



## Legislative Fiscal Bureau

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May 24, 2011

Joint Committee on Finance

Paper #667

### **I-94 North-South Freeway Project and Zoo Interchange Reconstruction Project (DOT -- State Highway Program)**

[LFB 2011-13 Budget Summary: Page 444, #8 and Page 445, #9]

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#### **CURRENT LAW**

The Department of Transportation began the I-94 North-South freeway reconstruction project in 2009. The project, which extends for approximately 35 miles between the Mitchell Interchange (I-894/I-43/I-94) in Milwaukee County and the Illinois state line, is funded with a combination of transportation fund-supported, general obligation bonds and the SEG and FED appropriations for the southeast Wisconsin freeway rehabilitation program. The project involves the reconstruction of interchanges, frontage roads, and the mainline freeway, with the construction of additional lanes, to provide four, general-purpose lanes in each direction.

The Zoo Interchange reconstruction project is a proposal currently in the environmental analysis stage. The area under study involves the interchange of I-94, I-894, and USH 45 in Milwaukee County, running from 70<sup>th</sup> Street to 124<sup>th</sup> Street on the east-west axis, and from Burleigh Street to Lincoln Avenue on the north-south axis.

The southeast Wisconsin freeway rehabilitation program was created in the 2001-03 biennial budget act for highway rehabilitation and capacity expansion projects on the freeways of Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha counties. Under the provisions of that act, no funds may be encumbered from the southeast Wisconsin freeway rehabilitation appropriations after June 30, 2011. Any unencumbered funds in those appropriations on that date are transferred to the state highway rehabilitation program

## **GOVERNOR**

### **North-South Freeway Project**

Provide \$10,710,200 SEG and \$71,289,800 FED in 2011-12 and \$19,036,800 SEG and \$23,763,300 FED in 2012-13 in new appropriations for southeast Wisconsin freeway megaprojects for the I-94 North-South freeway project and authorize \$70,200,000 in transportation fund-supported, general obligation bonds for that project.

### **Zoo Interchange Reconstruction Project**

Provide \$22,236,700 SEG and \$23,763,300 FED in 2011-12 and \$26,710,200 SEG and \$71,289,800 FED in 2012-13 in the new, southeast Wisconsin freeway megaprojects appropriations for the Zoo Interchange reconstruction project and authorize \$81,000,000 in transportation fund-supported, general obligation bonds for that project.

## **DISCUSSION POINTS**

1. Under current law provisions, the southeast Wisconsin freeway rehabilitation appropriations are sunset after June 30, 2011. The bill would create a new program for southeast Wisconsin freeway megaprojects, which would be defined as any highway improvement project on those freeways with an estimated cost exceeding \$500 million. Southeast Wisconsin freeway rehabilitation projects that are below that threshold would be funded under the state highway rehabilitation program or the major highway development program. The North-South freeway project and the proposed Zoo Interchange reconstruction project would be funded under the megaprojects program.

2. In general terms, the bill would provide funding for the North-South freeway project to complete certain, ongoing elements, but would then delay most other work on the project until 2018 and beyond. In contrast, increased funding would be provided to advance construction on the Zoo Interchange project. This paper provides information on both projects and discusses the issues related to the shift of focus from one to the other.

### **I-94 North-South Freeway**

3. From 2005-06 through the end of 2010-11, a total of \$858.2 million has been provided for the North-South freeway project. Of that amount, \$422.0 million (49%) was provided from a combination of state transportation fund and federal highway formula aid appropriations, \$340.5 million (40%) was provided with transportation fund-supported, general obligation bonds, and \$95.7 million (11%) was an allocation of federal economic stimulus funds.

4. According to the Department's most recent financial report for the project, the total cost is estimated at \$1,912.0 million, expressed in year-of-construction dollars (that is, expenditures in future years are inflated based on an assumed rate of inflation). Consequently, at the end of the 2009-11 biennium, \$1,053.8 million will be needed to complete the project, provided that the final cost does not differ from the estimate. Although two large project lets in 2010 were 20% or more

below estimates, the Department has not reduced the overall project cost estimate, noting that the savings on those two projects do not necessarily represent cost trends for the whole project.

