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Joint Committee on Finance

Paper #732

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

[LFB 2019-21 Budget Summary: Page 425, #4]

CURRENT LAW

With the enactment of 2011 Act 32, the 2011-13 budget act, 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 \$609.5 million in 2018 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.

A total of \$535.6 million was provided for southeast Wisconsin freeway megaprojects in the 2017-19 biennium. This amount was comprised of \$18.1 million in state funds, \$252.4 million in general fund-supported, general obligation bonds, and \$265.1 million of federal funds. Of the total amount, \$487.4 million was allocated for the I-94 North-South freeway project, while the remaining \$48.2 million was allocated to the core of the Zoo Interchange project.

GOVERNOR

Make the following changes to the southeast Wisconsin freeway megaprojects program's funding in order to provide a 2019-21 funding level of \$331,929,400: (a) increases of \$10,000,000 SEG in 2019-20 and \$100,000,000 SEG in 2020-21; (b) increases of \$11,863,000 FED in 2019-20 and \$63,463,000 FED in 2020-21; and (c) the authorization of \$65,000,000 BR of transportation

fund-supported, general obligation bonds for use on the Zoo Interchange project in Milwaukee County.

Estimated transportation fund-supported debt service associated with the partial issuance of these general obligations bonds in the biennium would be \$106,200 in 2020-21 (shown in a separate item under "Transportation Finance"). Standard budget adjustment reductions of \$108,300 SEG annually and \$182,100 FED annually have been made under an earlier action of the Committee.

DISCUSSION POINTS

Background

1. There are three main components of the state highway improvement program: (a) the state highway rehabilitation program; (b) the major highway development program; and (c) the southeast Wisconsin freeway megaprojects program. As shown in the attachment, the southeast Wisconsin freeway megaprojects program has, historically, been the smallest of these programs, with a proportionate, share of program funding over the past decade typically ranging between 15% and 20%.

2. There are two, ongoing southeast Wisconsin freeway megaprojects that have been enumerated in statute: (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. As of February, 2019, total inflation-adjusted project costs are estimated at \$1,624.7 million. The Zoo Interchange project involves the reconstruction of the junction of I-94, I-894, and USH 45 in western Milwaukee County. In 2012-13, DOT began the reconstruction of the Zoo Interchange at the junction of I-94, I-894, and USH 45 in western Milwaukee County. As of February, 2019, total inflation-adjusted project costs of the Zoo Interchange project are estimated as \$1,549.6 million.

3. The primary elements of the I-94 North-South and the Zoo Interchange projects are nearing completion. On the Zoo Interchange project, the "north leg" (USH 45 between Swan Boulevard and Burleigh Street), with an estimated cost of \$195.0 million, remains to be completed. In order to fund the north leg, fund some minor remaining work on the I-94 North-South and Zoo Interchange projects, and fund ongoing megaproject studies, DOT indicates that \$206.4 million in the 2019-21 biennium would be necessary.

4. With regard to the age and condition of southeast Wisconsin freeways, DOT indicates that the interstate system in the seven-county, southeast megaprojects program area includes 710 bridges, of which 417 are the original bridges from when the system was initially constructed. Five corridors (I-94 East-West [Milwaukee County], I-894 Bypass, I-94 East-West freeway [Waukesha County], I-43 Howard to Silver Spring Drive, and I-41 Burleigh to the Richfield Interchange) make up 385 lane miles and 278 of the 710 bridges in DOT's southeast region. On these five corridors alone, there are 278 bridges, of which 224 need to be replaced by 2040. These five corridors represent the next five southeast Wisconsin freeway megaprojects, with a total, estimated cost in the range of \$5

billion (current year costs). The Department has estimated that a "replace-in-kind" approach to these projects would cost approximately 60% to 80% of the cost it would take to expand and modernize these corridors. However, the Department believes that a "replace in kind" approach would not result in appreciable safety and mobility benefits as compared to the current system.

5. The I-94 East-West project in Milwaukee County is the next anticipated megaproject, but would need to be enumerated prior to the commencement of construction activities. The project would be defined as the reconstruction of the I-94 freeway in Milwaukee County, from 70th Street to 16th Street, including all interchanges and work on local roads as necessary for the completion of the project. The preferred project alternative is an eight-lane replacement of the current six-lane facility, at an estimated cost of \$1,106 million (last estimated in 2016). Although environmental study and federal approval for this project were completed and the preferred alternative selected, on September 29, 2017, then-DOT Secretary Ross requested that the Federal Highway Administration rescind the project's federal approval due to a lack of enumeration and available funding. In order to reinstate this decision, DOT would need to complete some additional work on the project's environmental documentation and resubmit the project's record of decision (approval) to Federal Highway Administration for reinstatement.

