



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, 2019

Joint Committee on Finance

Paper #721

Harbor Assistance Program (Transportation -- Local Transportation Assistance)

[LFB 2019-21 Budget Summary: Page 416, #2 and #3]

CURRENT LAW

The Department of Transportation's (DOT) 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 2017-19 budget provided \$18,287,600 over the biennium for making grants, composed of the following: (a) \$14,100,000 in transportation fund-supported, general obligation bonds; (b) \$3,200,000 SEG in onetime funding for an earmark; and (c) the appropriation of \$493,800 SEG annually in project funding from the transportation fund. Debt service on the bonds is paid from the transportation fund.

GOVERNOR

a. *Funding Level.* Provide 2019-21 harbor assistance program funding of \$52,200,000, as follows: (a) \$13,200,000 SEG in 2019-20; and (b) \$39,000,000 BR in transportation fund-supported, general obligation bonds. When added to base program funding of \$493,800 SEG annually, the recommendation would total \$53,187,600 in the biennium. Increase estimated transportation fund-supported, general obligation bond debt service associated with the partial issuance of these bonds by \$405,300 SEG in 2020-21.

b. *Grant Priority.* Require, when making grant awards from the harbor assistance program in the 2019-21 biennium, notwithstanding the eligibility criteria of the program, that DOT give priority to municipalities in which a shipbuilder in this state is conducting operations. Although not specified in the bill, the administration indicates that this provision is intended to apply to Marinette Marine, a subsidiary of Fincantieri Marine Group. The administration indicates that up to \$29.0 million of the recommended 2019-21 funding for the harbor assistance program may be awarded under this provision.

DISCUSSION POINTS

Background

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. DOT indicates that there are 29 ports in the state that are potentially eligible for funding. 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 total amount of bonding authorized for the program since that time totals \$120.0 million. The following table shows the total funding for harbor improvement projects since the 2009-11 biennium. The average amount of new harbor assistance bonding provided in the past five biennia is equal to \$13.3 million and total funding for the program has averaged \$14.9 million, including the SEG appropriation. The \$4.2 million in SEG funding indicated in the table for 2017-19, includes \$3.2 million SEG provided in 2017-18 to fund a statutory earmark for Fincantieri Bay Shipbuilding in Door County to complete a dockwall construction and dredging project.

TABLE 1

Harbor Assistance Program Grant Funding

<u>Biennium</u>	<u>SEG Appropriation</u>	<u>Bonding Authorization</u>	<u>Total Funding</u>
2009-11	\$987,600	\$12,700,000	\$13,687,600
2011-13	987,600	10,700,000	11,687,600
2013-15	987,600	15,900,000	16,887,600
2015-17	987,600	13,200,000	14,187,600
2017-19	<u>4,187,600</u>	<u>14,100,000</u>	<u>18,287,600</u>
Total	\$8,138,000	\$66,600,000	\$74,738,000
Average	\$1,627,600	\$13,320,000	\$14,947,600

3. Table 2 provides information on the how much of the \$120.0 million in existing bonding for the harbor assistance projects has been spent, how much has been committed to be spent, and how much currently remains uncommitted. The Department has awarded all but \$0.4 million in unencumbered bonding authority as of December, 2018, and has uncommitted SEG funds of \$0.1 million (expected as of July 1, 2019).

TABLE 2**Existing Bonding and Commitments
(\$ in Millions)**

Existing Bonding	
Total Bonding Authorized	\$120.0
Less Bonds Obligated Through Spring, 2019	<u>-106.9</u>
Authorized, Unissued Bonding	\$13.1
Use of Unissued Bonding	
Less Project Funding Encumbered	-\$5.8
Less Approved, Unencumbered Projects	<u>- 6.9</u>
Unissued Bonding Available	\$0.4
Uncommitted 2017-19 SEG Funds	<u>\$0.1</u>
Remaining Uncommitted Funds	\$0.5

4. Table 3 provides a listing of the two most recent award cycles for the harbor assistance program projects that received funding.

