



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #772

Milwaukee to Chicago Passenger Rail Service (DOT -- Local Transportation Assistance)

[LFB 2009-11 Budget Summary: Page 622, #4]

CURRENT LAW

The State of Wisconsin, in cooperation with the State of Illinois, contracts with Amtrak for the provision of passenger rail service on the Hiawatha passenger rail service route between Milwaukee and Chicago. In 2008-09, Wisconsin's share of the cost is \$6,522,800, of which, \$5,218,200 (80%) is paid through an allocation of the state's federal highway aid and \$1,304,600 (20%) is paid from a transportation fund appropriation.

The Hiawatha route has seven round trips six days per week and six round trips on Sundays.

GOVERNOR

Provide \$357,800 SEG and \$1,431,400 FED in 2009-10 and \$2,011,300 SEG and \$8,045,300 FED in 2010-11 to fund Wisconsin's share of the cost to maintain existing service for the Hiawatha service under the state's contract with Amtrak, plus add capacity to accommodate an increase in the number of passengers using the service.

DISCUSSION POINTS

1. Wisconsin is one of 14 states that contract with Amtrak for the provision of regional passenger rail service. Although the terms of these contracts differ, states are generally responsible for covering the net operating losses of providing this service (operating costs minus ticket and other revenue), plus any capital costs associated with expanding the service. Amtrak contracts separately with Wisconsin and Illinois for the Hiawatha service, with Wisconsin paying 75% of the

cost and Illinois paying 25%. This funding split is based roughly on the proportion of the ridership originating in each state.

2. The total funding increases for the Hiawatha service under the bill would be \$1,789,200 in 2009-10 and \$10,056,600 in 2010-11, which is the sum of three components. First, the amount needed to maintain the existing service under the state's contract with Amtrak is estimated at \$1,099,200 in 2009-10 and \$1,549,300 in 2010-11. Second, the bill would provide \$690,000 annually for an additional train car on each of the two train sets that are used for the service. Third, \$7,817,300 in 2010-11 would be to increase the number of daily round trips from seven to eight. [Under a separate item, the bill would reduce the SEG appropriation for passenger rail service by 1% annually, amounting to a \$13,000 annual reduction. This paper addresses the full amount of the estimates reflected in the bill for existing and expanded service, although the Department would have to make adjustments to account for the 1% reduction.]

3. The bill would increase funding to maintain existing service in 2009-10 by 16.9% over the contract cost in 2008-09, and an additional 5.9% in 2010-11. These increases are the Department's estimates, submitted with its 2009-11 budget request, of the contract costs over the next two fiscal years. Amtrak has not yet notified the state of the actual contract amounts for that period.

4. The funding increases for maintaining existing service would be substantially higher than contract increases in recent years. In the 2007-09 biennium, for instance, Wisconsin's total contract costs increased by just 0.9% in 2007-08 and 2.8% in 2008-09, which included costs to add a train car to each train set. The Department indicates that there are three reasons for the increase. First, while Amtrak's method of charging states is intended to cover operating costs, Amtrak has been faulted for not including its system overhead costs in this calculation. Congress has mandated that Amtrak develop a uniform method of charging states for the routes that receive state support, which the Department believes could increase Wisconsin's contract cost if it fully allocates system overhead costs. Second, Amtrak has recently reached agreement with several of its employee unions on new contracts after several years without an approved contract. The new contracts are expected to increase Amtrak's costs for both current and retroactive pay. Finally, it was assumed that the high diesel fuel prices that prevailed at the time that the estimate was prepared last summer would continue into the 2009-11 biennium. Since these fuel prices were higher than the current contract assumed, adjusting for the higher costs would increase the state's costs.

