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May 6, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Transportation: 13.10 Request for Appropriation Supplement for State Highway Maintenance Appropriations -- Agenda Item I

REQUEST

The Department of Transportation requests appropriation supplements of $16,007,800 SEG in 2013-14 for the appropriation for routine maintenance activities and of $11,363,700 SEG in 2013-14 for the appropriation for highway system management and operations. Appropriation supplements would be made from the unappropriated balance of the transportation fund.

BACKGROUND

The state highway maintenance and traffic operations program is responsible for a variety of activities related to the upkeep of state highways and highway rights-of-way, including minor repair of pavements and bridges, snow plowing and ice removal, mowing and other vegetation management, and the maintenance of highway rest areas and waysides. Most of this work is performed by counties under contract with the state. In addition, the program is responsible for the installation, repair, and maintenance of signs, highway lighting, pavement marking, and traffic signals.

The 2013-15 biennial budget (Act 20) modified the appropriation structure for the program, by creating two new, SEG appropriations to replace the single SEG appropriation for the principal activities of the highway maintenance, repair, and traffic operations program [Act 20 also created SEG-L and FED appropriations for both programs, although these are not impacted by the Department's request.] Under the new appropriation structure, the appropriation for "routine maintenance activities" funds work done by counties on state highways under contract with the state, while the appropriation for "highway system management and operations" funds most other activities for the program, including administrative costs, traffic signal and highway lighting maintenance and utility costs, and other traffic operations expenses. In addition, approximately one-third of the highway system management and operations appropriation is used for purchasing deicing salt for winter maintenance. The Department purchases salt centrally and distributes it to counties for use on state highways as needed.

The following table shows the SEG funding provided for these two appropriations by Act 20 in comparison with 2012-13 base appropriation for the maintenance and traffic operations program. As the table shows, the 2013-15 biennial budget provided a significant increase for the maintenance program (directed to the routine maintenance appropriation). The Department had placed a high priority, in its 2013-15 budget request, on securing additional funding for routine maintenance activities, arguing that a significant increase was needed to adequately maintain the state highway system. With passage of Act 20, the Legislature and Governor approved the Department's request, with only slight modification.

TABLE 1

Act 20 Maintenance and Traffic Operations Funding, Compared to 2012-13 Program Base

2012-13 Appropriation Base		
State Highway Maintenance, Repair, and Traffic Operations	$203,106,500	
Act 20 Funding and Appropriation Structure		
Appropriation Name	2013-14	2014-15
Routine Maintenance Activities	$122,500,000	$170,000,000
Highway System Management and Operations	82,881,000	82,881,000
Total	$205,381,000	$252,881,000
Act 20 Increase to 2012-13 Appropriation Base	$2,274,500	$49,774,500

The Department contracts with counties on a calendar year basis, utilizing a portion of the funding provided in successive fiscal years. Consequently, although most of the increase for the routine maintenance activities was provided in fiscal year 2014-15, the Department plans to distribute a portion of the increase to both calendar year 2014 and calendar year 2015.

Since winter maintenance costs are highly dependent upon the weather conditions, and are thus difficult to predict in advance, the Department budgets for winter based on the average of the past five seasons' costs. However, the Department directs counties to respond to weather conditions and transportation needs, even if that means exceeding the amount budgeted for winter maintenance. Consequently, during years in which weather conditions are more severe than average, winter costs may exceed the amount budgeted. If the amount of the excess cost is minor, the Department may make adjustments to spring maintenance activities to stay within the fiscal year budget. However, occasionally the costs are significantly higher, making such adjustments difficult without negatively affecting roadway maintenance. In several instances during the past decade, the Department has requested additional funding for the program, either as separate legislation or under s. 13.10 of the statutes. Most frequently, the funding has been transferred to the program from the SEG appropriation for the state highway rehabilitation program. The following table shows these funding supplements approved by the Committee or by the Legislature since 2004-05.

