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May 19, 2015

Joint Committee on Finance

Paper #650

Southeast Wisconsin Freeway Megaprojects (Transportation -- State Highway Program)

[LFB 2015-17 Budget Summary: Page 445, #2]

CURRENT LAW

With the enactment of 2011 Act 32, the 2011-13 budget, the southeast Wisconsin freeway rehabilitation program was replaced with the southeast Wisconsin freeway megaprojects program. A southeast Wisconsin freeway megaproject is defined as an improvement project with an estimated cost exceeding \$558,800,000 in 2014 dollars. Southeast Wisconsin freeways are statutorily defined as being located in Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, or Waukesha counties. Any rehabilitation or capacity expansion project on those freeways with a cost below that threshold is the responsibility of the state highway rehabilitation or major highway development programs, as applicable. Prior to the start of construction, southeast Wisconsin freeway megaprojects must be enumerated in the statutes. Presently, the I-94 North-South freeway and the Zoo Interchange projects are the only enumerated megaprojects.

In the 2013-15 biennium, a total of \$517 million was provided for southeast Wisconsin freeway megaprojects. This amount was comprised of \$107 million in transportation fund-supported general obligation bonds, \$200 million in general fund-supported general obligation bonds, and \$210 million of state and federal funds. Of the total amount authorized and appropriated, \$486 million was allocated to Zoo Interchange project and \$31 million was provided for the I-94 North-South freeway project.

GOVERNOR

Provide \$29,374,300 SEG annually for the southeast Wisconsin freeway megaprojects program. In addition, provide transportation revenue bond expenditure authority of \$292,646,900

SEG-S in 2015-16 and \$99,446,900 SEG-S in 2016-17 and create a SEG-S appropriation for this purpose. Amend other appropriations and statutory provisions related to the use of revenue bond funding to include southeast Wisconsin freeway megaprojects as an authorized use of these funds. Add the new SEG-S appropriation to the list of allowable funding sources for the megaprojects program.

Enumerate the I-94 East–West freeway project as a southeast Wisconsin freeway megaproject and define this project as the reconstruction of the I-94 freeway in Milwaukee County from 70th Street to 16th Street, including all interchanges.

DISCUSSION POINTS

Funding Level

1. Each of the alternatives presented in this paper would rely on the use of bonds for the southeast Wisconsin freeway megaprojects program. The Committee could decide to vary the mix of funds used in any of these alternatives and may also elect to provide increases or reductions to the other state highway program components based on these decisions.

2. Table 1 shows the total program resources provided to the southeast Wisconsin freeway rehabilitation and the southeast Wisconsin freeway megaprojects programs since the 2005-07 biennium (including FED, SEG, and bonds).

TABLE 1

**Southeast Wisconsin Freeways Funding¹
(In Millions)**

<u>Biennium</u>	<u>All Funds</u>
2005-07	\$473.3
2007-09	494.2
2009-11	643.0
2011-13	420.0
2013-15	517.0
2015-17*	623.2

*Reflects the Governor's 2015-17 budget recommendation

¹Shows funding provided for projects through the southeast Wisconsin freeway rehabilitation (2005-07 thru 2009-11) or megaprojects programs (2011-13 thru 2015-17). Beginning in 2011-13, southeast Wisconsin freeway projects that are not megaprojects are funded under either the major highway development or state highway rehabilitation programs.

3. There are two, ongoing southeast Wisconsin freeway megaprojects that have been enumerated: (a) the I-94 North-South freeway project, construction of which began in 2009; and (b) the Zoo Interchange project, construction of which began in 2013. The I-94 North-South freeway

project involves reconstruction of existing lanes and interchanges and the addition of a fourth lane in each direction from the Mitchell Interchange in Milwaukee County to the Illinois state line. The Zoo Interchange project involves the reconstruction of the junction of I-94, I-894, and USH 45 in western Milwaukee County.

4. In the financial plan for I-94 North-South project, updated in September, 2014, the project completion date was anticipated to be at the end of 2021. Through 2013-14, total spending on the project equaled \$1,000.8 million, with another \$3.7 million anticipated to be spent in 2014-15. Therefore, with the total project costs now estimated at \$1,650.0 million, expenditures estimated at \$645.5 million remain for future years. The anticipated completion date is dependent on the provision of this funding.