TABLE 3**2017 and 2018 Harbor Assistance Program Awards**

<u>Project</u>	<u>Recipient/Location</u>	<u>Awarded</u>
2017 Award Cycle		
Wall reconstruction	City of Washburn	\$1,299,480
Dock wall rehabilitation	City of Superior	1,700,000
Dock and landing wall	SS Badger - Manitowoc	1,016,500
Dock wall rehabilitation	KKI Logistics - Green Bay	452,975
Dock wall construction and dredging	Fincantieri-Sturgeon Bay	3,623,600
Emergency dock wall repair	FJ Roberts Co.- La Crosse	<u>1,241,632</u>
Subtotal		\$9,334,187
2018 Award Cycle		
Dredging for vessel construction	Fincantieri Bay-Marinette	\$5,000,000
Dock widening and landing construction	Town of La Pointe	1,346,000
Repair terminal building	Port of Milwaukee	240,000
Replace failed bollard	St. Mary's - Green Bay	103,100
Engineering for disposal facility expansion	WE Energies - Milwaukee	472,000
Emergency/docking facility rehabilitation	SS Badger - Manitowoc	<u>799,802</u>
Subtotal		\$7,960,902
Total		\$17,295,089

5. The Governor's recommendation of \$52.2 million (\$39.0 million bonds, \$13.2 million SEG in onetime funding) for the 2019-21, and the \$0.5 million SEG annually in base funding

biennium for the harbor assistance program would represent a \$34.9 million (190.7%) increase from the amount provided for the program in 2017-19. However, this increase is largely due to a separate bill provision that would require DOT to give harbor assistance program grant priority in the 2019-21 biennium to municipalities in which a shipbuilder in this state is conducting operations, notwithstanding the program's eligibility criteria. The administration indicates that this priority grant would total \$29.0 million (\$15.8 million in SEG-supported bonding and \$13.2 million SEG). Together, the \$0.5 million annually SEG base funding and the Governor's \$52.2 million (\$13.2 million SEG and \$39.0 million in SEG-supported bonding) would provide \$53.2 million for the harbor assistance program in the biennium. However, if the Governor's recommendation is approved in its entirety, with the shipbuilder priority provision included and awarded at the anticipated level (\$29.0 million), only \$24.2 million would remain available to fund other harbor projects in the state.

Main Harbor Assistance Program -- Other Projects

6. Demand for harbor assistance grant funding consistently exceeds the amount of funding available in the program. As shown in the following table, under the Department's current, three-year harbor assistance program plan (2019 through 2021), projects totaling \$63.5 million in costs could be funded if sufficient resources were available.

TABLE 4

Harbor Assistance Program State Funding Requests -- Three-Year Plan

<u>Requestor</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>3-Year Total</u>
Port of Milwaukee	\$2,600,000	\$3,600,000	\$0	\$6,200,000
City of Manitowoc	3,450,000	10,100,000	0	13,550,000
City of Sturgeon Bay	924,000	0	480,000	1,404,000
City of Superior	18,000,000	11,140,000	6,000,000	35,140,000
Two Rivers Harbor	800,000	3,200,000	1,200,000	5,200,000
La Pointe Town Dock	620,000	882,320	0	1,502,320
La Crosse Municipal Harbor	<u>83,349</u>	<u>441,000</u>	<u>0</u>	<u>524,349</u>
Total	\$26,477,349	\$29,363,320	\$7,680,000	\$63,520,669

7. A portion of the \$63.5 million in costs shown in Table 4 could be funded through the program's 2018-19 award cycle, using available 2017-19 program funding (\$6.9 million in planned awards + \$0.5 million remaining funds). As a result, the total program funding available under the Governor's recommendations, setting aside the proposed earmark, would fund \$24.2 million of the remaining \$56.1 million in project costs in the three-year plan.

8. In January, 2013, the Wisconsin Transportation Finance and Policy Commission, in making recommendations to the Legislature and the Governor, noted that harbor improvements have the potential to create shipping efficiencies for many state businesses and that without increased harbor investment, conditions at the state's commercial ports will deteriorate. Similarly, past analysis from DOT's Bureau of Planning and Economic Analysis indicates that "each year, Wisconsin harbors

are vital to the "transport of coal, iron ore, broken stone, chemicals or fertilizers, heavy machinery, wind energy components, agricultural commodities, cement, road salt and other goods." In recognition of these significant transportation system functions, this Commission recommended a biennial level of funding of \$17.0 million. A similar funding level for the harbor assistance program (\$17.2 million per biennium) was also considered as part of DOT's transportation fund Solvency Study in 2016.

