



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #738

Transportation Economic Assistance Program (DOT -- Local Transportation Projects)

[LFB 2005-07 Budget Summary: Page 478, #7]

CURRENT LAW

The transportation economic assistance (TEA) program provides grants to local governments for making infrastructure improvements designed to retain or attract businesses in the state by facilitating access to an economic development project. The transportation improvements may involve the construction or reconstruction of a highway or road, an airport runway, taxiway, or apron, a harbor facility, or a railroad track or spur. The amount of the TEA grant is capped at the lower of the following: (a) 50% of the total estimated cost of the transportation improvement project (the local sponsor is responsible for the remainder); or (b) an amount equal to \$5,000 for each job that would be created by the economic development project. The Department may reduce the amount of the TEA grant to below 50% of the cost if a 50% grant would exceed \$1,000,000, although this is not a requirement.

Base funding for the program is \$3,625,000 SEG and \$3,625,000 SEG-L (the local match).

GOVERNOR

Provide increases of \$1,200,000 SEG and \$1,200,000 SEG-L annually for the transportation economic assistance program, to increase the total amount of SEG funds provided for the program to \$4,825,000 SEG annually.

DISCUSSION POINTS

1. The funding provided by the bill would increase the funding for the TEA program by 33.1%. The last time the funding for the program was increased was the 1999-01 biennial budget, when an additional \$125,000 was provided annually, raising funding from \$3,500,000 to \$3,625,000.

2. Although the Governor did not specifically indicate a connection, the additional funding provided for the TEA program may be related to an initiative to provide state assistance to an economic development project in Sturgeon Bay. A separate item in the bill would increase funding for the harbor assistance program and require that the Department award a grant of \$6,000,000 for a variety of harbor improvements in Sturgeon Bay, including the construction of a new vessel launch facility to be used by Palmer Johnson Yachts and Bay Shipbuilding Company. In announcing this harbor program grant, the Governor indicated that \$1,200,000 would also be provided for the project from the TEA program and \$2,000,000 would be provided from the Department of Commerce. The TEA funds would be provided in the form of two grants. A grant of \$200,000 would be made to modify street layout in the vicinity of Palmer Johnson's plant in order to allow for the construction of a larger building and another \$1,000,000 would be provided towards the cost of the harbor improvements. The Commerce grant would go towards the construction of Palmer Johnson's new yacht construction building.

3. Although the bill would provide an annual increase equal to the proposed TEA grants for the Sturgeon Bay projects, the bill would not require DOT to make grants for those projects. Therefore, any such projects would need to be evaluated for funding under the TEA program criteria. The Department has not received an application for the TEA project grants and, therefore, has not determined if all elements of the project would be eligible for TEA grants.

4. The additional funding provided for the TEA program by the bill would allow the grants to be made for the Sturgeon Bay projects without affecting the level of funding available for other potential projects, relative to the current level of funding. In addition, since the bill would provide an increase of \$1,200,000 in both years, additional funding for the program would be available on an ongoing basis.

5. Although the Department of Transportation's budget request included several fee increases, including a \$15 increase in the auto registration fee, and funding increases to both state highway programs and several local programs, the Department did not request a funding increase for the TEA program. In the past, the Department has generally been able to provide grants to most project applicants that meet the program criteria and are considered to be good candidates for assistance.

6. Although DOT has generally been able to fund projects that are considered good candidates, the Department indicates that there has been an increase recently in the requests for funding. In 2003-04, the Department approved grants totaling \$5.3 million. Although this exceeded the amount appropriated in that year by about \$1.7 million, the Department was able to

use funds carried over from previous years. The carry-over surplus at the beginning of 2003-04 was large enough that even though the grants exceeded the appropriation for that year, there was still a carry-over balance of \$1.1 million going into 2004-05.

7. As of March 1, 2005, the program had \$4,115,600 in funds available and outstanding requests for funding totaling \$3,791,000, an amount which includes the proposed grants of \$1,200,000 for the Sturgeon Bay projects. Therefore, as of that date, the program had enough funding to provide both Sturgeon Bay grants and all other pending applications using 2004-05 funds. However, the Department is required by statute to accept applications on a year-round basis, so the amount of pending applications may increase. If there is a sufficient increase in such applications so that there are enough eligible projects to use all available 2004-05 funds, the Sturgeon Bay grants may need to be made with 2005-06 funds.

8. In its deliberations on the budget for transportation programs, the Committee will have to balance several competing objectives, including providing funding for a variety of local and state programs and establishing an appropriate level for transportation taxes and fees. Since the Department has typically been able to fund most eligible projects with the current level of funding, the Committee could decide that an ongoing increase in the size of the program is not justified or that other potential uses of transportation revenues are a higher priority. One alternative would be to approve the increase of \$1,200,000 in 2005-06, but delete the increase provided in 2006-07. In this case, the Department would be able to make the proposed grants to Sturgeon Bay without affecting the funding available for other potential projects, but the ongoing level of funding in 2006-07 and thereafter would remain at the 2004-05 base level. Since the program is funded with a continuing appropriation, the additional funding provided in 2005-06 would continue to be available if the grants for the Sturgeon Bay project were not made in that year.

9. Another alternative would be to provide a total of \$1,200,000 SEG over the biennium, but divide this amount equally between both years so that there would be a \$600,000 ongoing increase for the program.

10. To be eligible for a grant, DOT must determine that a proposed project meets certain screening criteria, including that the economic development project would be unlikely to occur in the state unless the associated transportation improvement is built, the transportation improvement would have been unlikely to occur without the grant, and the economic development project directly and significantly increases the number of jobs in the state. Projects that meet the screening criteria are then evaluated on various other factors to determine the priority order for funding. Among these other factors is the total estimated costs of the improvement relative to the number of jobs that would be created by the economic development, whether the project is located in an area of high unemployment or low average income, and whether the business that would be helped by the improvement is financially sound.

11. If it is determined that any eligible grants for the City of Sturgeon Bay should be made from existing program funds, the Committee could decide to delete the proposed funding increase in both years. The TEA grants for Sturgeon Bay would total \$1,200,000 for an economic

development project that is estimated to generate 620 direct jobs, for an approximate cost of \$1,935 per direct job. On this measure, the Sturgeon Bay projects would rank better than all but one of the nine other pending projects on March 1, 2005. In the event that the amount of funding requested under the program exceeds the amount of funding provided, then the Department would have to allocate resources to the most worthy projects, leaving others unfunded.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$1,200,000 SEG and \$1,200,000 SEG-L annually for the transportation economic assistance program.

2. Modify the Governor's recommendation by providing \$1,200,000 SEG and \$1,200,000 SEG-L in 2005-06, but delete the increase in 2006-07 to maintain the base level of funding in that year. This alternative would provide funds for making a grant for the Sturgeon Bay improvements without affecting the amount available for other projects, relative to current funding levels, but would provide no ongoing increase in the program.

<u>Alternative 2</u>	<u>SEG</u>	<u>SEG-L</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$1,200,000	- \$1,200,000	- \$2,400,000

3. Modify the Governor's recommendation by deleting \$600,000 SEG and \$600,000 SEG-L annually to reduce the size of the increase for the program by 50%.

<u>Alternative 3</u>	<u>SEG</u>	<u>SEG-L</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$1,200,000	- \$1,200,000	- \$2,400,000

4. Delete provision.

<u>Alternative 4</u>	<u>SEG</u>	<u>SEG-L</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$2,400,000	- \$2,400,000	- \$4,800,000

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