5. The bill would provide a total of \$82.0 million in 2011-12 and \$42.8 million in 2012-13 in combined SEG and FED funds for the project and would authorize a total of \$70.2 million in transportation fund-supported, general obligation bonds. The following table shows the proposed funding allocation between the two years of the biennium for the project.

<u>Fund Source</u>	<u>2011-12</u>	<u>2012-13</u>	<u>Biennial Total</u>
FED	\$71,289,800	\$23,763,300	\$95,053,100
SEG	10,710,200	19,036,800	29,747,000
Bonds	<u>70,000,000</u>	<u>200,000</u>	<u>70,200,000</u>
Total	\$152,000,000	\$43,000,100	\$195,000,100

6. The funding provided by the bill represents a modification to the previous expenditure plan for the project. Under the previous plan, most of the funding necessary to complete the project would be provided in the 2011-13 and 2013-15 biennia, allowing for the project to be completed in 2016. The Department indicates that under the revised plan for the project, work would continue in the 2011-13 biennium on selected interchanges and frontage roads, on a segment of the mainline freeway in Kenosha County, and on the airport spur (STH 119), but that completion of the remainder of the mainline freeway, primarily in Racine and Milwaukee counties, would be delayed until 2018 and thereafter.

7. Although the project schedule would be modified, delaying work on most of the mainline freeway, the Department believes that the project can be completed within the same project budget. In addition, although the delay may necessitate additional pavement maintenance prior to complete reconstruction, the Department expects that this work can also be completed within the project budget, largely because portions of the project that have already been completed were less costly than anticipated.

8. The Department indicates that the decision to shift the focus of work from the North-South freeway to the Zoo Interchange was made primarily to address the more pressing traffic congestion problems, as well as the deteriorating physical condition, on that interchange. The work that has been completed on the North-South freeway (or will be completed with the funding provided by the bill), has allowed the Department to address what it considers to be the most crucial safety and operational deficiencies on that freeway. Specifically, the Department will have reconstructed the Mitchell Interchange by the end of 2012 to add capacity and conform to modern engineering standards, and will also have addressed safety deficiencies on frontage roads and several interchanges in Racine and Kenosha counties. In addition, the mainline freeway will have been expanded to four lanes in each direction in the area just south of the Mitchell Interchange and from the Illinois state line to the STH 142 interchange in Kenosha County. With these improvements, the Department has determined that addressing the Zoo Interchange deficiencies is a higher priority than completing the remaining segments on the mainline of the North-South freeway.

9. Although funding resources would be shifted to the Zoo Interchange, the Department anticipates that, under the revised schedule for the North-South freeway project, approximately \$50.0 million would be spent per biennium in the 2013-15 and 2015-17 biennia before resuming work on the mainline freeway in the 2017-19 biennium. In the intervening years, funds would be required to reconstruct the Ryan Road interchange in Milwaukee County in 2013-15 and to construct a short segment of the mainline freeway in Kenosha County in 2015-17.

10. If the Committee decides to provide the funding necessary to maintain the original schedule for the project, additional funding would have to be provided. Prior to the decision to shift funding to the Zoo Interchange project, the Department had planned for a project budget of \$224.9 million in 2011-12 and \$339.9 million in 2012-13, which exceeds the amount provided under the bill by a total of \$369.8 million (\$72.9 million in 2011-12 and \$296.9 million in 2012-13). If the Committee makes a decision not to advance the construction schedule for the Zoo Interchange project, as proposed, a portion of the funding necessary to maintain the schedule for the North-South freeway could be reallocated from the Zoo Interchange. The bill would provide a total of \$225.0 million for the Zoo Interchange project, which, if reallocated to the North-South freeway, would reduce the amount of additional funds needed to \$144.8 million [Alternative #A2].

11. If the Committee decides to maintain the original schedule for the North-South freeway project, but without reallocating funding from the Zoo Interchange project, the amount of additional funding needed would be \$369.8 million [Alternative #A3].

