



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #737

Metra Commuter Rail Extension to Southeastern Wisconsin (Transportation -- Local Transportation Projects)

[LFB 2005-07 Budget Summary: Page 478, #5]

CURRENT LAW

The commuter rail grant program, created in the 2003-05 biennial budget, provides grants to political subdivisions for the development or extension of commuter rail transit systems in this state. Grants are limited to an amount equal to 50% of the portion of the project cost in excess of the federal aid funding for the project or 25% of the total project cost, whichever is less.

GOVERNOR

Provide \$800,000 SEG in 2005-06 for the Metra commuter rail extension project in Southeastern Wisconsin under the commuter rail system development grant program.

DISCUSSION POINTS

Background

1. The Kenosha-Racine-Milwaukee (KRM) commuter rail project proposes a new commuter rail service that would be operated as a 33-mile extension of the Metra (Chicago-Northeastern Illinois commuter rail) Union Pacific North line that currently runs between Chicago and Kenosha. The proposed new service would extend to Milwaukee's Amtrak station, making intermediate stops in Kenosha, Somers, Racine, Caledonia, Oak Creek, South Milwaukee, and Cudahy-St. Francis.

2. One benefit of a KRM commuter rail line extension would be that the project would create an additional transportation and economic link between Milwaukee, Racine, Kenosha, and other communities in southeastern Wisconsin and northeastern Illinois. The project could provide a

transportation alternative to freeway travel in the area, which is becoming increasingly congested. Commuter rail in this corridor could provide economic growth and development opportunities for communities along the rail line. The project could also make a larger number and more wide array of job opportunities accessible for the area's labor market. The project has support from several major employers in the area and the commerce associations of Kenosha, Racine, and Milwaukee, who wish to access that labor market to a greater extent. Metra officials have worked with those studying the project, but have not taken a position on the project.

3. In 1997, the Southeastern Wisconsin Regional Planning Commission's (SEWRPC) 2020 regional transportation system plan for southeastern Wisconsin recommended the consideration of commuter rail as an alternative to improved bus service in the Kenosha-Racine-Milwaukee corridor. In 1998, at the request of the counties and cities in the corridor, SEWRPC conducted a feasibility study that concluded that a KRM commuter rail project would be feasible. The study recommended that an alternatives analysis study be completed that compares the KRM commuter rail project to various bus service alternatives. This study is necessary in order to apply for discretionary federal funding under the Federal Transit Administration's (FTA) new starts program. The state provided \$164,000 in multi-modal planning funds to assist in the alternatives analysis for the project.

4. In August, 2003, SEWRPC completed a Kenosha-Racine-Milwaukee transit study report. The report included a recommendation to implement the extension of commuter rail to Milwaukee at a medium service level. As part of this analysis, SEWRPC received input from interested parties, held public hearings on the various alternatives for the project, and attempted to develop a local consensus for an alternative. The local units of government approved the study's recommended alternative as the locally preferred alternative, another step that was needed in order to begin the FTA new starts program funding process. However, the completion of the study and the selection of the locally preferred alternative do not guarantee federal funding or implementation of the chosen alternative.

5. The following table provides information contained in the alternatives analysis on the estimated implementation schedule for the project. Given that the preliminary engineering phase of the project has yet to begin, the project is not likely to meet the schedule outlined in the table. However, because the project would use existing rail lines and would involve minimal new construction, the design and construction phases may be shorter than indicated, which could allow the project to offset some of the early delays.

Design	2003-2005
Construction	2006-2007
Vehicle Procurement	2006-2009
Begin Revenue Service	2010

6. In 2001 dollars, the alternatives study indicated that the construction and capital acquisition costs of the project are projected to be \$152.1 million, with the cost of procuring

vehicles making up \$100.8 million of these costs. The projected net operating costs associated with the extension of Chicago Metra commuter rail to Milwaukee would be \$15.4 million annually. Increasing these figures to reflect inflation since 2001 would result in estimated capital costs of \$162.4 million and net operating costs of \$16.4 million.

7. DOT was appropriated \$400,000 in 2003-04 in a biennial appropriation to provide a grant to fund a portion of the preliminary engineering of this project. The estimated cost of the preliminary engineering for the KRM project is expected to be \$4.0 million, of which \$3.2 million would be paid from the \$10.6 million in federal new starts funds the KRM corridor has already received. The remaining \$800,000 in engineering costs is to be split evenly between the state and the local governments involved with the project. Therefore, the state's share would equal 10% of the total cost. DOT has yet to provide the \$400,000 grant to the project. However, DOT still plans to enter into a grant agreement and encumber the \$400,000 before the end of 2004-05. The funds will likely be used to fund costs associated with the environmental impact statement on the project and to begin technical refinements to the project to be completed in the preliminary engineering phase of the project.