9. However, given the important role of harbors in the transportation of commercial goods, and the program's unfunded demand, the Governor's recommended harbor assistance program funding level of \$24.2 million (\$23.2 million in recommended bonding and \$0.5 million in annual base funding) for the main grant program may be seen as appropriate. This would increase base level debt service costs by \$241,100 SEG in 2020-21 associated with the partial issuance of the bonds. When fully issued, the annualized debt service to be paid from the transportation fund associated with the \$23.2 million in bonding under this alternative would be an estimated \$1.9 million. [Alternative A1]

10. Over the past decade, concern over the transportation fund's solvency has been an ongoing policy discussion before the Legislature. Bonding has often been used as the means of funding the gap between DOT infrastructure programs needs and available revenues. Consequently, the growing amount of annual transportation fund revenues needed to support annual debt service is seen as a strong symptom of the transportation fund's solvency concern. Absent the significant transportation fund revenue increases provided under the bill, many of the Governor's transportation programming recommendations would not be funded and reductions in one or more areas would have to be made.

11. One option would be to reduce the amount of available funding in the biennium to the \$17.2 million (the funding level associated with the Solvency Study and the Commission's work). Under this alternative, the Committee would be providing \$16.2 million in SEG-supported bonding, which, when added to existing base funding of \$0.5 million SEG annually, would make \$17.2 million available for the main harbor assistance program in the 2019-21 biennium. This would increase base level debt service by \$178,700 in 2020-21, but would decrease estimated debt service compared to the bill by \$62,400 in 2020-21. Once fully issued, annualized, estimated debt service on the \$16.2 million in transportation fund-supported bonds would equal \$1.3 million. [Alternative A2]

12. As indicated earlier (see Table 1), over the past five biennia, the harbor assistance program has averaged \$14,947,600 in funding for grants made under the program. To maintain this level of funding for the main harbor assistance program, the Committee could consider providing \$13,960,000 in SEG-supported bonding in the biennium. Along with the base funding of \$987,600 SEG (\$493,800 annually), a total of \$14,947,600 would be provided. This would increase base level debt service by \$145,100 in 2020-21, but would decrease estimated debt service compared to the bill by \$96,000 in 2020-21. Once fully issued, annualized, estimated debt service on the transportation fund-supported bonds would equal \$1.1 million. [Alternatives A3]

13. The Governor's recommendation would also provide \$15.8 million in SEG-supported bonding to fund a portion of the proposed shipbuilder earmark. Some may contend that providing any SEG-supported bonding for the main harbor assistance grant program, in addition to this earmark

amount, would provide too large of an ongoing strain on the transportation fund if no additional revenues are provided the fund. If the Committee shares this concern, it could delete the \$24.2 million in SEG-supported bonding recommended by the Governor for the main harbor assistance program. This would reduce estimated debt service by \$241,100 SEG in 2020-21, compared to the bill. [Alternative A4]

Shipbuilder Grant Priority Earmark

14. As mentioned earlier, the Governor's recommendations would provide harbor assistance grants to municipalities in which a shipbuilder in this state is conducting operations, notwithstanding the program's eligibility criteria. The administration indicates this provision is intended to provide a \$29.0 million grant (\$13.2 million SEG in 2019-20 and \$15.8 million in SEG-supported bonding) in the 2019-21 biennium to Marinette Marine, a subsidiary of Fincantieri Marine Group.

15. This funding would be used for dredging, construction, and capital equipment associated with Fincantieri Marinette Marine's facilities improvements related to the company's application for a federal shipbuilding contract for frigates (a highly maneuverable, armed naval ship). The SEG portion of the grant is intended to provide DOT with the flexibility to fund certain project elements for which the state would typically not use bond financing. Although there is no provision in the bill that would limit the amount of, or conditions under which, this award could be made, the administration indicates that \$10 million of the grant would be contingent on this federal contract being awarded to Fincantieri Marinette Marine. They indicate that the federal contract is expected to be awarded in late, 2020.

16. The administration indicates that this grant is intended to reflect the importance of the shipbuilding industry to the state's economy and its status as a fast-growing employer in the state. The administration also contends that the grant would provide an opportunity, along with the workforce development funding provided under the bill (\$1.0 million GPR), to train and employ additional underemployed workers in the shipbuilding industry. [Alternative B1]

17. Although harbor infrastructure provides economic benefits to the state, users of the harbor system do not pay taxes or fees that directly support the transportation fund through activities occurring at those ports. For instance, commercial vessels do not pay the state motor vehicle fuel tax and do not pay fees for use of harbor facilities that are received by the transportation fund. In addition, estimated motor vehicle fuel tax and the registration fees paid by motorboat owners are deposited to the conservation fund.