12. If additional funding were provided for the North-South freeway project to maintain the Department's original schedule (either with or without reallocating funds from the Zoo Interchange project), these additional funds could be provided with bonds or with additional SEG or FED funds. However, providing enough additional funding using only SEG and FED funds would require a more substantial change to the overall transportation budget, either through a reallocation of funds from other programs or an increase to transportation fund revenues. Without such a change, any decision to increase funding for the North-South freeway project would require the authorization of additional bonds.

13. The bill would provide \$70.2 million in bonds for the North-South freeway project. When fully issued, it is estimated that the annual debt service payments on these bonds would be \$5.6 million. However, because of the delay between the time of project expenditures and when debt service payments are made, the full payments would not begin until after the 2011-13 biennium. Under the bill, debt service payments associated with the North-South freeway project bonds are estimated at \$1,887,600 in 2012-13.

14. If funding is reallocated from the Zoo Interchange and additional bonds are provided to maintain the original North-South freeway project schedule (as under Alternative #A2), the total amount of bonds provided for the North-South project would be \$296 million (including \$70.2 million under the bill, \$81.0 million reallocated from the Zoo Interchange project, and \$144.8 million of new bonds). Annualized debt service associated with this amount would be \$23.7 million. Although debt service in the biennium on the North-South freeway bonds would increase by \$916,900 in 2012-13, this amount would not be an increase to the amount reflected in the bill, since it is associated with bonds that the bill would provide for the Zoo Interchange project. Debt

service on the new bonds authorized for the project under this alternative would not be incurred during the 2011-13 biennium.

15. If additional bonds are provided to maintain the original North-South freeway project schedule without reallocating funding from the Zoo Interchange project (as under Alternative #A3), the total amount of bonds provided for the North-South freeway project would be \$440 million (including \$70.2 million under the bill and \$369.8 million in new bonds). When fully issued, annualized debt service on this amount would be \$35.2 million. Because most of the additional bonds would be allocated to projects under construction later in the biennium, the additional debt service in the biennium would be substantially less. Relative to the bill, total debt service would increase by \$2,557,400 in 2012-13.

16. The \$195.0 million provided for the North-South freeway project under the bill would leave an estimated \$858.8 million in remaining costs after the 2011-13 biennium. Most of that additional amount would be needed in the 2017-19 biennium under the Department's revised schedule. If an additional \$369.8 million were provided for the North-South freeway project to maintain the original schedule, as described in the previous points, the remaining cost after the 2011-13 biennium would be reduced to \$489.0 million. Most of this remaining amount would be needed in the 2013-15 biennium.

17. Subsequent to the introduction of the bill, the Department of Administration submitted a budget erratum related to the southeast Wisconsin freeway megaprojects program. Under current law, any unencumbered balance in the appropriations for the southeast Wisconsin freeway rehabilitation program will be transferred to the corresponding state highway rehabilitation program appropriations after June 30, 2011. However, the Department indicates that at least one contract associated with the North-South freeway project is expected to be let late in 2010-11, but that since the contract may not be signed until after June 30, the funds associated with the let will not actually be encumbered by that date. The erratum requests that the bill be amended to include a nonstatutory provision that would allow the Department to determine the portion of unencumbered funds in the southeast Wisconsin freeway rehabilitation appropriations at the end of 2010-11 that is associated with the southeast Wisconsin freeway megaprojects, and to transfer that amount to the southeast Wisconsin freeway megaprojects appropriations [Alternatives #A1, #A2, and #A3].

### **Zoo Interchange Reconstruction**

18. While the reduced funding provided for the North-South freeway would result in a delay in the completion of that project, the bill would provide additional funding and bonds to accelerate work on the Zoo Interchange reconstruction project (I-94/I-894/USH 45 in western Milwaukee County). The following table shows the proposed funding for the Zoo Interchange project.