6. Over the past decade, limited transportation fund revenue growth and the extensive use of transportation fund-supported debt to finance highway infrastructure have contributed to an increasing percentage of transportation fund revenue being used to pay debt service on that debt. In addition, over the past several biennia, DOT has identified substantial current and future program needs in the state highway improvement program that continue to demand significant resources from the transportation fund. Although the Governor's budget recommendations would provide significant additional transportation fund revenue to address some of these programming needs (a net of \$520.6 million in above current law revenue), absent these, or some similar means of increasing revenue to the fund, program reductions, as compared to the bill, will need to be made.

Funding Level

7. The alternatives discussed in this paper relate to the Governor's recommendations (initial and intended) for the southeast Wisconsin freeway megaprojects program, as well as the funding level that DOT has subsequently indicated would be necessary to maintain the program's existing 2019-21 expenditure schedule. As indicated above, the Governor initially recommended a 2019-21 program funding level of \$331.9 million. Subsequent to the bill's introduction, the administration submitted an erratum indicating that the Governor had intended to recommend an additional \$60.0 million SEG funding in 2020-21 to the state highway rehabilitation program (the bill inadvertently provided this \$60.0 million SEG to the southeast Wisconsin freeway megaprojects program). This would reduce the \$331.9 million recommendation for the southeast Wisconsin freeway megaprojects program to \$271.9 million. However, the Department has also indicated that only \$206.4 million would be required in the 2019-21 biennium for planned southeast megaprojects expenditures, which would fund completion of the Zoo Interchange (including the north leg of the project), as well as some minor, remaining elements of the I-94 North-South project. Table 1 below provides a comparison of these potential funding levels and the program's planned expenditures.

TABLE 1

**Southeast Wisconsin Freeway Megaprojects Program
Comparison of Potential Funding Levels and Planned Expenditures
(\$ in Millions)**

<u>Potential Funding Levels</u>	<u>2019-20</u>	<u>2020-21</u>	<u>Biennium</u>
Governor -- Bill (Alt. A1)	\$95.1	\$236.8	\$331.9
Governor-as Intended (Alt. A2)	\$95.1	\$176.8	\$271.9
Existing Project Schedule (Alt. A3)	27.2	179.2	206.4
Base Budget Scenario (Alt.4)	41.1	41.1	82.2
<u>Difference to Governor -- Bill</u>			
Governor (as Intended)	\$0.0	-\$60.0	-\$60.0
Existing Project Schedule	-67.9	-57.6	-125.5
Base	-54.0	-195.7	-249.7
<u>Percent Difference to Governor -- Bill</u>			
Governor (as Intended)			-18.1%
Existing Schedule			-37.8
Base			-75.2

8. The Governor's initial recommendation would provide \$331.9 million to fund southeast Wisconsin freeway megaprojects in the biennium. Given the substantial amount of total remaining freeway construction that will need to be funded in the southeast region of the state, some may see this higher-than-intended funding level as desirable. Because the southeast Wisconsin freeway megaprojects program appropriations and bond authorizations are continuing, any funding provided to them would remain with the program. Therefore, one option would be to retain the Governor's initial funding level [Alternative A1], which could make funding available for the I-94 East-West corridor project or some of the other needed improvements in the southeast region mentioned earlier. This would fund the \$206.4 million in costs remaining on the Zoo Interchange and I-94 North-South projects and provide \$125.5 million for other southeast megaprojects purposes (the I-94 East-West corridor project or other potential megaproject work). DOT has indicated that the I-94 East-West project would likely be the next megaproject constructed. This Governor's initial program recommendation for the 2019-21 biennium is shown in Table 2.

TABLE 2**Southeast Wisconsin Freeway Megaprojects Program Funding --
Governor's Initial Recommendation for 2019-21 (\$331.9 million)**

<u>Fund</u>	<u>Governor -- Bill (Alt. A1)*</u>		
	<u>2019-20</u>	<u>2020-21</u>	<u>Biennial Total</u>
SEG	\$21,659,600	\$111,659,600	\$133,319,200
FED	41,005,100	92,605,100	133,610,200
Gen. Ob. Bonds (SEG)	<u>32,500,000</u>	<u>32,500,000</u>	<u>65,000,000</u>
Total	\$95,164,700	\$236,764,700	\$331,929,400

*Includes \$107,800 SEG and \$186,100 FED annually associated with adjustment to the 2018-19 base funding amount and standard budget adjustments.