5. The September, 2014, financial plan for the Zoo Interchange project anticipates completion by the end of 2018. Total project spending through 2013-14 equaled \$594.4 million, with an additional \$283.1 million expected to be spent in 2014-15. Total project costs are estimated at \$1,717.8 million. Therefore, expenditures in future years are estimated at \$840.3 million. Again, the completion date estimate is based on the assumption that this funding will be provided.

6. Construction of the I-94 North-South freeway project was initially scheduled for completion in 2016. However, in 2011, the Department of Transportation (DOT) announced that, although work would continue on selected interchanges, most of the remaining work on the mainline of the freeway would be delayed. Under the funding provided in the Governor's budget recommendations, it is anticipated that the Zoo Interchange project would be completed by the end of 2018, while completion of the I-94 North-South project would occur in 2022 (a one-year delay). These project schedules and the funding provided for each project are shown in Table 2.

TABLE 2

**Funding and Costs for Southeast Wisconsin Freeway Megaprojects
(In Millions)**

<u>Project</u>	<u>Estimated Project Cost</u>	<u>Funding Provided</u>	<u>Estimated Cost Remaining</u>	<u>Governor's Recomm.</u>	<u>Estimated Year of Completion</u>	<u>Delay from Current Schedule*</u>
I-94 North-South	\$1,650.0	\$1,004.5	\$645.5	\$0.0	2022	One Year
Zoo Interchange	1,717.8	877.5	840.3	623.2	2018	None

*Reflects the Governor's 2015-17 budget recommendation

7. As shown in Table 3, the Governor's total funding recommendation for the southeast Wisconsin freeway megaprojects program equals \$623.2 million, which was the amount requested by the Department for work on the core of the Zoo Interchange project to allow the project to remain on schedule during the 2015-17 biennium. [Alternative #A1] It is the administration's intent that this funding would be used for this purpose. Debt service on the proposed bonding for the project equals an estimated \$8.1 million in 2015-16 and \$23.7 million in 2016-17, increasing to \$28.1 million annually once the bonds have been fully issued.

TABLE 3**Funding for Southeast Wisconsin Freeway Megaprojects
(Under AB 21/SB 21, Governor's Recommendation)**

<u>Fund</u>	2014-15 Base <u>Plus Bonding</u>	<u>Governor</u>	
		<u>2015-16</u>	<u>2016-17</u>
SEG	\$8,052,200	\$37,500,000	\$37,500,000
SEG-S (Revenue Bonds)	0	292,646,900	99,446,900
FED	78,053,100	78,053,100	78,053,100
General Obligation Bonds (GPR-Supported)	<u>200,000,000</u>	<u>0</u>	<u>0</u>
Total	\$286,105,300	\$408,200,000	\$215,000,000

8. Due to ongoing concerns about the transportation fund's revenue issues and the extensive use of long-term borrowing for the highway program included in the bill, revenue increases or program reductions, or a combination of both, may have to be made. Any large reductions in bonding would require significant reductions to the highway-related programs, for which the Governor is recommending nearly \$1.3 billion in bonding.

9. Given these factors, and if the Committee decides that highway program reductions should be made, some have argued that the state should ensure the continuation of individual projects with relatively more significant implications for the economic condition of the state. As a part of a budgeting exercise for members of the Committee, the DOT Secretary was asked how, if given the choice, the Department would distribute a \$500 million reduction to the state highway program in 2015-17 from the level of funding provided under the Governor's budget recommendations. In this instance, the Secretary indicated that the Department would plan to fund the Zoo Interchange project at the level provided in the Governor's budget recommendation. This project is on the busiest segment of interstate highway in the state and is a hub for freight, businesses, and hospitals (as well as those commuting to and from the City of Milwaukee). If such a cut were made to the highway program, DOT would prefer to reduce funding by \$150 million annually to the major highway development program and by \$100 million annually to the state highway rehabilitation program. This would cut both programs by \$100 million annually compared to the base year.

