



## Legislative Fiscal Bureau

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TO: Representative Gordon Hintz  
Room 201 West, State Capitol

FROM: John Wilson-Tepeli, Fiscal Analyst

SUBJECT: Potential State Highway Project Savings and Schedule Advancements

As you requested, this memorandum provides information related to recent administration references to project savings and advancements in the state highway rehabilitation and major highway development programs. Specifically, this memorandum examines the administration's references to: (a) \$246 million of project savings resulting in the advancement 67 projects across the state; and (b) a portion of the savings resulting in the advancement of approximately \$70 million in project work on a segment of the I-39/90 project in Dane and Rock counties.

### Background

The state highway rehabilitation and major highway development are two of the main components of the state highway improvement program. The state highway rehabilitation (SHR) program is responsible for most of the reconstruction, reconditioning, and resurfacing projects on the highways and bridges of the state highway system. The major highway development program is generally responsible for higher-cost expansion (and in some cases reconstruction) projects on a statewide basis.

Relative to the SHR and major highway development programs, Table 1 reflects: (a) the final 2015-17 funding level; and (b) the current 2017-19 funding levels, including any budgetary modifications that have occurred subsequent to the passage of the biennial budget act (2017 Act 59). As shown in the table, both programs have less funding in the 2017-19 biennium compared to the 2015-17 biennium.

**TABLE 1**

**Comparison of Biennial State Highway Rehabilitation  
and Major Highway Development Funding Levels  
(\$ in Millions)**

	<u>2015-17</u>	<u>2017-19</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percentage</u>
State Highway Rehabilitation	\$1,698.0	\$1,626.2	-\$71.8	-4.2%
Major Highway Development	641.1	563.7	-77.4	-12.1

**Measuring Project Costs and Schedule Changes**

There are several ways in which the Department can reduce (or experience reduced) state highway program costs: (a) reducing project scopes (reducing the scale or complexity of a facility); (b) improving its construction or engineering practices (such as using a less costly, but equally effective material); (c) contract let savings, which means that a bid for a particular project is awarded at a lower level than the amount that was budgeted; and (d) actual contract expenditures being less than the contract let amounts. Let savings (positive or negative) are largely a function of construction market conditions, as opposed to a result of actions taken by the Department.

Recently, DOT has indicated that it has increased project savings within the state highway program and used those savings to advance other projects. When savings are realized within the state highway program, any previously budgeted moneys that are no longer needed due to those savings become available to advance other project work into the current year. DOT also indicates that this type of project advancement has a "cascading effect" on project scheduling, because it moves later year projects forward to replace the project work advanced into the current year. However, in some cases, other program factors may limit this cascading effect. Periods of "negative" let savings, where bid prices exceed amounts budgeted, could offset prior savings and limit future project advancements. Significant project scope changes and project change orders can have similar effects on costs.

DOT has indicated that in establishing state highway program schedules for an upcoming biennium, it uses only "base budget" funding amounts to plan for that biennium. A base budget includes only the second year of the current biennium's appropriation levels in each year of the subsequent biennium, but does not include any bonding. In doing so, DOT refers to state highway project schedules as having been advanced, when the project schedules actually funded in the biennium exceed the project schedules developed under this "base budget" scenario.

The funding level for the all state highway programs, including for the SHR and major highway development, is established by the Legislature and the Governor each biennium, as well as through any adjustments to federal aid that may occur during a fiscal year. Once a program's annual budget is established, it is this funding level, not the base funding level, that represents the baseline

level of program work that is expected to be completed. It may be prudent for DOT, during budget deliberations (particularly protracted negotiations), to develop interim state highway project schedules that reflect a base funding level (so as not to have to "delay" projects if no "above base" program funding is provided). However, once the biennial funding level has been established, ongoing comparison of the actual project schedules funded to a base funding project schedule is not a relevant measure as to whether project schedules have changed.

### Summary and Analysis of DOT Response

At your request, DOT provided information regarding the \$246 million in savings referenced by the administration. DOT's response characterizes the \$246 million as the estimated cost associated with a list of 67 state highway projects (in the SHR and major highway development programs) that were advanced during the 2016-17 through 2018-19 period. DOT describes projects as having advanced based on a combination of factors, including: (a) let savings; (b) project efficiencies; (c) recent changes in the Department's financial management practices; and (d) adjusting project schedules to include "above base" funding.

The following table reflects savings in the SHR and major highway development programs realized during the 2016-17 through 2018-19 period. Examples of these cost reductions include contract let savings, adjusting the stages of construction work to reduce costs, and disencumbering funds through a review of contract purchase orders against budgeted contract amounts. Also shown are the savings reflected for each program under 2017 Act 59 funding levels, related to 2016-17 let savings, 2017-19 let and other savings currently known, and anticipated, future let savings.

