



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #723

### **Passenger Rail Bonding (Transportation -- Local Transportation Assistance)**

[LFB 2019-21 Budget Summary: Page 417, #5]

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#### **CURRENT LAW**

Under current law, \$79,000,000 is authorized for passenger rail development projects, of which \$11,569,800 remains unissued. DOT is required to administer a rail passenger route development program funded from these bond proceeds. The primary allowed use of these funds is for capital costs related to Amtrak service extension routes or other rail service routes between certain cities. Under the program, DOT is not allowed to use any bond proceeds unless the Joint Committee on Finance approves the use of the proceeds. Also, with respect to any allowed passenger route development project, the Department is required to submit evidence to the Joint Committee on Finance that Amtrak, or the applicable railroad, has agreed to provide rail passenger service on that route.

Bonds issued for this purpose are repaid from a Building Commission GPR debt service appropriation used to repay bonds issued for capital improvements and other public purposes. Estimated annual debt service on the bonds issued to date is \$1,327,600 in 2019-20 and \$1,511,700 in 2020-21.

#### **GOVERNOR**

Provide \$45,000,000 in general fund-supported, general obligation bonding authority for the passenger rail route development program. There is an increase of \$288,300 GPR in 2020-21 in debt service associated with the partial issuance of this \$45,000,000 in bonds.

## **DISCUSSION POINTS**

### **Hiawatha Service**

#### **Background**

1. The administration indicates that the additional funding would be used primarily to fund rail improvements needed to add three additional round trip runs between Milwaukee and Chicago on Amtrak's Hiawatha line. Funding could also be used for infrastructure improvements needed to add round-trip service between the Twin Cities, Milwaukee and Chicago (TCMC).

2. The Department of Transportation (DOT) and the Illinois Department of Transportation (IDOT) have jointly contracted with Amtrak to operate the Hiawatha Service since 1989. In subsequent years, the states have gradually increased their financial support of the route as additional daily round trips were added. Currently, Wisconsin and Illinois pay a fixed amount to support the operation of seven daily, round-trip trains (six on Sunday) for travel between Milwaukee and Chicago with stops at the downtown Milwaukee Intermodal Station, Mitchell International Airport Rail Station, Sturtevant, Glenview, IL, and Chicago Union Station. The amount of operating support paid by each state is split in proportion to the approximate amount of service received by each state with Wisconsin paying 75% of operating costs and Illinois paying the remaining 25% share. Under the bill, base level funding for Wisconsin's portion of operating support for Hiawatha service is unchanged at \$6.8 million annually from the transportation fund. In addition to direct financial support received from Wisconsin and Illinois, just under 75% of the total costs of providing Hiawatha service were covered by ticket revenues in 2017-18, according to DOT.

3. With a typical capacity of 416 seats per train, the Hiawatha offers approximately 2,912 seats daily Monday through Saturday and 2,496 on Sunday in each direction to travelers in the Chicago-Milwaukee corridor. Hiawatha trains operate with a maximum speed of 79 miles per hour and make the 86-mile trip between Chicago and Milwaukee in 89 minutes. The Hiawatha operates on Metra-owned track between Chicago and Rondout, IL, and on Canadian Pacific-owned track from Rondout to Milwaukee. The Chicago-Milwaukee rail corridor has 65 Metra commuter rail trains, up to 25 freight trains, and 16 Amtrak trains daily (including Amtrak's long-distance Empire Builder service which operates one train per day in each direction).

#### **Potential Hiawatha Expansion to 10 Daily Round Trips**

4. Annual ridership on the Hiawatha line increased from 423,500 in 2001 to 819,125 in 2013, representing a 93% ridership increase over 12 years and a 5.7% annual average rate of growth. Ridership growth during this period contributed to an increase in the number of trains experiencing near-capacity or over-capacity conditions during peak travel hours. In 2013, in response to the increased demand for Hiawatha service and resulting capacity issues, DOT, the Federal Railroad Administration (FRA) and IDOT formed a project team to prepare a draft environmental assessment documenting the impacts of increased Hiawatha service, including an analysis of new infrastructure required to support three additional daily round trips between Chicago and Milwaukee.