10. DOT indicates that delays to the Zoo Interchange project would cause an increase in project costs and vehicle crashes in the project area when compared to the current schedule. The Department has also expressed concerns regarding the impact that an additional year of construction would have on local businesses and others. For instance, DOT believes that project delays would lead to prolonged congestion impacts on the Milwaukee County transit system and other private bus providers, which would make route timing and coordination more expensive and generate longer commute times for riders.

11. However, if the Committee decides that reductions to the highway program are

necessary, some may argue that the reductions should be shared by all highway program areas in order to distribute the impact of a reduced level of funding more evenly throughout the state. As discussed in the LFB Issue Papers related to the major highway development and state highway rehabilitation programs, reducing these programs would have negative impacts on the condition of state highways and the communities that depend on them. Therefore, the Committee could decide that if reductions to these programs are needed, that the southeast Wisconsin freeway megaprojects program should also be reduced.

12. DOT was asked how it could best absorb a \$100 million to \$200 million cut to the Zoo Interchange project. The Department indicated that if such a cut were required, that it would prefer to delay the north leg of the Zoo Interchange project (USH 45) by one year, which would reduce the amount of funding needed in 2015-17 by an estimated \$155 million. [Alternative #A2] DOT believes that delaying this project component would result in an estimated \$6.3 million increase in costs due to inflation. Because of the project timing, the timing of design completion for this project could be slowed down to eliminate the need to update future specifications based on the potentially revised project schedule. However, this alternative would result in the need to fund the remainder of this project in addition to ongoing costs associated with the I-94 North-South freeway project in 2017-19.

13. Table 4 shows funding levels under Alternative #A2, which would provide total program resources of \$468.2 million in the biennium. Because of the funding level that would be needed to keep other aspects of the Zoo Interchange project on schedule (the entire \$408.2 million in 2015-16), when considering this program's funding in isolation, it is not possible to take the entire reduction of \$155 million from the Governor's recommended bonding authorization. Therefore, for the purpose of this alternative, the remainder of this funding reduction (\$55.6 million) would be taken from the 2016-17 FED appropriation for this program. If the Committee were to select this alternative, this federal aid could be used in another state highway program to reduce bonding.

TABLE 4
Funding for Southeast Wisconsin Freeway Megaprojects
(Under \$155 Million Reduction)

<u>Fund</u>	2014-15 Base <u>Plus Bonding</u>	<u>Alternative #A2</u>	
		<u>2015-16</u>	<u>2016-17</u>
SEG	\$8,052,200	\$37,500,000	\$37,500,000
SEG-S	0	292,646,900	0
FED	78,053,100	78,053,100	22,500,000
General Obligation Bonds (GPR-Supported)	<u>200,000,000</u>	<u>0</u>	<u>0</u>
Total	\$286,105,300	\$408,200,000	\$60,000,000

14. Under the Governor's recommendations, transportation revenue bonds, for the first time, would be authorized for the southeast Wisconsin freeway megaprojects program (\$392.1

million). In the past, only general obligation bonds have been provided for this program. Under the state's budgeting and accounting system, proceeds from transportation revenue bonds are deposited to SEG-S appropriations for either major highway development or capital building projects and appropriated for those program purposes. This establishes a base level appropriation authority for those programs going forward, even though the bonding necessary to fund the base appropriation levels in the subsequent biennium would need separate authorization by the next Legislature. Conversely, general obligations bond proceeds are not deposited to a specific program appropriation. Rather, they are deposited to the state's capital improvement fund. Therefore, no base level funding is established for the specific program purposes for which the general obligation bonds are issued. The DOT Secretary indicated in testimony that by providing revenue bonding authority to the southeast Wisconsin freeway megaprojects program, the Governor's recommendations would benefit that program by establishing a base level of bond funding (\$99,446,900 SEG-S) for future biennia. The use of revenue bonds in this program is accompanied by the Governor's recommendation to pledge up to 50% of motor vehicle fuel tax revenues to support the transportation revenue bond program. Additional information and alternatives related to these recommendations are provided in a separate LFB Issue Paper on the overall use of transportation fund-supported bonding.