18. Further, assistance to businesses in the state to stimulate economic development and job growth are seen as a general fund benefit in that the additional income and sales taxes associated with that development flow to the state's general fund. As a result, state assistance to businesses is often provided from the general fund in the form of either grants or tax credits. Therefore, the Committee could instead provide that the \$15.8 million in bonding be GPR-supported rather than SEG-supported, and provide that the \$13.2 million SEG in 2019-20 recommended by the Governor instead be provided from GPR funding. This alternative would also reduce SEG debt service compared to the bill by \$164,200 in 2020-21, for a total reduction of \$13,364,200 SEG compared to the bill. As compared to the bill, this alternative would result in corresponding increases of \$13,200,000 GPR in

2019-20 associated with the cash grant to Marinette Marine and \$164,200 GPR in 2020-21 associated with the partial issuance of the GPR-supported bonds. Once fully issued, annualized, estimated debt service on the \$15.8 million in GPR-supported bonds would equal \$1.3 million. [Alternative B2]

19. On the other hand, the state's general fund also has significant program demands. Further, trucks carrying commercial cargo hauled to and from harbors do pay fuel taxes and registration fees that are deposited to the transportation fund, so it could be argued that harbor-related activity provides some indirect benefit to the transportation fund. Nonetheless, funding harbor improvements from the transportation fund does not fit entirely with the user fee concept of the fund and the proposed priority grant to Marinette Marine is likely to have a greater benefit to the general fund. Therefore, the Committee provide some funding for this grant from both sources. The Committee could approve the Governor's recommendation to provide \$15.8 million in SEG-supported bonding for the grant, but provide the \$13.2 million for the cash grant from the general fund rather than from the transportation fund. This alternative would increase base and bill funding by \$13.2 million GPR in 2019-20. Further, debt service on the \$15.8 million in SEG-supported bonding would be \$164,200 SEG in 2020-21, which is included under the bill. [Alternative B3]

20. In the current biennium, the Fincantieri Marine Group (of which Marinette Marine is a subsidiary) has received \$8.6 million (including \$3.2 million SEG) in state harbor assistance funding for dredging and dockwall construction projects in Sturgeon Bay and Marinette, Wisconsin. If the Governor's recommendation is approved, total transportation fund-supported assistance to Fincantieri Marine Group over the 2017-21 period would total \$37.6 million. In addition, the bill would designate a further \$1.0 million GPR for shipbuilder training as part of a workforce development initiative in the 2019-21 biennium. Further, in the Spring of 2018, the Marinette County Board declined to provide a \$50.0 million loan to Fincantieri Bay to fund a portion of the shipyard upgrades being undertaken as part of the company's federal contract application, some of which would be funded through the proposed earmark.

21. Taking these factors into consideration, as well as the ongoing issue of the transportation fund's limited capacity to fund new programming, some concern may exist regarding the level of transportation fund resources that funding this project would require. Given these concerns, and if no new transportation fund revenues are provided, the Committee could remove the shipbuilder grant priority provision and related funding from the bill. This would decrease expenditures by \$13.2 million SEG in 2019-20 associated with the deletion of "cash" funding for the grant and \$164,200 SEG in 2020-21 associated with the deletion of the \$15.8 million in SEG-supported bonding portion of the grant. [Alternative B4]

ALTERNATIVES

A. Funding Level -- Main Program

1. Approve the Governor's recommendation and provide \$23,200,000 in SEG-supported bonds for the harbor assistance program. When added to existing base funding of \$987,600 SEG (\$493,600 annually), this would provide \$24,187,600 for the program in the 2019-21 biennium. Increase estimated transportation fund-supported, general obligation bond debt service by \$241,100

SEG in 2020-21. When the bonds are fully issued, the annualized debt service to be paid from the transportation fund would be an estimated \$1.9 million.

ALT A1	Change to	
	Base	Bill
SEG	\$241,100	\$0
BR-SEG	<u>23,200,000</u>	<u>0</u>
Total	\$23,441,100	\$0

2. Provide \$16,200,000 in SEG-supported bonds for the harbor assistance program. When added to existing base funding of \$987,600 SEG (\$493,600 annually), this would provide \$17,187,600 for the program in the 2019-21 biennium. This would reduce the transportation fund-supported bonding authorization under the bill by \$7,000,000 and provide a similar level of program funding as was provided in the 2017-19 biennium. Increase estimated transportation fund-supported, general obligation bond debt service by \$178,700 SEG in 2020-21. When the bonds are fully issued, the annualized debt service to be paid from the transportation fund would be an estimated \$1.3 million.