5. Although the factors cited by the Department could increase costs, it remains unclear by how much or when the cost increases would be incurred. For one, although Amtrak has worked on developing a uniform method for charging for state-supported routes, with the intent to fully allocate overhead costs to each route, it is not clear if such a method will affect 2009-10 costs, and attempts at implementing such a system have not been fully successful in the past. Second, while the employee contract settlement will increase Amtrak's costs, it remains uncertain how this will impact the state's costs, particularly whether the retroactive pay will affect state-supported routes. Finally, while it is difficult to project fuel prices for the two-year period, the current price for diesel locomotive fuel is less than half of what Amtrak paid in the summer of 2008. If fuel prices remain at current levels, Amtrak's operating costs could be lower than expected.

6. Given the uncertainty involved in determining the cost to continue existing service at this time, the Committee could modify the bill to place the recommended increased funding for the existing service in the Committee's supplemental appropriation and allow the Department to submit a request under s. 13.10 of the statutes for an appropriation supplement once more information is available on the 2009-10 and 2010-11 contracts [Alternative #A2]. In addition, the increased federal highway funds provided for the existing service could be replaced with SEG funds to give the Committee control over the full amount of increased funding for the service. [Although the state's cost of providing the service is funded with federal highway aid and a SEG appropriation (typically 80% federal and 20% state), these two sources are generally interchangeable for many of the Department's largest programs. Reducing funding in the passenger rail service appropriation would not impact the total amount of federal highway aid that the state receives.] Under this alternative, the bill could specify that any amounts not used for the service could be provided by the Committee for other purposes if the amount set aside is greater than the amount needed to fund contract costs. [Alternative #A2]

7. The other two components of the funding in the bill are related to an initiative to increase train capacity. Ridership on the Hiawatha route has increased in each year for the last five years, and by more than 10% in four out of those five years. In response to increased ridership, the 2007-09 budget provided funding for increasing the number of passenger cars in each train set from four to five. Despite the increased capacity, some trains during the peak periods remain crowded. While each five-car train set has a seating capacity of 350 (70 per car), some trains carry more than 500 passengers, meaning that many passengers do not have a seat.

8. Hiawatha ridership in fiscal year 2008-09 through February (the latest month for which data is available) is 17.3% higher than during the same period in 2007-08 and has generally remained strong despite the economic recession and falling motor fuel prices. However, there is some suggestion that ridership has moderated in recent months, as ridership in February, 2009, was down 6.5% compared to the previous February. The following table shows ridership by month for the first eight months of 2008-09, compared to the same months in 2007-08.

**Monthly Hiawatha Ridership in 2008-09 (July to February)
Compared to Same Month in Prior Year**

<u>Month</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Percent Change</u>
July	57,144	78,644	37.6%
August	58,295	78,667	34.9
September	48,193	63,976	32.7
October	57,185	67,257	17.6
November	59,711	62,724	5.0
December	59,405	62,935	5.9
January	47,815	52,607	10.0
February	<u>50,413</u>	<u>47,113</u>	-6.5
Total	438,161	513,923	17.3%

9. In response to increased demand, the Governor has proposed the addition of a sixth car on each train set, at a cost of \$690,000 annually, and the addition of an eighth round trip during peak periods, at a cost of \$7,817,300 in 2010-11. The additional train car could provide immediate capacity to address congestion (soon after approval of the funding). Even with an additional car, however, some routes would remain overcrowded, which, the Department argues, necessitates the addition of an eighth round trip.

10. The addition of an eighth round trip would require the use of a third train set, since seven round trips is the maximum that can be offered with two train sets within a reasonable trip schedule. Of the amount provided for the eighth round trip, \$5,040,000 would be a one-time cost associated with refurbishing Amtrak train equipment that is not currently being used. The Department indicates that although the funding for refurbishment would be provided in 2010-11, Amtrak would manage its overall equipment stock to begin the eighth round trip on July 1, 2010. An additional \$2,777,300 in 2010-11 would be provided for the operating cost of the additional round trip.