9. However, given existing significant state and local transportation funding and programming demands, the Governor's recommendation as intended (\$271.9 million), which would reduce the program funding level by \$60.0 million, may be seen as desirable. This alternative, shown in Table 3 below, would fund the \$206.4 million in costs remaining on the Zoo Interchange and I-94 North-South projects and leave \$65.5 million available to fund future megaprojects program costs. [Alternative A2] As referenced above, this remaining funding could be used for initial work on the I-94 East-West corridor project, if the Committee were to determine that enumeration of the project is appropriate at this time.

TABLE 3**Southeast Wisconsin Freeway Megaprojects Program Funding --
Governor's Initial Recommendation for 2019-21 (\$271.9 million)**

<u>Fund</u>	<u>Governor as Intended (Alt. A2)*</u>		
	<u>2019-20</u>	<u>2020-21</u>	<u>Biennial Total</u>
SEG	\$21,659,600	\$51,659,600	\$73,319,200
FED	41,005,100	92,605,100	133,610,200
Gen. Ob. Bonds (SEG)	<u>32,500,000</u>	<u>32,500,000</u>	<u>65,000,000</u>
Total	\$95,164,700	\$176,764,700	\$271,929,400

*Includes \$107,800 SEG and \$186,100 FED annually associated with adjustment to the 2018-19 base funding amount and standard budget adjustments.

10. Conversely, some have expressed concern over the state's significant, ongoing investment in the southeast Wisconsin freeway system and the limitation that this investment places on needed highway development and rehabilitation work in other areas of the state. Providing the \$206.4 million shown in Table 4 below would provide the funding that the Department indicates is needed to complete the Zoo Interchange and I-94 North-South projects, but no further southeast megaproject construction would be funded. This alternative would effectively limit further southeast

megaproject expenditures to the state's existing project commitments. [Alternative A3]

TABLE 4

**Southeast Wisconsin Freeway Megaprojects Program Funding --
Existing Schedule for 2019-21 (\$206.4 million)**

<u>Fund</u>	<u>Existing Schedule (Alt. A3)*</u>		
	<u>2019-20</u>	<u>2020-21</u>	<u>Biennial Total</u>
SEG	\$9,270,600	\$63,769,500	\$73,040,100
FED	<u>17,929,400</u>	<u>115,430,500</u>	<u>133,359,900</u>
Total	\$27,200,000	\$179,200,000	\$206,400,000

*Includes \$107,800 SEG and \$186,100 FED annually associated with adjustment to the 2018-19 base funding amount and standard budget adjustments.

11. Alternatively, if no action would be taken by the Committee, base level funding of \$82.2 million (as shown in Table 5) would be available for the southeast Wisconsin freeway megaprojects program in the 2019-21 biennium. This funding level would not be sufficient to complete the remaining project work on the north leg of the Zoo Interchange. Funding would be available to cover a portion of the north leg's anticipated costs and DOT could complete the remaining elements on the I-94 North-South freeway and the core of the Zoo Interchange project. [Alternative A4]

TABLE 5

**Southeast Wisconsin Freeway Megaprojects Program Funding --
Base Budget for 2019-21 (\$82.2 million)**

<u>Fund</u>	<u>Base Budget Scenario (Alt. 4)</u>		
	<u>2019-20</u>	<u>2020-21</u>	<u>Biennium</u>
SEG	\$11,767,900	\$11,767,900	\$23,535,800
FED	<u>29,324,200</u>	<u>29,324,200</u>	<u>58,648,400</u>
Total	\$41,092,100	\$41,092,100	\$82,184,200

*Includes \$107,800 SEG and \$186,100 FED annually associated with adjustment to the 2018-19 base funding amount and standard budget adjustments.

12. As referenced above with regard to project enumeration, the I-94 East-West freeway project would be the next likely megaproject enumeration, given the significant project study that has occurred. Although no specific or additional funding is required for enumeration, enumerating the I-94 East-West project without some level of associated funding would mean that DOT would not be able to fund project activities in the biennium without delaying other work on the Zoo Interchange or I-94 North-South freeway project.