ALT A2	Change to	
	Base	Bill
SEG	\$178,700	- \$62,400
BR-SEG	<u>16,200,000</u>	<u>- 7,000,000</u>
Total	\$16,378,700	- \$7,062,400

3. Provide \$13,960,000 in SEG-supported bonds for the harbor assistance program. With base funding of \$493,800 SEG annually, total program funding available for grants would be equal to \$14,957,500 in the 2019-21 biennium. This would reduce the transportation fund-supported bonding authorization under the bill by \$9,240,000, but provide the average amount of program funding for the harbor assistance program over the past five biennia. Increase estimated transportation fund-supported, general obligation bond debt service by \$145,100 SEG in 2020-21. When the bonds are fully issued, the annualized debt service to be paid from the transportation fund would be an estimated \$1.1 million.

ALT A3	Change to	
	Base	Bill
SEG	\$145,100	- \$96,000
BR-SEG	<u>13,960,000</u>	<u>- 9,240,000</u>
Total	\$14,105,100	- \$9,336,000

4. Take no action. No additional funding would be available for harbor assistance grants in the biennium.

ALT A4	Change to	
	Base	Bill
SEG	\$0	- \$241,100
BR-SEG	<u>0</u>	<u>- 23,200,000</u>
Total	\$0	- \$23,441,100

B. Shipbuilder Grant Priority Earmark

1. Approve the Governor's recommendation and require, when making grant awards from the harbor assistance program in the 2019-21 biennium, notwithstanding the eligibility criteria of the program, that DOT give priority to municipalities in which a shipbuilder in this state is conducting operations. Provide the harbor assistance program with the following, related funding amounts: \$13,200,000 SEG in 2019-20 and \$15,800,000 in SEG-supported bonds. [The administration indicates that this provision is intended to apply to Marinette Marine, a subsidiary of Fincantieri Marine Group.] This would make \$29,000,000 available for this purpose. Increase estimated transportation fund-supported, general obligation bond debt service by \$164,200 SEG in 2020-21. When the bonds are fully issued, the annualized debt service to be paid from the transportation fund would be an estimated \$1.3 million.

ALT B1	Change to	
	Base	Bill
SEG	\$13,364,200	\$0
BR-SEG	<u>15,800,000</u>	<u>0</u>
Total	\$29,164,200	\$0

2. Provide \$15,800,000 in GPR-supported bonds and \$13,200,000 GPR in 2019-20 for the purposes of providing a harbor assistance grant to Marinette Marine. This would provide the same level of funding as the Governor's budget recommendation, but would use general fund resources instead of transportation fund resources. Increase estimated general fund-supported, general obligation bond debt service by \$164,200 GPR in 2020-21. When the bonds are fully issued, the annualized debt service to be paid from the general fund would be an estimated \$1.3 million.

ALT B2	Change to	
	Base	Bill
GPR	\$13,364,200	\$13,364,200
BR-GPR	15,800,000	15,800,000
SEG	0	- 13,364,200
BR-SEG	<u>0</u>	<u>- 15,800,000</u>
Total	\$29,164,200	\$0

3. Provide \$15,800,000 in SEG-supported bonds and \$13,200,000 GPR in 2019-20 for the purposes of providing a harbor assistance grant to Marinette Marine. This would provide the same level of funding as the Governor's budget recommendation, but would use GPR instead of transportation fund resources (SEG) for the cash portion of this grant. Increase estimated general

fund-supported, general obligation bond debt service by \$164,200 SEG in 2020-21. When the bonds are fully issued, the annualized debt service to be paid from the general fund would be an estimated \$1.3 million.

ALT B3	Change to	
	Base	Bill
GPR	\$13,200,000	\$13,200,000
BR-SEG	15,800,000	0
SEG	<u>164,200</u>	<u>- 13,200,000</u>
Total	\$29,164,200	\$0

4. Take no action. No funding would be available in the 2019-21 biennium for this project.

ALT B4	Change to	
	Base	Bill
SEG	\$0	- \$13,364,200
BR-SEG	<u>0</u>	<u>- 15,800,000</u>
Total	\$0	- \$29,164,200

Prepared by: John Wilson-Tepeli