11. The Governor's two Hiawatha capacity initiatives raise several issues that the Committee may want to consider prior to approving the associated funding. First, passenger rail service is only one of many transportation programs that different advocacy groups argue is currently underfunded. Although the bill would create new revenue sources for transportation, including the proposed oil company profits tax, these sources are not enough to fund all transportation program demands, particularly as revenues generated from existing sources, such as the motor fuel tax, are falling. If the oil company profits tax is not approved, or if the Committee wishes to restore funding for other programs that would be cut under the bill, like general transportation aid, program expansions like the Hiawatha capacity initiative may have to wait until overall fiscal conditions improve.

12. Second, the federal economic stimulus act provides some funding for capital improvements on existing intercity passenger rail routes, which could include the refurbishment of train equipment used for the Hiawatha service. Amtrak faces many costly capital improvement needs for both track infrastructure and equipment, making it unclear whether refurbishment of train equipment for the Hiawatha service would compete well for this funding.

13. Third, with additional federal funding provided for intercity passenger rail in the Amtrak reauthorization act passed in 2008, and the economic stimulus act in 2009, there has been increased discussion of the possibility of extending the Chicago to Milwaukee rail service from Milwaukee to Madison, and then beyond to Minneapolis. Although these potential improvements remain several years away, establishing expanded service would require the acquisition of additional train equipment and changes in how the existing train equipment is utilized on the current Milwaukee to Chicago service. Consequently, a case could be made that addressing the capacity issues could be reconsidered later in the context of these more extensive improvements.

14. If the Committee does not approve funding for the refurbishment of a train set to allow the addition of an eighth round trip, the Department may be able to use state passenger rail service development bonds for this purpose. Passenger rail service development bonds may be used

to establish new service routes in certain designated corridors, as well as for improvements to existing service routes. There are currently \$80,000,000 in authorized, but unissued, bonds for passenger rail service, and the bill would provide an additional \$40,000,000 to bring the total to \$120,000,000. The Department indicates that these bonds could be used to extend service from Milwaukee to Madison, although the possibility of receiving federal economic stimulus funds for this extension may mean that not all of the bonds would be needed for that purpose. Consequently, the bonds could be used for train set refurbishment, although this would leave a lower amount available for future rail extensions. Under current law, the use of passenger rail service development bonds must be approved by the Joint Committee on Finance.

15. The Committee has several options relative to the proposed Hiawatha capacity expansion initiative. First, it could approve the Governor's recommendations for \$690,000 annually for the additional train car for each train set [Alternative #B1], \$7,817,300 for train set refurbishment and operating costs associated with the addition of an eighth round trip [Alternative #C1], or both. The approval of only the sixth train car alternative would provide some congestion relief, but would not be sufficient to accommodate demand during some peak-period trips. The approval of only the eighth round trip alternative would not address overcrowding until 2010-11, but may be sufficient, without an additional train car on existing train sets, to accommodate existing demand if a sufficient proportion of riders are able to travel at a different time.

16. Second, if the Committee decides not to approve funding at this time for capacity expansion on the Hiawatha route, but wants to leave open the possibility for expansion at some point during the biennium once additional information is available on the precise cost and need for the expansion, the bill could be modified to place the funding for the additional car [Alternative #B2], the eighth round trip [Alternative #C2], or both, in the Committee's supplemental appropriation. Under both of these alternatives, federal funding would be replaced with SEG funding to allow the full amount to be placed under the Committee's control. Finally, the Committee could approve only the operating costs associated with the eighth trip (\$2,777,300) and place this amount in the Committee's supplemental appropriation [Alternative #C3]. Under this alternative, funding for the train set refurbishment would have to be provided through federal economic stimulus funds or from passenger rail service development bonds. Under all the alternatives that place funding in the Committee's appropriation, the bill could specify that any amounts not needed for their designated purpose could be provided for other transportation programs.

ALTERNATIVES

A. Cost to Continue Current Hiawatha Service

1. Approve the Governor's recommendation to provide \$219,800 SEG and \$879,400 FED in 2009-10 and \$309,900 SEG and \$1,239,400 FED in 2010-11 for the estimated cost to continue current Hiawatha route service.

