitation program, overall transportation spending would have been constrained within existing transportation fund resources. Instead of expecting that level of spending to continue, and using general fund revenues to make it possible, as the bill would do, a decision could be made to lower the level of funding for transportation programs. This could be done by reducing funding on the state highway rehabilitation program, relative to 2010-11 levels, or by distributing the reduction among all, or a few selected, transportation programs.

13. Regardless of whether or not one takes the position that general fund revenues should be used to supplement funding for transportation programs on an ongoing basis, a case could be made that it is appropriate to use general fund-supported bonding on a temporary basis to compensate for past instances of the use of transportation fund revenues for general fund purposes. Since the 2003-05 biennium, transportation fund revenues have been used on several occasions to help balance the general fund budget. In each instance, transportation fund revenues were transferred to the general fund (or appropriated directly for non-transportation programs) and general fund-supported bonds were provided to replace or partially replace the transferred funds. The difference between the transfer and the replacement bonds can be expressed in terms of the net loss to the transportation fund. The following table shows these amounts for each biennium since 2003-05.

Loss to Transportation Programs Due to Transfers from 2003-05 through 2009-11
($ in Millions)

	2003-05	2005-07	2007-09	2009-11	8-Year Total
Transfers and Appropriations	$675.0	$430.8	$162.0	$126.0	$1,393.8
Less Gen. Ob. Bonds	-565.5	-250.0	-50.0	-204.7	-1,070.2
Plus Trans. Fund Debt Service*	43.9	0.0	0.0	0.0	43.9
Total	$153.4	$180.8	$112.0	-$78.7	$367.5

* In the 2003-05 biennium, debt service on replacement bonds, totaling $43.9 million, was initially paid from the transportation fund, instead of from the general fund, adding to the net loss.

14. As shown in the preceding table, the 2009-11 biennium was the first time that the "replacement" bonds exceeded the transferred funds, reducing the net loss to the transportation fund. Although this had the effect of increasing the level of transportation spending over what otherwise would have been possible in the biennium, there remains a net loss to transportation programs over the eight-year period. The $115.4 million in general fund-supported bonds proposed under the bill would reduce this net loss to $252.1 million.

15. One alternative to continue the process of "paying back" the transportation fund, without using general fund revenues for transportation on a permanent basis, would be to replace SEG funds in the highway rehabilitation program with additional general fund bonds. An additional $141.6 million in bonds could be authorized for the program for use in 2012-13, reducing the net loss to the transportation fund to $110.5 million (the same level as the bill achieves by using current general fund revenues). The SEG appropriation reduction would accommodate a decision to reverse the provisions that involve the use of general fund revenues for transportation on an ongoing basis [Alternative #B2]. This alternative could be modified to replace a portion, rather than all, of the general fund revenues used for transportation. [Other arguments could be made for or against using general fund revenues for transportation, even if the past transfers are paid back in this way. For a further discussion of these issues, see LFB Issue Paper #642.]

16. Once fully issued, annual debt service on the bonds that would be authorized under the alternative described in the previous point would be $15.7 million. [Based on the issuance assumptions used by the Department of Administration under the bill, no debt service would be paid on these bonds in the 2011-13 biennium.] From the perspective of the general fund's out-year commitments, however, this debt service cost would be substantially lower than the increasing loss of revenue associated with the transfer of sales tax revenue to the transportation fund. From the perspective of the state highway rehabilitation program, maintaining the same level of funding into the 2013-15 biennium would require an increase in SEG or FED funds (or some other source) of $141.6 million per year.

17. In addition to the general fund-supported bonds, the 2009-11 biennial budget

provided $60 million in transportation fund-supported bonds for the state highway rehabilitation program, the first time since the creation of the program (in its current form) that such bonds were used for that purpose. The bill would continue that practice, by providing $50 million over the biennium for the program. As with the use of general fund bonds, an argument could be made that those bonds provided an unsustainable level of funding for the program, given the current status of the transportation fund. Like the federal economic stimulus funds provided for transportation projects, the bonds increased highway spending at a time of high unemployment, but, in principle, such measures are generally intended to be temporary. If one adheres to this perspective, the transportation fund-supported bonds provided by the 2009-11 biennium would not be considered part of the base level of resources for the program, and, therefore, new bonds should not be provided in 2011-13 in an attempt to sustain that level [Alternative #C2]. This would drop the increase for the program identified under Point #4 (3.6%) to 0.5%.

18. When fully issued, the annual debt service payments on the $50 million in transportation fund-supported, general obligation bonds for the program would be about $5.7 million. However, because of the delay between the time that the bond proceeds are obligated for a project and when the first debt service payments are due, the amount owed during the biennium would be somewhat less. The bill reflects estimated debt service payments of $800,000 in 2011-12 and $4,073,900 in 2012-13

19. The discussion at the beginning of this paper centered on comparisons between the current and proposed level of funding for the program. By these measures, the proposed level of funding for the state highway rehabilitation program would be increased, in contrast to many other programs in state government. However, another perspective on funding decisions in the highway improvement programs would be to evaluate the proposed level of funding for the program with respect to its adequacy to address assessed needs.

20. In testimony before the Committee, the DOT Secretary noted that with the proposed level of funding for the state highway rehabilitation program, the number of miles on the state trunk highway system in need of rehabilitation would be higher at the end of the biennium than at the beginning. Highway pavements deteriorate over time, although the rate of deterioration varies due to such factors as the type of surface, the age and condition of the underlying base, the volume and weight of traffic, and climatic conditions. The Department's highway asset management system takes these factors into consideration to forecast when each segment in the system reaches the point when rehabilitation is required. According to the Department's analysis, the number of miles of highway that reach that point during the next two years will exceed, by approximately 5%, the number of miles of highway that could be improved with the proposed level of funding. From this perspective, although the highway rehabilitation program would receive a funding increase, that level would not be sufficient to maintain current conditions.