5. The draft environmental assessment was published on October 6, 2016, which detailed

plans that would increase Hiawatha service from seven to 10 round trips daily between Chicago and Milwaukee. A public comment period followed the release of the assessment. According to DOT, while most comments were supportive of the project, including strong support from the business community in southeast Wisconsin and northern Illinois. A majority of the comments were submitted from northern Illinois suburban communities (in particular, Glenview, IL and Lake Forest, IL) and expressed concern regarding the possibility for additional freight rail traffic and the potential for idling freight trains to produce air pollution, noise and vibration impacts to adjacent neighborhoods. These freight rail trains operate on the same rail lines as the passenger trains.

6. In particular, City of Glenview residents expressed opposition to the proposal to build a new 2-mile long holding track adjacent to the existing tracks to help facilitate the flow of freight trains in and out of nearby freight yards. As a response to these concerns, DOT and IDOT have extended the timeline for the delivery of the final environmental assessment to the FRA due to requests for additional analyses and to conduct additional outreach in Illinois. Once the final environmental assessment is submitted to the FRA, and if a "finding of no significant impact" is the result, DOT and IDOT could then pursue federal funding for final design, construction, and implementation of the additional daily round-trips.

7. Ridership growth on the Hiawatha line has moderated somewhat since planning began for additional service in 2013, but still grew at a 1.6% annualized rate between 2014 and 2018. Also, according to DOT, the Hiawatha line currently experiences standing room only conditions on an average of 19 trains per month, mostly on weekdays. In addition to increasing incidences of capacity and near-capacity trains during peak travel times, project partners have identified several elements which describe the need for additional service, including: (a) existing and future highway congestion resulting in increased travel times for autos and buses in the corridor which may result in additional demand for alternative modes of travel; (b) inadequate service reliability due to conflicts with freight and other passenger traffic in the corridor; and (c) economic development, such as the Foxconn development, that have accentuated the need for additional rail service within the corridor. The Hiawatha rail corridor connects Foxconn's Mount Pleasant manufacturing campus, which is located two miles from Amtrak's Sturtevant Station, with Foxconn's North American headquarters located in Downtown Milwaukee, which is one mile from the Milwaukee Intermodal Station.

8. Hiawatha trains operate almost entirely on freight-owned track and have been increasingly in conflict with freight operations resulting from growing rail traffic. The Chicago Region Environmental and Transportation Efficiency program, which is currently underway to provide for increased efficiency of the Chicago region's rail infrastructure, will result in additional freight rail traffic along the Hiawatha rail corridor. According to DOT, completion of the infrastructure projects associated with the Hiawatha expansion project would provide benefits to current freight rail service and passenger rail service by increasing frequencies, improving reliability and maintaining travel times.

### **Hiawatha Expansion Cost and Funding Estimates**

9. The project to expand Hiawatha service from seven to 10 daily round-trips would require additional equipment purchases and the completion of nine rail infrastructure projects to improve the frequency, reliability and safety of increased passenger rail service along the corridor. The estimated

total capital cost needed to establish the additional service is \$232 million, including \$210 million for the nine required infrastructure improvements in Wisconsin and Illinois and \$22 million for an additional trainset. The total state funding needed for the project would depend on the agreed upon split of state costs between Illinois and Wisconsin which is still under negotiation as well as the amount of state match required to secure federal funding. While 20% is the minimum match required, an overmatch closer to 50% may be needed within certain applications to secure highly competitive federal grants.