13. Proponents of enumerating the I-94 East-West corridor project have noted that the state will have invested significant resources (approximately \$3 billion) in order to expand and modernize the adjacent Zoo and Marquette interchanges on I-94. The proposed reconstruction and expansion of I-94 would occur in between these reconstructed interchanges. [Alternative B1] If the proposed reconstruction and expansion is not completed, some parties have expressed concern about the potential for traffic congestion issues if the existing six-lane alignment between the two interchanges is maintained. Conversely, in the past, opponents have cited concern regarding the project's environmental impacts and costs as reasons for maintaining the existing facility. [Alternative B2]

Other Factors Related to Program Funding

14. Over the past several biennia, significant let savings have accrued in the major highway development program, such that more major project work than was anticipated was able to be funded. "Let savings" occur when DOT lets a contract for an amount that is less than the funds that were encumbered for that project based on an estimated cost. Any let savings are then available within the program that generated the savings to fund additional, unplanned work. When a project costs more than anticipated, this is termed "negative let savings." Beginning in 2017-18, the state highway construction market, including inputs, became less favorable to the state, eroding some of the "let savings" that had been realized earlier in this year. Through April, 2019, all state and local highway programs had realized negative let savings of -\$77.5 million in 2018-19. As a result, the relatively favorable bidding conditions that had lasted for several years do not appear likely to continue in 2019-21.

15. In providing analysis related to state highway improvement program funding, the Department notes that the state highway rehabilitation program's funding level has a significant impact on state highway conditions. However, DOT has also stressed that southeast Wisconsin freeway megaprojects and major highway development projects must also be funded at a sufficient level in order to avoid spillover effects that would negatively affect these state highway conditions over time. Although both of these programs typically deal with capacity expansion issues, funding these reconstruction projects under the majors and southeast megaprojects programs eliminates some of the highway rehabilitation program needs associated with those redeveloped highways. Absent sufficient funding for the majors and megaprojects programs, additional pressure would be placed on state highway rehabilitation program funding, primarily due to significant age-related infrastructure issues in the southeast region of the state, as well as other parts of the state.

16. In order to avoid drawing additional resources from statewide state highway rehabilitation programming, DOT estimates that the two programs would require the following funding levels: (a) at least \$550 million for the major highway development program in the 2019-21 biennium, \$300 million in 2021-22 and \$400 million annually thereafter; and (b) \$206.4 million in the 2019-21 biennium, \$343.6 million in 2021-23, and \$350 million annually thereafter for the southeast megaprojects program. Absent these funding levels, DOT will likely need to fund significant amounts of highway and bridge rehabilitation work using the state highway rehabilitation program, which would reduce the available state highway funding for other areas of the state.

17. The availability of transportation fund revenue to fund any of the alternatives described in this paper would depend on other actions taken by the Committee relative to SEG revenue to the fund, overall state highway improvement program SEG funding, local transportation program SEG

funding, and the level of transportation fund-supported debt authorized for the 2019-21 biennium.

ALTERNATIVES

A. Funding Level

1. Approve the Governor's recommendation and make the following changes to the southeast Wisconsin freeway megaprojects program's funding in order to provide a 2019-21 funding level of \$331,929,400: (a) increases of \$10,000,000 SEG in 2019-20 and \$100,000,000 SEG in 2020-21; (b) increases of \$11,863,000 FED in 2019-20 and \$63,463,000 FED in 2020-21; and (c) the authorization of \$65,000,000 BR of transportation fund-supported, general obligation bonds for use on the Zoo Interchange project in Milwaukee County.

Estimate transportation fund-supported debt service associated with the partial issuance of these general obligations bonds in the biennium as \$106,200 in 2020-21. [Standard budget adjustment reductions of \$108,300 SEG annually and \$182,100 FED annually have already been made in an earlier action of the Committee.]

ALT A1	Change to	
	Base	Bill
SEG	\$110,106,200	\$0
FED	75,326,000	0
BR	<u>65,000,000</u>	<u>0</u>
Total	\$250,432,200	\$0

2. As provided in the administration's erratum, make the following changes to the southeast Wisconsin freeway megaprojects program's funding in order to provide a 2019-21 funding level of \$271,929,400: (a) increases of \$10,000,000 SEG in 2019-20 and \$40,000,000 SEG in 2020-21; (b) increases of \$11,863,000 FED in 2019-20 and \$63,463,000 FED in 2020-21; and (c) the authorization of \$65,000,000 BR of transportation fund-supported, general obligation bonds for use on the Zoo Interchange project in Milwaukee County.