<u>Fund Source</u>	<u>2011-12</u>	<u>2012-13</u>	<u>Biennial Total</u>
FED	\$23,763,300	\$71,289,800	\$95,053,100
SEG	22,236,700	26,710,200	48,946,900
Bonds	<u>34,000,000</u>	<u>47,000,000</u>	<u>81,000,000</u>
Total	\$80,000,000	\$145,000,000	\$225,000,000

19. The Department completed the draft environmental impact statement for the Zoo Interchange reconstruction project in May, 2009. That document estimated the cost, in year-of-construction dollars, at \$2.25 billion to \$2.31 billion for reconstruction with increased capacity to four lanes in each direction on the four legs of the interchange, as well upgrades to the ramps, bridges, and other elements to current engineering standards ("modernization"). The cost of modernization without mainline capacity expansion was estimated at between \$2.07 billion and \$2.16 billion. Replacing the freeways and interchange in the study area in its current configuration (no upgrades) was estimated to cost \$960 million.

20. In response to public comments on the draft environmental impact statement (DEIS) in June of 2009, the Department initiated a more extensive review of alternatives. Among the results of that review was the development of a "reduced impacts alternative," which was presented in a supplemental draft environmental impact statement (SDEIS), published in February, 2011. The reduced impacts alternative would include many of the design upgrades included in the modernization alternatives, but, relative to those alternatives, would reconfigure the core of the interchange, generally reducing impacts on abutting properties.

21. With the publication of the SDEIS, the estimated cost of all alternatives was reduced, based on an updated assessment of unit costs and quantities, as well as the timing of construction. The capacity expansion with modernization alternative is now estimated at \$1.88 billion to \$2.28 billion, while modernization without capacity expansion is estimated at \$1.73 billion to \$2.10 billion, and reconstruction with no modernization is estimated at \$764 million to \$922 million. The cost of the reduced impacts alternative is estimated at \$1.71 billion to \$2.05 billion.

22. Although the reduced impacts alternative would reduce the cost of reconstructing the core and freeway legs of the interchange, the SDEIS identifies other improvements on auxiliary highways that were not included in the DEIS. Since the modernization alternatives (including the reduced impacts alternative) would remove some access points to I-94, traffic on certain other local streets and highways is expected to increase, as drivers adjust to the new configurations to reach destinations near the interchange. Consequently, the SDEIS proposes improvements to STH 100, STH 181 (84<sup>th</sup> Street), and Watertown Plank Road to accommodate this shift in traffic. The cost of these improvements is estimated at \$65 million to \$73 million, which is in addition to the costs presented in the previous point.

23. On May 13, the Department announced the preferred alternative for the reconstruction project, which is based on the reduced impacts alternative, with the proposed improvements to the adjacent, arterial streets, as described above. Under the preferred alternative, I-894/USH 45 would be widened to four lanes in each direction, while I-94 would be maintained at three lanes in each direction. The east-west segment on I-94 would be built with 18-foot wide shoulders, sufficient to accommodate the construction of an additional, general purpose lane in the future. The Department indicates that the estimated cost of the preferred alternative would be the same as the reduced impacts alternative, with the adjacent arterial highways component (\$1.775 billion to \$2.123 billion).

24. Under the Department's preliminary schedule for the project, final design and real estate acquisition, as well as construction on adjacent highways, would begin during the 2011-13

biennium. Construction of the remainder of the project would occur in the five years following the 2011-13 biennium, although adhering to that schedule would be contingent upon the Legislature providing sufficient funding in subsequent biennia.

25. The initiation of the Zoo Interchange project in the 2011-13 biennium may commit the state to significantly increased expenditures in subsequent biennia to complete the project. If the proposed level of funding is approved, the remaining cost after the 2011-13 biennium (including the cost of improvements to adjacent arterial highways) would be between \$1.55 billion and \$1.90 billion. If the project were to be completed over the following five years, then average, annual expenditures would be between \$310 million and \$380 million.

26. Under the bill, \$81.0 million, or 36% of the total funding provided for the Zoo Interchange project, would be provided with bonds. When fully issued, annualized debt service on this amount is estimated at \$6.5 million, although in the biennium, debt service payments are estimated at just \$916,900 in 2012-13.

27. Unless substantial increases in SEG and FED funds are provided for the project in subsequent years (above the proposed funding provided in 2012-13), additional bonds would need to be provided to complete the project. If, for instance, bonds are used for 40% of the total cost of the preferred alternative, total bonding would be between \$710 million and \$849 million. Annualized debt service on this amount would be between \$57 million and \$68 million, or about 3% to 4% of current, gross transportation fund revenues.