10. Three of the nine infrastructure projects are in Wisconsin on track owned by the Canadian Pacific Railway. The three Wisconsin projects needed to accommodate the additional round-trip frequencies are: (a) Muskego Yard signalization and track/bridge improvements in Milwaukee's Menomonee Valley estimated at \$60 million; (b) Milwaukee Airport Rail Station second platform with overhead access estimated at \$10.1 million; and (c) CTC signalization (Milwaukee) estimated at \$5.4 million. The Department's anticipated use of the existing and additional passenger rail bonding provided under the bill is shown in the following table. The Muskego Yard and the CTC signalization projects are both identified in the following table as infrastructure projects that require funding. The Milwaukee Airport Rail Station project is not listed in the table because on February 8, 2019, the FRA awarded a Consolidated Rail Infrastructure and Safety Improvements (CRISI) program grant to DOT for up to \$5,050,000 to improve reliability, safety, and accessibility of the Milwaukee airport station. The grant is to be used to partially fund an estimated \$10.1 million project to construct a second platform at the station, as well as elevator towers and an overhead pedestrian bridge to connect the new platform to the station. The new platform will enable trains to operate on both existing tracks, instead of just the eastern track which allows freight and passenger trains to operate more efficiently and reliably. The CRISI grant is matched with \$4.0 million SEG from the transportation fund, a \$1.0 million contribution from Amtrak and a \$50,000 contribution from Canadian Pacific Railway. The project is expected to be completed in 2022.

11. The table assumes \$56.6 million in total bonding authority, including \$45 million in new bonding as recommended by the Governor in addition to the \$11.6 million in bonding authority that currently remains in DOT's passenger rail appropriation. According to DOT, \$11.0 million of the existing \$11.6 million in bonding authority is needed to provide the state match for a potential federal grant to purchase new train equipment for the current Hiawatha Service.

**Use of Existing and Additional Passenger Rail Bonding Authority  
for Planned Project Improvements**

|                                  | <u>Project Description</u>   | <u>GPR<br/>Bonding</u> | <u>FED</u>   | <u>SEG</u>   | <u>Total</u> |
|----------------------------------|--|------------------------|--------------|--------------|--------------|
| <b>Existing Hiawatha Service</b> |  |                        |              |              |              |
| Train Equipment                  | Purchase 6 coach and 3 cab-coach cars for existing service   | \$11.0                 | \$25.7       | \$2.2        | \$38.9       |
| <b>Hiawatha Expansion</b>        |  |                        |              |              |              |
| Muskego Yard                     | Create 2 mainline tracks through Muskego Yard for freight trains to bypass Milwaukee Intermodal Station        | \$21.0                 | \$39.0       | 0.0          | \$60.0       |
| CTC Signalization Improvements   | Install Centralized Train Control (CTC) signaling on a 2-mile track segment near Milwaukee Intermodal Station. | 2.7                    | 2.7          | 0.0          | 5.4          |
| Train Equipment                  | Acquire 3rd trainset to increase Hiawatha Service to 10 round-trips  | <u>7.2</u>             | <u>14.8</u>  | <u>0.0</u>   | <u>22.0</u>  |
|                                  | Subtotal   | \$30.9                 | \$56.5       | \$0.0        | \$87.4       |
| <b>TCMC Project</b>              |  |                        |              |              |              |
| Columbus Crossover               | Install crossover at Columbus for trains to switch tracks to pass other trains                                 | \$1.5                  | \$3.5        | \$0.0        | \$5.0        |
| Medary Siding                    | Construct siding at Medary for passenger trains to bypass freight  | 6.1                    | 14.3         | 0.0          | 20.4         |
| La Crosse                        | Track and signal improvements  | <u>3.2</u>             | <u>7.4</u>   | <u>0.0</u>   | <u>10.6</u>  |
|                                  | Subtotal   | \$10.8                 | \$25.2       | \$0.0        | \$36.0       |
| <b>Contingency</b>               |  |                        |              |              |              |
| State Match Contingency          | Funding to support a higher state match amount, if needed, for Federal grant applications                      | <u>\$3.9</u>           | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$3.9</u> |
|                                  | Total  | \$56.6                 | \$107.4      | \$2.2        | \$166.2      |