TABLE 2

Budget Supplements for Highway Maintenance for Winter Maintenance Costs
($ in Millions)

Fiscal Year	Amount	Source
2004-05	$15.1	SEG appropriation transfer under s. 13.10
2006-07	16.0	Federal aid allocation
2008-09	24.8	Budget adjustment bill, SEG appropriation
2010-11	19.6*	SEG appropriation transfer under s. 13.10
2012-13	25.0	SEG appropriation transfer under s. 13.10

* Request also included other maintenance items. Only the winter costs supplement is shown.

ANALYSIS

The Department submitted a request under s. 13.10 of the statutes for appropriation supplements in 2013-14 in both maintenance program appropriations, due to high winter costs. The Department indicates that cold temperatures and frequent storm events during the 2013-14 winter season required county crews to incur costs significantly in excess of budgeted amounts. Based on the five-year winter cost average, the Department had budgeted $44.7 million in county work for the 2013-14 winter season (excluding salt costs). Although not all winter invoices have been submitted, the Department estimates that winter reimbursements will exceed the amount budgeted by $16,007,800. The Department has requested that the routine maintenance SEG appropriation be increased by that amount to account for the higher county costs.

In addition to higher county routine maintenance costs, the Department incurred costs for additional salt purchases during the winter season. The Department's long-standing policy is to have a salt inventory on hand going into the winter season equal to at least 120% of the five-year average usage. In addition, the Department includes in the purchase contract the option to purchase an additional supply equal to about 30% of the average season use, at the same price per ton (known as the "vendor reserve"). Prior to the start of the 2013-14 winter, the Department had an inventory of 625 thousand tons of salt, which slightly exceeded the 120% of five-year average use standard. During the winter months, counties had used salt at a pace that was thought would exhaust supplies well before the end of winter. The very low temperatures experienced in much of the state during January required counties to increase use, since salt becomes less efficient at melting ice as the temperature drops. In response, the Department exercised the "vendor reserve" clause in the state's salt contract, which allowed the Department to purchase 150 thousand tons at the same unit price as the original purchase ($61 per ton). However, because ice buildup on the Great Lakes blocked the normal delivery routes, the Department had to purchase approximately 10 thousand tons of salt on a separate contract to maintain sufficient inventory in all counties. Because this salt was purchased during a period of high demand, and because it had to be delivered by truck rather than by water shipment, the cost per ton was over three times the original purchase ($221 per ton). In total, the Department purchased 160 thousand additional tons of salt at a total cost of $11,363,700. The Department has requested an appropriation supplement of this amount in the SEG appropriation for highway system management and operations to cover the cost of this additional purchase.

Subsequent to the submittal of the request, the Department has indicated that the principal salt vendor has agreed to pay $1.5 million to the state due to the firm's inability to deliver the vendor reserve in a timely fashion during February. This payment, which is based on the additional cost incurred to purchase and deliver salt from a separate vendor, would be deposited in the transportation fund. Although the payment would offset the net impact on the transportation fund associated with the requested appropriation supplement, it does not reduce the amount needed in the highway system management and operations appropriation to fully pay for the additional salt.

The Department indicates that a failure to approve the request would have several negative impacts on future highway maintenance and traffic operations services. With respect to the highway system management and operations request for salt costs, the Department's ability to affect expenditures in the time remaining in the 2013-14 fiscal year would be limited. The Department has proceeded with plans to let contracts for pavement markings, sign bridge repairs, and other traffic operation functions in the early spring. It is unlikely, therefore, that enough of these activities could be delayed to avoid a fiscal year-ending deficit in that appropriation if the request is not approved.

With respect to the routine maintenance activities request, the Department has elected not to curtail spring maintenance work to partially offset those costs, on the grounds that such efforts could negatively affect the driving public and could disrupt county maintenance crews. At this point in time, the total amount of maintenance activity remaining in the fiscal year is not enough to absorb the additional winter costs through a curtailment in spring maintenance activity. In part, this is because only actions taken to curtail work in the remainder of the month of May would affect the 2013-14 appropriation balance, since June work is reimbursed in the following fiscal year. Therefore, if the routine maintenance activities supplement is not approved, the appropriation would likely end the fiscal year with a deficit.