28. To limit the use of bonds on the Zoo Interchange project to 40% of the total cost, additional increases in SEG and FED funds would be required in subsequent biennia. If the proposed level of funding is approved, an additional \$930 million to \$1,140 million in SEG and FED funds would be needed to achieve that standard, which equates to between \$186 million and \$228 million annually (assuming a five-year construction period). This represents an increase of between \$88 million and \$130 million above the proposed 2012-13 cash funding level of \$98 million, beginning in 2013-14. If providing cash funding increases of that magnitude is not possible, the state may need to increase the use of bonds on the project or delay its completion date. Maintaining just the base level of cash financing and bonding for all other costs would require \$1.06 billion to \$1.41 billion in bonds, with annualized debt service of \$85 million to \$113 million, which equates to 5% to 6.5% of current, gross transportation fund revenues.

29. Some have expressed a concern regarding the overall use of transportation bonds and rising debt service costs. [See LFB Issue Paper #641 for an overall discussion of transportation bonding and debt service.] Given the large proposed expenditures for both southeast Wisconsin freeway megaprojects in the 2011-13 biennium, it would be difficult to proceed on either project without the use of bonds, or without a substantial modification to the overall transportation budget. Over the longer term, however, the Legislature would need to adopt different funding strategies for the southeast Wisconsin freeway megaprojects (or for the major highway development program, the other large, bond-funded transportation program), if there is a desire to substantially decrease transportation debt service. Adopting a cash financing strategy for the Zoo Interchange project after the 2011-13 biennium would require an increase of \$212 million to \$282 million annually above the cash funding provided in 2012-13. This would require an average 14.2% to 18.9% increase in

combined motor fuel tax and registration fee revenues. To put this into perspective, this would be a motor fuel tax increase of four cents to six cents per gallon plus an automobile registration fee increase of \$10 to \$15 and proportional increases in truck registration fees.

30. The selection of final alternatives and the decision to proceed with construction on the southeast Wisconsin freeway megaprojects will be made within the context of the environmental studies conducted for each project. Ultimately, the decision to provide, or not provide, the funding necessary to complete the selected alternative belongs with the Legislature, but because of the deteriorating condition of these facilities, as well as their importance to the southeast Wisconsin freeway system, it may be difficult for the Legislature to make a decision to not proceed. As illustrated in the previous points, the decision to approve funding to begin construction on the Zoo Interchange project will likely commit the state to providing significant funding increases in both bonds and SEG or FED funds in subsequent biennia.

31. Based on current forecasts, motor fuel tax collections during the period the Zoo Interchange would be built will average only about \$2 million per year above the level in the 2011-13 biennium. Registration fee revenues are expected to average about \$13 million per year above the 2011-13 level. Without revenue growth, transportation programs would essentially be frozen at their current levels throughout this period. If future Legislatures decided to maintain the bonding levels under the bill (as amended to date by the Committee) for the major highway development, state highway rehabilitation, harbor assistance, and freight rail preservation programs throughout the following three biennia, the share of gross transportation revenues needed for debt service would increase to an estimated 21.0% by 2018-19 with current law revenues or to an estimated 18.8% with the revenue changes proposed by the Governor (primarily the escalating transfer of auto-related sales taxes to the transportation fund). If no new cash financing were provided for the Zoo Interchange project, with all above-base funding being provided with bonds, those percentages would rise to an estimated 25.3% (current law revenues) and 22.6% (Governor's proposal).

32. Before proceeding with the project, the Committee may wish to have more information on the effect of this project on the overall transportation budget in future biennia. One alternative would be to modify the bill to specify that no bonds may be issued for the project unless the Committee approves a request from the Department, submitted under s. 13.10 of the statutes, that: (a) outlines a financing plan and schedule for the project, including planned expenditures by year and by funding source, through the year of completion; (b) shows the impact of the issuance of bonds on transportation fund debt service, including the bonds for which approval is being requested, other bonds included in the Department's financing plan for the project, and past and future transportation fund-supported bonds for other projects and programs; and (c) provides estimates of the percentage of gross transportation fund revenues that would be required for the payment of transportation debt service on any bonds described under (b), through two years following the year of completion of the project [Alternative #B2].



