



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #646

### Harbor Assistance Program Bonding (DOT -- Local Transportation Assistance)

[LFB 2013-15 Budget Summary: Page 458, #2]

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#### CURRENT LAW

The Department of Transportation's harbor assistance program provides grants for improvements to harbor facilities on Lake Michigan, Lake Superior, and the Mississippi River system. Eligible projects include dockwall and disposal facility improvements, dredging and dredged material disposal, or other physical improvements that maintain or increase commodity or passenger movement capabilities. Both publicly and privately owned harbor facilities that serve freight or passenger vessels are eligible for assistance. State funds provide up to 80% of the cost of the project, while the project applicant must pay the remaining cost. The state share is paid either from an appropriation from the transportation fund or from the proceeds of general obligation bonds provided for the program. The 2011-13 budget provided \$11,687,600 over the biennium for making grants, an amount that consists of \$10,700,000 in transportation fund-supported, general obligation bonds and an appropriation of \$493,800 SEG annually from the transportation fund. Debt service on the bonds is paid from the transportation fund.

#### GOVERNOR

Provide \$10,700,000 in transportation fund-supported, general obligation bonds for the harbor assistance program, to provide the same amount of funding for harbor improvement project grants as was provided in the 2011-13 biennium.

#### DISCUSSION POINTS

1. The harbor assistance program has been making grants since 1980 to improve transportation access to the state's waterways on Lake Superior, Lake Michigan, and the Mississippi

River. Grants have been funded primarily with transportation fund-supported, general obligation bonds, although the program also has a transportation fund appropriation for making grants.

2. The amount of bonds proposed under the bill would be the same amount provided in the 2011-13 biennium, but \$2.0 million less than the three biennia prior to that. The following table shows the total funding for harbor improvement projects since the 2001-03 biennium.

**Harbor Assistance Program Grant Funding**

<u>Biennium</u>	<u>SEG Appropriation</u>	<u>Bond Authorization</u>	<u>Total Funding</u>
2001-03	\$1,000,000	\$3,000,000	\$4,000,000
2003-05	1,000,000	3,000,000	4,000,000
2005-07	1,000,000	12,700,000	13,700,000
2007-09	1,000,000	12,700,000	13,700,000
2009-11	987,600	12,700,000	13,687,600
2011-13	987,000	10,700,000	11,687,600
2013-15*	987,000	10,700,000	11,687,600

\* Amounts proposed in the bill.

3. Demand for harbor assistance grants consistently exceeds the amount of funding available in the program. To be eligible for a harbor assistance grant, a project must be identified in a three-year harbor improvement plan, which is prepared annually by harbor program participants. For the most recent plans submitted to the Department, there were more than \$90.0 million in projects identified (state share) for the three-year period. At current funding levels, less than one-fifth of these projects could be funded. The Department selects projects based on a consideration of the potential economic impact of the project, determined through the use of a cost-benefit analysis, and a consideration of the urgency of the proposed projects.

4. The total amount of requested grants under the harbor assistance program, as indicated in three-year harbor plans, has frequently far exceeded the amount of available funds. Many projects that are included in harbor plans, but that do not receive state funding, are not included in subsequent plans or else are significantly modified. In some cases, local governments or port authorities may decide to eliminate unsuccessful projects from consideration, while in other cases, projects are completed using a mix of private and local funds. Local governments have the authority to raise funds for harbor improvements using general taxation authority, special assessments, the lease of harbor facilities, and issuance of bonds.

5. Compared to Wisconsin's neighboring states, the harbor assistance program provides more funding for harbor improvements. According to information compiled by the Department for the Wisconsin Transportation Finance and Policy Commission, neighboring states generally provide assistance for harbor developments in the form of loans, instead of grants, and programs in Iowa and Illinois, although active in the past, are currently unfunded. Instead, harbor improvement projects in these states are generally funded locally.

6. The Department notes that state funding for harbor improvements is justified on the grounds that water-based shipping has benefits that go beyond the immediate vicinity of the port. For instance, shipment by barge is an efficient way to move agricultural products, produced in many areas of the state, to domestic and international markets outside of the state.