If the Committee decides to not approve the routine maintenance activities appropriation supplement, one alternative would be to, instead, transfer funds from the 2014-15 appropriation to 2013-14. [To avoid affecting the ongoing funding for the program, this alternative could specify that such a transfer would not change the appropriation base for the purpose of the preparation of the 2015-17 biennial budget.] As shown in Table 1, Act 20 provided an increase for the routine maintenance activities appropriation, occurring mostly in the second year of the biennium. The Department plans to use the fiscal year increases to increase county maintenance expenditures from $122 million in calendar year 2013 to $145 million in calendar year 2014 and to $170 million in calendar year 2015. A transfer of $16.0 million from fiscal year 2014-15 to fiscal year 2013-14 to cover the high winter costs would reduce the funding available for either calendar year 2014 (second half) or calendar year 2015 (first half). However, since planned expenditures are highest in 2015, a decision to reduce the spending plan in that year, rather than in 2014, would lessen the impact on maintenance services, relative to current levels. Specifically, absorbing the $16.0 million in delayed expenditures in the planned calendar year 2015 maintenance program would decrease expenditures (and reserves) in that year from $170 million to $154 million.

Although 2015 expenditure plans are preliminary, the Department indicates that the additional funds allocated to 2015 will be used to, among other things, establish a winter reserve (to be used to cover any above-average winter costs) and increase pavement marking work done by county crews. In addition, the Department is planning to set aside some amount of funding to deliver certain maintenance activities on the basis of performance targets, rather than the current cost reimbursement basis. Under this pilot program, counties and the Department are working cooperatively to address a backlog of preventative maintenance activities that previously were not done due to insufficient funding. The failure to approve the Department's request could affect these plans. A reduction or elimination of the planned winter reserve, for instance, could increase the chance that additional appropriation supplements would be needed in 2014-15 if winter costs are again above average. In addition, a reduction in the 2015 maintenance plan could require the Department to delay or eliminate the preventative maintenance work, potentially increasing future rehabilitation costs.

A representative of the Wisconsin County Highway Association also indicated that some counties have made personnel and equipment purchasing decisions in anticipation of a higher 2015 routine maintenance expenditure plan. A decision to transfer funding from 2014-15 to 2013-14 rather than provide an appropriation supplement could negatively affect those counties.

The supplemental appropriations would be made from the unappropriated balance in the transportation fund. Based on a review of transportation fund revenue collections and projections completed in January, the 2013-15 biennium-ending balance of the transportation fund was estimated at $84.6 million. Since that time, the Legislature passed a bill (signed as 2013 Act 141) that increased the SEG appropriation for the state highway rehabilitation program by $43.0 million, thereby reducing the estimated balance to $41.6 million. The approval of both parts of the Department's request would further reduce the estimated, biennium-ending balance to $14.2 million. [This estimate does not reflect the $1.5 million payment from the salt vendor, since the payment has not yet been received. Assuming that this payment is received, the biennium-ending balance in the fund would be $15.7 million.] Since the January revenue reestimate, the Department has been reevaluating both revenues and expenditures in preparation for beginning work on its 2015-17 budget request. Although there are individual revenue and expenditure changes that would move the balance in both directions, in total, the Department's preliminary reevaluation suggests that the biennium ending balance could be $16 million to $21 million higher than under the January estimates.

ALTERNATIVES

A. Routine Maintenance Activities Appropriation

1. Approve the Department's request for an appropriation supplement of $16,007,800 SEG in 2013-14 from the transportation fund for routine maintenance activities to reimburse counties for above-average winter maintenance costs incurred during the 2013-14 winter season.

2. Deny the Department's request for an appropriation supplement for routine maintenance activities. Instead, transfer $16,007,800 SEG from the 2014-15 appropriation for routine maintenance activities to the 2013-14 appropriation, and direct the Department to adjust the calendar year 2015 expenditure plan accordingly. Specify that this transfer shall not affect the 2014-15 routine maintenance activities appropriation base for the purpose of the preparation of the 2015-17 biennial budget.

3. Deny the request.

B. Highway System Management and Operations Appropriation

1. Approve the Department's request for an appropriation supplement of $11,363,700 SEG in 2013-14 from the transportation fund for highway system management and operations to fund additional salt purchases made during the 2013-14 winter season.

2. Deny the request.

Prepared by: Jon Dyck