



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #660

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

[LFB 2011-13 Budget Summary: Page 437, #7]

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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. In 2009-11, the program is funded at \$13,687,600, which consists of an appropriation of \$493,800 SEG annually and bond authorization of \$12,700,000. Debt service on the bonds is paid from the transportation fund.

#### GOVERNOR

Provide \$12,700,000 in transportation fund-supported, general obligation bond authorization for the harbor assistance program.

#### DISCUSSION POINTS

1. The Department of Transportation's 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 prior three biennia. The SEG appropriation for making grants would be funded at the same level as in the 2009-11 biennium. 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	12,700,000	13,687,600

\* Amounts proposed in the bill.

3. As shown in the previous table, funding for making harbor improvement grants has remained relatively stable in recent biennia, although this level is significantly higher than it was prior to the 2005-07 biennium.

4. The Department indicates that demand for the program remains strong. To be eligible for a harbor assistance grant, a project must be identified in a three-year harbor improvement plan, which are prepared annually by harbor program participants. For the most recent plans submitted to the Department, there are a total of 33 projects identified for possible construction in 2012 and 2013, with a total estimated state share of \$39.9 million, or about three times the amount of funding that would be provided under the bill. Of these, local governments or port authorities rated 17 as highest priority, totaling \$17.2 million.

5. The total amount of requested grants under the harbor assistance program, as indicated in three-year harbor improvement plans, has frequently far exceeded the amount of available funds. The Department indicates that many projects that are included in three-year harbor improvement plans, but that do not receive funding, are not included in subsequent plans. In some cases, local governments or port authorities may decide to eliminate unsuccessful projects from consideration, while in other cases, projects are completed using private or local funds.

6. There is typically a delay between the time that bonds authorized for the harbor improvement program are committed to a project and the time that the projects are constructed and the bonds are issued to make payments on the project. For this reason, the Department of Administration assumed that only about one-fifth of the new bonds would be issued during the 2011-13 biennium, resulting in debt service payments of \$28,600 in 2012-13. When fully issued, debt service on the new bonds would be approximately \$1.0 million annually.

7. As a program that is primarily funded with transportation fund-supported bonds, the harbor assistance program allows the state to participate in transportation improvements with small up-front costs, and then pay for the improvements over the life of the project. However, as with all bond-funded programs, the decision to provide additional bonding must be weighed against the long-term debt service costs. Transportation fund-supported debt service has consumed an increasing share of transportation fund revenue over the past decade. [For a more complete discussion of transportation bonding and debt service, see LFB Issue Paper #641.] If the Committee decides that the overall level of transportation bonding should be reduced, the bond authorization for the harbor assistance program could be reduced [Alternative #2].

8. If a lower level of bonding is authorized for harbor improvement projects, fewer eligible projects that have submitted applications would receive funding. The Department uses a benefit-cost analysis, among other evaluation criteria, to rank projects. At a reduced level of bonding, lower ranking projects would not receive funding during the biennium.

## ALTERNATIVES

1. Approve the Governor's recommendation to authorize \$12,700,000 in transportation fund-supported bonds for the harbor assistance program.

2. Modify the Governor's recommendation by decreasing the amount of new harbor assistance program bonds by one of the following amounts and reduce SEG funding for debt service by the corresponding amount in 2012-13:

	<u>Reduction in Bonding</u>	<u>SEG Debt Service</u>
a.	-\$2,000,000	-\$4,500
b.	-4,000,000	-9,000
c.	-6,000,000	-13,500
d.	-8,000,000	-18,000
e.	-10,000,000	-22,500

3. Delete provision.

<b>ALT 3</b>	<b>Change to Bill Funding</b>
BR	- \$12,700,000
SEG	<u>- 28,600</u>
Total	- \$12,728,600

Prepared by: Jon Dyck