



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

May 23, 2013

Joint Committee on Finance

Paper #651

High-Cost Bridge Program -- Hoan Bridge and Lake Interchange Project (DOT -- State Highway Program)

[LFB 2013-15 Budget Summary: Page 462, #3]

CURRENT LAW

The Department of Transportation's high-cost bridge program funds bridge improvement projects with an estimated cost of \$150 million or greater that are not part of a major highway project or southeast Wisconsin freeway megaproject. The program was created by the 2011-13 biennial budget, but no funding was provided for the program at that time. That budget authorized the Department to use the state highway rehabilitation, major highway development, or southeast Wisconsin freeway megaprojects programs for preliminary costs associated with the Hoan Bridge project during the 2011-13 biennium.

GOVERNOR

Provide \$25,000,000 FED and \$11,000,000 SEG in 2013-14 in the appropriations for the high-cost bridge program for the rehabilitation of the Hoan Bridge and the adjoining I-794 Lake Interchange in eastern Milwaukee County. Authorize \$200,000,000 in transportation fund-supported, general obligation bonds for the project to provide a total of \$236,000,000 over the biennium. Provide \$6,947,600 SEG in 2014-15 to reflect estimated debt service payments on the bonds.

DISCUSSION POINTS

1. The Hoan Bridge carries traffic on I-794 over the Milwaukee River, south of downtown Milwaukee. The proposed rehabilitation project involves: (a) the rehabilitation of the bridge (replacement of the deck, structural repairs, and repainting); (b) concrete surface repairs and

overlay on the Lake Interchange (I-794 and Lincoln Memorial Drive); and (c) the replacement of bridge structures of I-794 between the Lake Interchange and the Milwaukee River. The Department maintains that the bridge, originally constructed in 1977, is in critical need of rehabilitation to replace its deteriorating deck and preserve its structural components, and that any delay to the project could lead to accelerated deterioration and create the need for more expensive repairs. The rehabilitation is expected to extend the life of the bridge by 50 years. The bill would provide \$236,000,000 for the high-cost bridge program to complete the rehabilitation of the bridge structure and deck and for the I-794 and Lake Interchange work. This amount would be provided with \$200,000,000 in transportation fund-supported, general obligation bonds, and \$25,000,000 FED and \$11,000,000 SEG in 2013-14. Provided that funding is approved, construction would begin in the fall of 2013. If the funding is not approved (Alternative 3), the Department would have no funding available for the project, since state statutes prohibit the use of funding in other highway improvement programs from being used on high-cost bridge projects. Consequently, the project would be delayed.

2. Following the completion of the rehabilitation and reconstruction work in the 2013-15 biennium, the Department would proceed with the next phase of the project in 2015-17. That work involves blasting clean and repainting all of the steel structures on the bridge and approaches, at an estimated cost of \$48 million. Additional funds would have to be provided in the 2015-17 biennium for that project.

3. Debt service on the bonds issued for the project would be paid from the transportation fund. The bill reflects estimated debt service payments on these bonds of \$6,947,600 SEG in 2014-15. Using revised bond interest rate assumptions, this office reestimated debt service on transportation bonds. These reestimates were included in the revised transportation fund condition statement presented in LFB Issue Paper #635. Under those revised assumptions, debt service on the Hoan Bridge bonds would be \$5,858,400 in 2014-15. Once fully issued, using the same rate assumptions, annual debt service payments on the bonds would be \$14.1 million.

4. The Department indicates that the \$236 million construction cost estimate was based on preliminary engineering studies. During the 2011-13 biennium, the Department conducted final design work, as well as real estate- and utility-related preparations, at a total cost of \$21.5 million. In the course of the final design work, the Department developed a more refined cost estimate, which is 4% less (approximately \$9.4 million) than the original construction cost estimate. However, this estimate does not account for any contingencies, so the Department requested \$236 million to allow for a margin in the event the project costs increase above estimates. The Department indicates that the actual cost of construction projects is typically within 10% of the final design engineering estimate.

5. Subsequent to the introduction of the bill, the Department reached an agreement with the City of Milwaukee and Milwaukee County on a separate project that would involve the removal of ramps from Lincoln Memorial Drive and I-794. Although this project, the "Lakefront Gateway," is planned to start after the completion of the Hoan Bridge project, it will have a slight impact on the Hoan project. The Department indicates that since the Lincoln Memorial Drive ramps will be removed as part of that project, the Hoan Bridge project will be amended to eliminate

any repairs to those ramps, a modification that will reduce costs by an estimated \$0.6 million.

6. If the high-cost bridge program had not been created, the Hoan Bridge project would have been defined as a major highway project and would have been funded through that program. By establishing a separate program for high-cost bridges, the Legislature established a policy of funding the Hoan Bridge project and any subsequent high-cost bridge projects separately from the existing enumerated major highway projects, thus avoiding any disruption to the established schedule for those projects. One disadvantage of this approach, however, is that it limits the Department's flexibility to transfer funds between projects in response to changing costs. If, for instance, the actual costs for the Hoan Bridge are greater than the amount provided, the Department would be required to seek additional funding rather than reallocate funds from other projects within the same program. This creates a situation in which the budget must provide a contingency margin, as the bill would do for the Hoan Bridge project. One alternative to address this issue would be to allow the Department some additional funding flexibility, so that a contingency margin, if needed, could be drawn from other sources. As noted above, the current cost estimate for the Hoan Bridge project is approximately \$10 million lower than the amount provided by the bill (-\$9.4 million for final design refinements and -\$0.6 million for adjustments related to the Lakefront Gateway project). With additional flexibility, the bill could be amended to reduce funding for the project by \$10,000,000 SEG in 2013-14, eliminating the contingency margin. The Department could then be given authority, during the 2013-15 biennium, to use the appropriations for the state highway rehabilitation, major highway development, or southeast Wisconsin freeway megaprojects programs for any project costs that exceed \$226,000,000, similar to the Department's current authority to use those programs for preliminary costs during the 2011-13 biennium (Alternative 2).

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$25,000,000 FED and \$11,000,000 SEG in 2013-14 in the high-cost bridge program, and \$200,000,000 in transportation fund-supported, general obligation bonds for the Hoan Bridge project.

2. Modify the Governor's recommendation as follows: (a) reduce funding by \$10,000,000 SEG in 2013-14, to provide a total of \$226,000,000 for the project; and (b) specify that, during the 2013-15 biennium, the Department may use the state highway rehabilitation, major highway development, or southeast Wisconsin freeway megaprojects programs for any costs of the Hoan Bridge project, including approaches, that exceed \$226,000,000.

ALT 2	Change to Bill Funding
SEG	- \$10,000,000

3. Delete provision.

ALT 3	Change to Bill Funding
SEG	- \$16,858,400
FED	- 25,000,000
BR	<u>- 200,000,000</u>
Total	- \$241,858,400

Prepared by: Jon Dyck