21. Highways become more expensive to repair as they age, eventually reaching a point where repairs are several times more expensive than if done earlier. Ideally, low-cost repairs are done before a pavement begins to deteriorate, in order to extend its overall life. However, this is not always possible or realistic given that other pavements in the system are already well past the point

that the most cost-effective repairs can be done. The Department expects that the number of pavements that are reaching this point will increase over the next few years, accounting for the increase in the number of pavements in need of rehabilitation.

22. The Department indicates that it would be difficult to determine how much funding would be needed to maintain the current level of highways in need of rehabilitation, for various reasons. The projects that can be done with a certain level of funding will vary depending upon factors unique to the individual projects.

23. As noted above, the use of bonds and the proposed use of general fund revenues for transportation allows for a higher level of funding for state highway rehabilitation than would otherwise be the case using only current transportation revenue sources. These budgetary measures could be justified on the grounds that maintaining the condition of the state highway system is important, not just for providing a high-quality highway system, but that delaying rehabilitation results in higher costs in the future.

24. The state highway rehabilitation program is not the only state program for which claims could be made that the funding proposed in the bill is insufficient to maintain current levels of service, although the impacts of funding reductions for some of these other programs may be harder to quantify. From the perspective of these other programs, the fact that the bill would provide an increase in funding for the state highway rehabilitation may seem unjustified. As shown in the table under Point #4, a decision to maintain the current level of funding for the set of activities that would be subsumed under the state highway rehabilitation program, without any increase, would allow a reduction in total funding, relative to the bill, of $28.5 million in 2011-12 and $28.7 million in 2012-13. Such a reduction would allow either a reallocation of funding to other transportation programs, a reduction in the use of general fund revenue for transportation programs, or a reduction in bonding [Alternative #A2].

25. A separate provision of the bill would enumerate four major highway projects in the statutes and provide a level of funding for the major highway development program that, if maintained, would be sufficient to start those projects within the next six years. [See LFB Issue Paper #666 for a discussion of this program.] Some argue that, at a time when transportation fund revenues are insufficient to provide enough funding to meet the perceived demands in various programs, the state should concentrate resources on maintaining existing assets, like the state highway system. It may be necessary, in this case, to reallocate resources from some other programs to do so. Instead of initiating new highway capacity expansion projects, as proposed under the bill, LFB Issue Paper #666 provides an alternative to delete the enumeration and reduce the proposed level of funding for the major highway development program (-$34,700,000 in 2011-12 and -$56,800,000 in 2012-13) to a level sufficient to complete existing enumerated projects. One alternative, with respect to the state highway rehabilitation program, would be to reallocate the funding that the bill would provide for new capacity expansion projects to provide an additional increase for highway rehabilitation projects [Alternative #A3].

ALTERNATIVES

A. SEG and FED Funding/Overall Funding Level

1. Approve the Governor's recommendation to make funding adjustments to the state highway rehabilitation program, resulting in a net change of SEG and FED funding of $76,849,500 in 2011-12 and $91,020,000 in 2012-13.

2. Modify the bill by reducing funding by $28,500,000 in 2011-12 and $28,700,000 in 2012-13 to provide approximately the same level of funding as in 2010-11 for the program, after accounting for changes to program responsibilities under the bill. [The box shows this reduction in SEG funds. This modification could be made using other funds, including bonds, depending upon other decisions made by the Committee with respect to the transportation and general fund budgets.]

ALT A2	Change to Bill Funding
SEG	- $57,200,000

3. Provide an additional increase of $34,700,000 SEG in 2011-12 and $56,800,000 SEG in 2012-13 for the program, which is the amount of funding that the bill would provide to initiate new capacity expansion projects in the major highway development program.

ALT A3	Change to Bill Funding
SEG	$91,500,000

4. Delete provision.

ALT A4	Change to Bill Funding
FED	- $175,908,300
SEG	8,038,800
Total	-$167,869,500

B. General Fund-Supported Bond Authorization

1. Approve the Governor's recommendation to authorize $115,351,500 of general fund-supported, general obligation bonds for the state highway rehabilitation program, reduce the SEG appropriation in 2011-12 by an equal amount, and estimate debt service on these bonds at $4,084,100 GPR in 2012-13.

2. Modify the Governor's recommendation by authorizing an additional $141,605,300 in general fund-supported bonds for the state highway rehabilitation program and reducing the SEG appropriation by a corresponding amount in 2012-13. This amount equals the general fund support for transportation programs through the transfer of vehicle-related sales tax revenues and the conversion of mass transit operating assistance to GPR funding.

ALT B2	**Change to Bill** Funding
BR	$141,605,300
SEG	-141,605,300
Total	-$0

3. Delete provision.

ALT B3	**Change to Bill** Funding
BR	- $115,351,500
SEG	115,351,500
GPR	- 4,084,100
Total	- $4,084,100

C. Transportation Fund-Supported Bond Authorization

1. Approve the Governor's recommendation to authorize $50,000,000 in transportation fund-supported, general obligation bonds for state highway rehabilitation projects and to estimate debt service on these bonds at $800,000 SEG in 2011-12 and $4,073,900 SEG in 2012-13.

2. Delete provision.

ALT C2	**Change to Bill** Funding
BR	- $50,000,000
SEG	-4,873,900
Total	-$54,873,900

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