2. Modify the Governor's bill by making the following adjustments: (a) deleting

\$219,800 SEG and \$879,400 FED in 2009-10 and \$309,900 SEG and \$1,239,400 FED in 2010-11 in the Department's passenger rail service appropriations to remove the recommended funding for maintaining existing service; (b) provide \$1,099,200 SEG in 2009-10 and \$1,549,300 SEG in 2010-11 in the Joint Committee on Finance supplemental appropriation; (c) specify that the Department may submit one or more requests to the Committee for a funding supplement for the costs of maintaining existing service on the Hiawatha passenger rail service route; and (d) specify that the Committee may allocate any amounts provided under this provision in the Committee's supplemental appropriation, but not needed to maintain the existing Hiawatha service, to other transportation programs.

ALT A2	Change to Bill Funding
SEG	\$2,118,800
FED	<u>- 2,118,800</u>
Total	\$0

3. Delete provision.

ALT A3	Change to Bill Funding
SEG	- \$529,700
FED	<u>- 2,118,800</u>
Total	- \$2,648,500

B. Additional Train Car

1. Approve the Governor's recommendation to provide \$138,000 SEG and \$552,000 FED annually for the cost of adding a sixth car on each of the two train sets used for the current Hiawatha service.

2. Modify the Governor's recommendation by deleting \$138,000 SEG and \$552,000 FED annually in the Department's rail service appropriations and providing \$690,000 SEG annually in the Joint Committee on Finance supplemental appropriation. Specify that the Department may submit a request to the Committee for a supplement for the operating costs associated with the addition of a sixth car on each of the two train sets used for the current Hiawatha service and specify that the Committee may allocate any amounts provided under this provision in the Committee's supplemental appropriation, but not needed for the additional train cars, to other transportation programs.

ALT B2	Change to Bill Funding
SEG	\$1,104,000
FED	<u>- 1,104,000</u>
Total	\$0

3. Delete provision.

ALT B3	Change to Bill Funding
SEG	- \$276,000
FED	<u>- 1,104,000</u>
Total	- \$1,380,000

C. Eighth Round Trip

1. Approve the Governor's recommendation to provide \$1,563,500 SEG and \$6,253,800 FED in 2010-11 for the costs related to adding an eighth daily round trip to the Hiawatha service.

2. Modify the Governor's recommendation by deleting \$1,563,500 SEG and \$6,253,800 FED in 2010-11 in the Department's rail passenger service appropriations and, instead, providing \$7,817,300 SEG in 2010-11 in the Joint Committee on Finance appropriation for the capital and operating costs associated with an eighth daily round trip on the Hiawatha service. Specify that the Department may submit a request to the Committee for a supplement for the capital and operating costs associated with the eighth round trip and specify that the Committee may allocate any amounts provided under this provision in the Committee's supplemental appropriation, but not needed for the eighth round trip, to other transportation programs.

ALT C2	Change to Bill Funding
SEG	\$6,253,800
FED	<u>- 6,253,800</u>
Total	\$0

3. Modify the Governor's recommendation by deleting \$1,563,500 SEG and \$6,253,800 FED in 2010-11 in the Department's passenger rail service appropriations and, instead, providing \$2,777,300 SEG in 2010-11 in the Joint Committee on Finance's supplemental appropriation for the operating costs associated with an eighth daily round trip on the Hiawatha service. Specify that the Department may submit a request to the Committee for a supplement for the operating costs associated with the eighth round trip and specify that the Committee may allocate any amounts provided under this provision in the Committee's supplemental appropriation, but not needed for the eighth round trip, to other transportation programs.

ALT C3	Change to Bill Funding
SEG	\$1,213,800
FED	<u>- 6,253,800</u>
Total	- \$5,040,000

4. Delete provision.

ALT C4	Change to Bill Funding
SEG	- \$1,563,500
FED	<u>- 6,253,800</u>
Total	- \$7,817,300

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