## ALTERNATIVES

### A. I-94 North-South Freeway

1. Approve the Governor's recommendation to provide \$10,710,200 SEG and \$71,289,800 FED in 2011-12 and \$19,036,800 SEG and \$23,763,300 FED in 2012-13 in new appropriations for southeast Wisconsin freeway megaprojects for the I-94 North-South freeway project and authorize \$70,200,000 in transportation fund-supported, general obligation bonds for that project. Modify the bill to allow the Department to determine the portion of unencumbered funds in the southeast Wisconsin freeway rehabilitation appropriations at the end of 2010-11 that is associated with the southeast Wisconsin freeway megaprojects, and to transfer that amount to the southeast Wisconsin freeway megaprojects appropriations.

2. Modify the Governor's recommendation by reallocating \$225,000,000 over the biennium from the Zoo Interchange project to the North-South freeway project. Authorize an additional \$144,800,000 in transportation fund-supported, general obligation bonds for the North-South freeway project to maintain the original schedule. [This alternative could be modified by providing some or all of the additional \$144,800,000 needed to maintain the original schedule with SEG or FED funds.] Modify the bill to allow the Department to determine the portion of unencumbered funds in the southeast Wisconsin freeway rehabilitation appropriations at the end of 2010-11 that is associated with the southeast Wisconsin freeway megaprojects, and to transfer that amount to the southeast Wisconsin freeway megaprojects appropriations.

ALT A2	Change to Bill Funding
BR	\$144,800,000

3. Modify the Governor's recommendation by authorizing an additional \$369,800,000 in transportation fund-supported, general obligation bonds for the North-South freeway project, to maintain the original schedule for the project without reallocating the proposed funding for the Zoo Interchange. Increase funding by \$2,557,400 SEG in 2012-13 to reflect estimated debt service on the additional bonds. [This alternative could be modified by providing some or all of the additional \$369,800,000 needed to maintain the original schedule with SEG or FED funds.] Modify the bill to allow the Department to determine the portion of unencumbered funds in the southeast Wisconsin freeway rehabilitation appropriations at the end of 2010-11 that is associated with the southeast Wisconsin freeway megaprojects, and to transfer that amount to the southeast Wisconsin freeway megaprojects appropriations.

ALT A3	Change to Bill Funding
BR	\$369,800,000
SEG	<u>2,557,400</u>
Total	\$372,357,400

4. Delete provision.

<b>ALT A4</b>	<b>Change to Bill Funding</b>
BR	- \$70,200,000
FED	- 95,053,100
SEG	<u>- 31,634,600</u>
Total	-\$196,887,700

**B. Zoo Interchange Reconstruction**

1. Approve the Governor's recommendation to provide \$22,236,700 SEG and \$23,763,300 FED in 2011-12 and \$26,710,200 SEG and \$71,289,800 FED in 2012-13 in the new southeast Wisconsin freeway megaprojects appropriations for the Zoo Interchange reconstruction project and authorize \$81,000,000 in transportation fund-supported, general obligation bonds for that project.

2. Modify the Governor's recommendation by specifying that no bonds may be issued for the Zoo Interchange reconstruction project unless the Committee approves a request from the Department, submitted under s. 13.10 of the statutes, that: (a) outlines a financing plan and schedule for the project, including planned expenditures by year and by funding source, through the year of completion; (b) shows the impact of the issuance of bonds on transportation fund debt service, including the bonds for which approval is being requested, other bonds included in the Department's financing plan for the project, and past and future transportation fund-supported bonds for other projects and programs; and (c) provides estimates of the percentage of gross transportation fund revenues that would be required for the payment of transportation debt service on any bonds described under (b), through two years following the year of completion of the project.

3. Delete provision.

<b>ALT B3</b>	<b>Change to Bill Funding</b>
BR	- \$81,000,000
FED	- 95,053,100
SEG	<u>- 49,863,800</u>
Total	-\$225,916,900

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