7. The Wisconsin Transportation Finance and Policy Commission, in its final report to the Legislature and Governor, noted that harbor improvements have the potential to create shipping efficiencies for many state businesses. Many projects that have the potential to enhance economic development are currently not being funded in favor of more routine rehabilitation and dredging projects. Consequently, the Commission recommended that funding be increased by \$2.6 million annually. Relative to the bill, the recommendation would be an increase of \$5,200,000 in bonding authorization over the biennium (Alternative 2).

8. While the Commission's recommendation was based on the principle of providing funding to allow the Department to provide grants for economic development projects, an argument could be made that the program, in an environment of scarce resources available for all transportation demands, should focus on maintenance projects, such as dredging and dockwall repairs. Although some projects may have economic development potential, this is also true of many infrastructure improvements funded by private businesses. That is, some will argue that if a project has substantial potential to improve business productivity, the business that stands to benefit will invest its own resources to fund that improvement. From this perspective, providing additional funding for more economic development projects may divert funds from other higher priorities.

9. Debt service payments would be approximately \$0.8 million once the full amount of the bonds authorized by the bill are issued. Because of the delay between the time that bonds are committed to a project and when bonds are issued to make payments, the bill does not assume any debt service payments on the bonds in the 2013-15 biennium.

10. Debt service on harbor assistance bonds accounts for a small percentage of total transportation fund debt service. In 2012-13, debt service payments on harbor assistance bonds are expected to be approximately \$4.2 million, which accounts for 1.6% of total, estimated transportation fund debt service. Changes to the authorized bonding for harbor projects would, similarly, have only a small impact on future debt service payments. Relative to the bonds authorized under the bill, a decision to increase bonding in the 2013-15 biennium in order to provide the level of funding for harbor improvement grants recommended by the Transportation Finance and Policy Commission would add \$0.3 million to annual debt service payments, and approximately \$1.8 million to annual debt service payments if that level of bonding were maintained for 10 years. Similarly, a decision to reduce bonding from the level provided in the bill would have only small impacts on future debt service payments.

11. Although the impact of harbor program bonding on debt service payments is relatively minor relative to total transportation fund debt service, the Committee may decide that the issue of rising transportation fund debt service requires a reduction in all transportation program bonding. [For additional discussion of issues related to transportation bonding and general transportation finance, see LFB Issue Paper #636.] In this case, the Committee may decide to reduce the bill's harbor program bond authorization. Alternatives are provided below for various

reduction levels (Alternative 3).

12. If the Committee decides to reduce the use of bonding in the harbor assistance program, but wants to maintain the same level of funding, additional funding could be provided in the program's SEG appropriation to offset bonding reductions. Alternatives to increase SEG funding for the program are provided below, although, since the transportation fund is projected to be in deficit under the bill, these alternatives would require corresponding SEG reductions in other parts of the Department's budget (Alternative 4).

**ALTERNATIVES**

1. Adopt the Governor's recommendation to provide \$10,700,000 in transportation fund-supported, general obligation bonds for harbor improvement projects.

2. Modify the Governor's recommendation by increasing the bond authorization for harbor projects by \$5,200,000, to provide the level of funding recommended by the Wisconsin Transportation Finance and Policy Commission.

<b>ALT 2</b>	<b>Change to Bill Funding</b>
BR	\$5,200,000

3. Modify the Governor's recommendation by decreasing the harbor program bond authorization as follows:

	<u>Bond Reduction</u>	<u>Authorization Total</u>
a.	-\$2,000,000	\$8,700,000
b.	-4,000,000	6,700,000
c.	-6,000,000	4,700,000
d.	-8,000,000	2,700,000
e.	-10,000,000	700,000

4. Modify the Governor's recommendation by providing additional SEG funding in both fiscal years for the harbor assistance program, as follows:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial Total</u>
a.	\$1,000,000	\$1,000,000	\$2,000,000
b.	2,000,000	2,000,000	4,000,000
c.	3,000,000	3,000,000	6,000,000
d.	4,000,000	4,000,000	8,000,000
e.	5,000,000	5,000,000	10,000,000

5. Delete provision.

<b>ALT 5</b>	<b>Change to Bill Funding</b>
BR	- \$10,700,000

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