Estimate transportation fund-supported debt service associated with the partial issuance of these general obligations bonds in the biennium as \$106,200 in 2020-21. [Standard budget adjustment reductions of \$108,300 SEG annually and \$182,100 FED annually have already been made in an earlier action of the Committee.]

ALT A2	Change to	
	Base	Bill
SEG	\$49,889,600	- \$59,893,800
FED	74,961,800	0
BR	<u>65,000,000</u>	<u>0</u>
Total	\$190,432,200	- \$59,893,800

3. Make the following changes to the southeast Wisconsin freeway megaprojects program's funding in order to provide \$124,215,800 in above base funding in the biennium for a total

2019-21 funding level of \$206,400,000: (a) a decrease of \$2,497,300 SEG in 2019-20 and an increase of \$52,001,600 SEG in 2020-21; (b) a decrease of \$11,394,800 FED in 2019-20 and an increase of \$86,106,300 FED in 2020-21. [Standard budget adjustment reductions of \$108,300 SEG annually and \$182,100 FED annually have already been made in an earlier action of the Committee.] As compared to the bill, estimated transportation fund-supported debt service would be reduced by \$106,200 in 2020-21. This would provide a funding level sufficient to complete only the north leg of the Zoo Interchange project and other limited funding needed to complete the I-94 North-South project and the core of the Zoo Interchange project.

ALT A3	Change to	
	Base	Bill
SEG	\$49,504,300	- \$60,385,300
FED	74,711,500	- 250,300
BR	<u>0</u>	<u>- 65,000,000</u>
Total	\$124,215,800	- \$125,635,600

4. Take no action. Base funding of \$82,184,200 would remain available in 2019-21. As compared to the bill, estimated transportation fund-supported debt service would be reduced by \$106,200 in 2020-21. [Standard budget adjustment reductions of \$108,300 SEG annually and \$182,100 FED annually have already been made in an earlier action of the Committee.]

ALT A4	Change to	
	Base	Bill
SEG	\$0	- \$110,106,200
FED	0	- 75,326,000
BR	<u>0</u>	<u>- 65,000,000</u>
Total	\$0	- \$250,432,200

B. Project Enumeration

1. Enumerate the I-94 East-West Corridor project as a southeast Wisconsin freeway megaproject. Define this project as the reconstruction of the I-94 freeway in Milwaukee County, from 70th Street to 16th Street, including all interchanges and work on local roads as necessary for the completion of the project. [Whether work could begin on this project in the biennium would depend on the funding level alternative chosen above.]

2. Take no action. [No southeast megaproject beyond the two megaprojects enumerated in statute (I-94 North-South and the Zoo Interchange) could be worked on in the biennium.]

Prepared by: John Wilson-Tepeli
Attachment

ATTACHMENT

**Recent Biennial Funding Levels for Three Main Components of
State Highway Improvement Program
(\$ in Millions)**

<u>Biennium</u>	<u>State Highway Rehabilitation</u>	<u>Major Highway Development</u>	<u>Southeast Wisconsin Freeways*</u>	<u>Total</u>
2009-11	\$1,545.8	\$713.6	\$643.0	\$2,902.4
2011-13	1,607.6	743.6	420.0	2,771.2
2013-15	1,640.4	728.4	517.0	2,885.8
2015-17	1,698.0	641.1	414.6	2,753.7
2017-19	1,626.2	563.7	535.6	2,725.7
2019-21*	\$1,877.8	\$558.2	\$331.9	\$2,767.9

<u>Biennium</u>	<u>State Highway Rehabilitation</u>	<u>Major Highway Development</u>	<u>Southeast Wisconsin Freeways*</u>	<u>Total</u>
2009-11	53.3%	24.6%	22.2%	100.0%
2011-13	58.0	26.8	15.2	100.0
2013-15	56.8	25.2	17.9	100.0
2015-17	61.7	23.3	15.1	100.0
2017-19	59.7	20.7	19.6	100.0
2019-21*	67.8%	20.2	12.0%	100%

*Governor's budget recommendation. The administration intended to provide \$60.0 million of the amount shown under the southeast Wisconsin freeway megaprojects program to the state highway rehabilitation program.