**TABLE 2**

**Comparison of SHR and Major Highway Development Program Savings and Savings Reflected in Act 59 (\$ in Millions)**

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>Total</u>
<b>Let and Other Savings</b>				
State Highway Rehabilitation	\$65.4	\$44.0	-\$19.4	\$90.0
Major Highway Development	<u>46.7</u>	<u>31.0</u>	<u>0</u>	<u>77.7</u>
Subtotal	\$112.1	\$75.0	-\$19.4	\$167.7
<b>Program Savings Reflected in Act 59</b>				
State Highway Rehabilitation	\$0.0	-\$37.2	-\$45.0	-\$82.2
Major Highway Development	<u>0</u>	<u>-49.0</u>	<u>0.8</u>	<u>-48.2</u>
Subtotal	\$0.0	-\$86.2	-\$44.2	-\$130.4
Net Impact on Available 2017-19 Program Funding				\$37.3

As shown in Table 2 above, DOT indicates it has realized \$167.7 million in savings during the 2016-17 through 2018-19 period (to date). However, of this amount, \$130.4 million of these

savings were already accounted for by the Legislature in establishing the program funding levels under 2017 Act 59. Therefore, while the \$130.4 million in project savings did occur, over the three-year period no additional projects will be funded associated with these savings. Rather, these savings were used to reduce the funding levels needed under Act 59 necessary to fund the same level of program work over the three-year period. As a result, only \$37.3 million (\$167.7 million - \$130.4 million) in program savings are available for advancement of project work in the biennium.

Of the \$246 million figure referenced by the administration, it appears that the remaining \$78.3 million (\$246 million - \$167.7 million) reflects the Department's reasoning that the "above base" funding level provided under Act 59 (and subsequent budget adjustments) may be used to advance projects as compared to a "base budget" project schedule. However, as discussed earlier, the Act 59 funding level establishes the baseline SHR and major highway development project schedules for the biennium and the use of these funds reflects the level of project work expected to be completed in the biennium.

### **Additional Program Costs and Funding Amounts**

Although not included in the above calculations, DOT has used 2017-19 SHR program funding for previously unplanned roadwork on local and state highways near the Foxconn development in southeast Wisconsin, which reduces the amount of overall funding available for other SHR projects. Through September, 2018, the Department has executed a number of construction contracts on highways near or adjacent to this development. A significant amount of Foxconn-related road work remains to be funded in 2018-19 and beyond.

Subsequent to the passage of Act 59, additional federal funds have been made available to the state highway program. In June, 2018, under a s. 13.10 action, the Joint Committee on Finance approved supplemental program funding of \$6.8 million for the SHR program due to the availability of additional federal highway aid in 2017-18. More recently, in August, 2018, DOT received \$90.8 million in annual redistribution of federal highway aid (the state's share of any remaining federal highway moneys in federal fiscal year 2018). Because the state had already budgeted \$43.9 million of this amount in its state highway programs during the 2017-19 budget process, \$46.9 million of this amount remains and is available to fund additional state highway project costs in 2018-19.

### **I-39/90 Project Advancement -- Majors**

The Department indicates that it has advanced \$70.0 million in major highway development project work on the I-39/90 project between Janesville and Edgerton in the 2017-19 biennium. Although DOT indicates it has realized \$77.7 million in major highway development savings during the 2016-17 through 2018-19 period, the program's funding was reduced in 2017-19 during biennial budget deliberations to reflect \$48.2 million of these anticipated savings in the biennium. Therefore, it appears that DOT could fund about \$29.5 million of the \$70.0 million advancement on the I-39/90 project using these the remainder of these savings (as reflected in Table 2, \$77.7 million savings - \$48.2 million in savings reflected in Act 59). It may be that the remaining \$40.5 million required to fund such a schedule advancement (\$70.0 million advancement - \$29.5 million available) is explained by DOT's comparison of "base budget" project schedules to schedule of those projects

as funded. The Department also notes that the overall completion date of the mainline portion of the I-39/90 project (excluding the "beltline" interchange in the Dane County) remains late 2021.

## **Summary**

In sum, although DOT indicates that it was able to advance \$246 million in project work during the 2016-17 through 2018-19 period (to date), the project savings over the three-year period total only \$167.7 million. However, because the Act 59 amounts for the SHR and major highway development program already reflected \$130.4 million associated with these savings, only \$37.3 million remains available for project advancement through the biennium. Further, the additional federal moneys provided in 2017-18 (\$6.8 million) and now available in 2018-19 (\$46.9 million) will likely provide for some further advancement of project work in the biennium compared to Act 59 funding levels.

As noted earlier, contract let savings are largely a function of construction market bidding conditions. While 2018-19 let savings to-date are negative, they are based on a small number of bids. However, the Department's recent construction cost index measurements have indicated an upward cost trajectory. If this trend continues, the extent to which let and other savings will be available carry out the current 2017-19 project schedule, which reflects actual funding and cost savings to date, is unclear.

I hope this information is helpful. Please let me know if you have any further questions.

JWT/lb