**Twin Cities, Milwaukee and Chicago Project**

12. As indicated in the table above, the Department could use \$10.8 of the bonding authority provided under the bill to support the TCMC project which would add service between Chicago and the Twin Cities to complement Amtrak's current Empire Builder service. The proposed TCMC project would provide one additional daily round-trip run between Minneapolis and Chicago with intermediate stops in St. Paul, Red Wing, Winona, La Crosse, Tomah, Wisconsin Dells, Portage, Columbus, Milwaukee, Sturtevant and Glenview. Amtrak's long-distance Empire Builder service which operates between Chicago and Seattle and Portland, and provides one trip per day in each direction, currently uses the proposed TCMC corridor. Amtrak's Hiawatha Service also operates on this corridor between Milwaukee and Chicago.

13. The Minnesota Department of Transportation, in cooperation with DOT, recently completed a study on providing daily round trip service between Chicago, Milwaukee and the Twin Cities. The study reviewed ridership, revenue, train operation modeling, concept engineering, capital

cost and scoping for the TCMC. The next phase of the study will include completing the environmental review process, completing preliminary designs, and publishing a service development plan.

14. DOT has learned that it qualifies for a categorical exclusion for the TCMC project largely because the project would utilize existing track while building small-scale infrastructure including siding and signals. Categorical exclusions are projects that the FRA has determined, based on its experience, typically do not individually or cumulatively have a significant effect on the human environment and which generally do not require the preparation of either an environmental impact statement or an environmental assessment. Therefore, by avoiding a more in-depth environmental assessment, the TCMC project could avoid certain costs involved in a more detailed environmental analysis.

15. The construction and implementation of the TCMC project is currently estimated at \$76 million. Federal grants could cover approximately 70% to 80% of the total cost. It is not yet known how much funding other states or Amtrak would contribute of the total amount. DOT currently estimates Wisconsin's total contribution to be roughly \$12 million, \$10.8 million of which could be funded under the Governor's recommendation.

16. Operating costs for the additional TCMC daily service are estimated at \$5.5 million annually and would be split among Wisconsin and Minnesota and potentially Illinois. Amtrak estimates 155,000 riders would use TCMC in the first full year of service. Depending on a number of factors, the first full year of service is expected in 2023.

### **Hiawatha and TCMC Funding Options**

17. Without state funding, DOT has stated that it would not be able to apply for federal funds to advance the implementation of increased daily train frequencies on the Hiawatha or TCMC corridor. According to DOT, additional state bonding authority would enable DOT to be ready for competitive federal funding opportunities, which include the following grant programs: CRISI, Infrastructure for Rebuilding America (INFRA), Better Utilizing Investments to Leverage Development (BUILD), and Federal-States Partnership for State of Good Repair.

18. According to the Department, the Hiawatha expansion project timeline depends on the timing of federal funding and when state matching funds are secured. Once DOT is awarded federal funding, final design would take approximately one year, and construction would take two years. DOT has stated that if the additional bonding authority is included in this upcoming budget, and there is a round of CRISI grants in the fall of 2019, that would mean completion of the project and start of service in early 2023. This schedule could be extended by a year or more depending on the timing of the federal funds.

19. Under current law, DOT may only proceed with a project that uses the bonds if the Joint Committee on Finance approves such use. Consequently, if the additional bonding is approved, the Committee would still have an additional opportunity to review any proposed project before DOT is allowed to issue the bonds.