Enumeration of Projects

15. The Governor's budget recommendation would enumerate the I-94 East-West freeway project in Milwaukee County. This project would be defined as the reconstruction of the I-94 freeway in Milwaukee County, from 70th Street to 16th Street, including all interchanges (although an erratum submitted by the administration indicates it was the administration's intent to also allow DOT to perform work on local roads as necessary for the completion of the project). In February, 2014, the Department issued a statement indicating the selection of its preferred project alternative, an eight-lane replacement of the current six-lane facility, at an estimated cost of \$850 million.

16. Because this project is still in the relatively early stages of the pre-construction process and is quite large, the estimated, total cost of the project will likely continue to change. Prior to selecting this alternative, DOT examined a range of possible build alternatives with estimated costs between \$379 million and \$1,150 million. The related DOT project study and environmental review process that began in 2012 will conclude once a final agreement with the Federal Highway Administration (FHWA) has been reached (which is required for the use of federal funds on the project).

17. The Department has examined several less costly options (including in-kind facility replacement) and is in agreement with the Federal Highway Administration that these replace-in-kind projects would not meet the purpose and need of the project (this is a federal requirement to which the Department must adhere when using federal highway aid). Although an agreement has not yet been finalized, DOT indicates that the proposed eight-lane replacement preferred alternative would meet this need. Therefore, the Committee could decide to enumerate the project, as intended by the administration. [Alternative #B1]

18. Given the current budget environment and the significant and ongoing public debate regarding whether or not the project should include an expansion component, some may argue that

enumeration of the project is not appropriate at this time. [Alternative #B2] Under the Governor's budget, unless there were to be significant bid savings on the Zoo Interchange project, no additional funds would be available for work on other megaprojects, including the I-94 East-West freeway project. If the Committee decides to reduce funding for the Zoo Interchange, initiation of new projects would likely be further delayed.

Program Fiscal Reports

19. Under current law, the Department of Transportation is required to submit a report to the Transportation Projects Commission every six months that provides a range of information related to major highway project costs and scheduling. For the southeast Wisconsin freeway megaprojects, the Department currently provides an annual financial plan to the Federal Highway Administration. If the Committee decides that more frequent reporting of information on these projects is desirable, the Committee could opt to require the Department to add southeast Wisconsin freeway megaprojects to the current report to the Commission. Creating this program requirement could be seen as a way to increase transparency and legislative oversight with regard to these large, high-cost projects. [Alternative #C1]

ALTERNATIVES

A. Funding Level

1. Approve the Governor's recommendation and provide \$29,374,300 SEG annually for the southeast Wisconsin freeway megaprojects program. In addition, provide transportation revenue bond expenditure authority of \$292,646,900 SEG-S in 2015-16 and \$99,446,900 SEG-S in 2016-17 and create a SEG-S appropriation for this purpose. This would provide total program resources equal to \$623,200,000 in 2015-17.

2. Modify the Governor's recommendation by deleting \$99,446,900 in revenue bond authorization and \$99,446,900 SEG-S (revenue bond expenditure authority) in 2016-17 and increase estimated transportation fund revenue by \$2,759,700 to reflect lower debt service associated with this reduced level of bonding. Reduce program funding in 2016-17 by \$55,553,100 FED. This would provide total program resources equal to \$468,200,000 in 2015-17 (\$155,000,000 less than the bill) and would result in a one-year delay in the completion of the north leg of the Zoo Interchange.

ALT A2	Change to Bill
SEG-S	-\$99,446,900
FED	<u>-\$55,553,100</u>
Total	-\$155,000,000
SEG-REV	\$2,759,700
BR	<u>-\$99,446,900</u>
Total	-\$96,687,200

B. Enumeration of Projects

1. Approve the Governor's recommendation, as modified by the administration's budget errata, to enumerate the I-94 East-West freeway project. Define this project as the reconstruction of the I-94 freeway in Milwaukee County, from 70th Street to 16th Street, including all interchanges, and including work on local roads as necessary for the completion of this project.
2. Delete provision.

C. Program Fiscal Reports

1. Require the Department to add southeast Wisconsin freeway megaprojects to the biannual report produced by the Department for the major highway development program. Specify that the report include the same information as is provided for the major highway development program for the southeast Wisconsin freeway megaprojects program.
2. Take no action.

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