20. Without completion of the infrastructure projects associated with the Hiawatha expansion project, DOT argues that both passenger and freight rail service in southeastern Wisconsin would be negatively impacted, and additional train frequencies could not be supported. Additionally, given the support for the Hiawatha expansion project from businesses in southeast Wisconsin and northern Illinois, as well as the large economic development projects occurring along the Hiawatha corridor, including the Foxconn development, the Committee may wish to approve the Governor's recommendation. [Alternative 1]

21. Planning for the TCMC project is ongoing. The service planning, and engineering are underway but at various levels of completion. Given the planning work that remains, and the fact that discretionary federal funding opportunities are highly competitive and not all projects are likely to be awarded during the first application cycle, a somewhat lower level of authorized bonding of \$35 million could be provided in the biennium. This would allow DOT to show a state funding commitment for the estimated state costs (\$30.9 million) on its federal applications and continue the planning process for the Hiawatha expansion project. This alternative would also provide DOT with some of the state match contingency funding outlined in the earlier table. [Alternative 2]

22. Given the current opposition in some northern Illinois communities to certain infrastructure improvement currently required to expand Hiawatha service to 10 daily round trips, the Committee may want to provide a lower amount of additional bonding authority that would still allow the Department to proceed with the TCMC project work. [Alternative 3]

23. When considering additional GPR supported bonding authority for increased passenger rail service, the Committee may want to consider the matter alongside the Governor's recommended 2019-21 state building program which is also supported with GPR bonding. Assuming that the Committee establishes a maximum amount of allowable GPR-borrowing for the building program, the Committee may decide that other state building projects have a higher priority than projects to expand passenger rail service. [Alternative 4]

## ALTERNATIVES

1. Approve the Governor's recommendation to provide \$45,000,000 in GPR-supported bonding authority for passenger rail service development. Once fully issued, the \$45 million of GPR-supported bonding would have annual debt service payments of \$3.6 million based on a flat, 20-year repayment schedule. In addition, provide \$288,300 GPR in 2020-21 for debt service payments associated with the partial issuance of this \$45,000,000 in bonds.

| ALT 1    | Change to         |          |
|----------|-------------------|----------|
|          | Base              | Bill     |
| GPR      | \$288,300         | \$0      |
| BR - GPR | <u>45,000,000</u> | <u>0</u> |
| Total    | \$45,288,300      | \$0      |

2. Provide \$35,000,000 in GPR-supported bonding authority for passenger rail service

development, which would be sufficient to fund the Hiawatha line service expansion project. Once fully issued, the \$35 million of GPR-supported bonding would have annual debt service payments of \$2.8 million based on a flat, 20-year repayment schedule. In addition, provide \$224,200 GPR in 2020-21 for debt service payments associated with the partial issuance of this \$35,000,000 in bonds.

| ALT 2  | Change to         |                     |
|--------|-------------------|---------------------|
|        | Base              | Bill                |
| GPR    | \$224,200         | - \$64,100          |
| BR-GPR | <u>35,000,000</u> | <u>- 10,000,000</u> |
| Total  | \$35,224,200      | - \$10,064,100      |

3. Provide \$12,000,000 in GPR-supported bonding authority for passenger rail service development, which would be sufficient to fund the TCMC service expansion project work. Once fully issued, the \$12 million of GPR-supported bonding would have annual debt service payments of \$1.0 million based on a flat, 20-year repayment schedule. In addition, provide \$76,900 GPR in 2020-21 for debt service payments associated with the partial issuance of this \$12,000,000 in bonds.

| ALT 3  | Change to         |                     |
|--------|-------------------|---------------------|
|        | Base              | Bill                |
| GPR    | \$76,900          | - \$211,400         |
| BR-GPR | <u>12,000,000</u> | <u>- 33,000,000</u> |
| Total  | \$12,076,900      | - \$33,211,400      |

4. Take no action.

| ALT 4  | Change to |                     |
|--------|-----------|---------------------|
|        | Base      | Bill                |
| GPR    | \$0       | - \$288,300         |
| BR-GPR | <u>0</u>  | <u>- 45,000,000</u> |
| Total  | \$0       | - \$45,288,300      |

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