Project Sponsor and Funding Issues

8. FTA has yet to formally approve the KRM commuter rail project for preliminary engineering. However, some preliminary engineering-related work, such as technical engineering refinements to the project and environmental assessment work, is being conducted. Prior to federal approval to advance to preliminary engineering, a lead sponsor for the project must be chosen. In addition, a funding plan outlining how the KRM commuter rail project implementation, construction, and operation will be funded must be determined. The project sponsor must submit a request to FTA for permission to initiate the preliminary engineering phase of project development. The request must provide information that demonstrates the readiness of the project to advance into preliminary engineering, including the project justification and the nonfederal financial commitment criteria. This information is normally developed as part of an alternatives analysis. However, state and local officials have not agreed on who is to be the lead sponsor for the project or on any funding commitments to meet the state/local share of the project implementation and operation costs. Therefore, the project has not met all the requirements necessary to be approved for preliminary engineering.

9. Questions remain as to whether the state or a local governmental unit should be the lead sponsor for the project. Questions also exist as to the size of the nonfederal funding share for implementing and operating the KRM commuter rail project, and the relative state and local shares needed to cover the nonfederal funding. In recent weeks, the DOT Secretary, the mayors of Kenosha, Racine, and Milwaukee, and the county executives of Kenosha, Racine, and Milwaukee counties have agreed to resolve the funding commitment and project sponsorship issues by September, 2005.

10. The alternatives analysis recommended that the state should assume responsibility for implementation and funding of the commuter rail alternative, together with federal funding

available for the project. The study indicated that local governments could be responsible for funding the construction, operation, and maintenance of station facilities for the particular communities. It also indicated that the state should take the lead role because: (a) those using the KRM commuter rail service would otherwise be driving on state highways, or making interstate trips on I-94; and (b) the state already is in the lead for, and has staff expertise with, contracting for intercity passenger rail services in the corridor on the Amtrak Milwaukee-Chicago Hiawatha service line. While supporting the KRM commuter rail extension alternative, DOT abstained from approving the study's recommendation, because the study recommended that the state be the lead sponsor and funding source for the KRM commuter rail extension alternative. The study noted that the DOT Secretary indicated that local government should be responsible for the implementation of commuter rail in the area. The Secretary also suggested that funding for the implementation and operation of the KRM commuter rail project should include federal, state, and local funds.

11. During the preliminary engineering phase, the local project sponsor refines the design of the project to a level of detail necessary to complete the federal environmental requirements. For new starts projects, this usually includes the completion of a final environmental impact statement. Preliminary engineering produces estimates of project costs, benefits, and impacts in which there is a much higher degree of confidence than earlier in the project development process. Project management plans are finalized and local funding sources are committed to the project, if they have not already been committed.

12. FTA approval to initiate preliminary engineering is not a commitment to approve entry into final design or to fund construction. The statutory match for new starts funding is 80% federal and 20% state/local. However, FTA continues to encourage project sponsors to request a federal new starts funding share that is as low as possible. The Congressional Conference Report that accompanied the FY 2002 U.S. DOT appropriations act instructed "FTA not to sign any new full funding grant agreements after September 30, 2002 that have a maximum Federal share of higher than 60 percent."

13. DOT and SEWRPC officials expect that new starts funding, if approved, may cover only 50%, or \$81.2 million, of the inflation-adjusted project costs. As a result, the state and local governments could be asked to provide the remaining \$81.2 million in funds. Under this scenario, DOT would be limited under the commuter development grant program, to providing up to \$40.6 million for the project. SEWRPC officials and proponents of the project indicate that other federal transit funds and federal congestion mitigation/air quality (CMAQ) grant funds may be available for the project, which could increase the federal funding share to 80% of project costs, or \$129.9 million. While availability of these funds is uncertain, under this funding scenario, the state could be asked to provide up to a \$16.24 million grant for the project.

14. Some state/local commitment or plan for funding the operation of the KRM commuter rail service must also be identified before the project may be approved for preliminary engineering. The inflation-adjusted annual operating costs for the KRM commuter rail extension would be an estimated \$19.8 million, with net costs totaling \$16.4 million after an estimated \$3.4 million in fare revenues is collected. The state currently does not provide operating assistance for

commuter rail transit. However, the federal government does provide some commuter rail operating assistance. Currently, the extent to which the state would be asked to provide operating assistance for the KRM commuter rail project is not known. If the state were to cover a percentage of costs similar to the percentage provided the Milwaukee County Transit bus system under the state's mass transit aid program, the state would need to provide approximately \$8.1 million annually.

15. The \$800,000 recommended by the Governor would make up a 10% share of the \$8 million in costs estimated for the final design phase of the project, which is similar to the percentage the state provided for the preliminary engineering phase of the project. The \$800,000 in funds would need to be available in the event that the project moves toward final design in mid-2007. If the project does not move toward final design as quickly as anticipated, the proposed funding could be used to finish work on the preliminary engineering phase of the project and environmental-related work.

16. Since questions remain related to the project funding and who will be the lead sponsor for the project, and because the funding may not be needed in the biennium, the Committee could delete the funding recommended by the Governor at this time. If the project moves into preliminary engineering, the funds already provided by the state would be available. If preliminary engineering is complete and the project moves toward approval for the final design phase by mid-2007, state funds could be provided in the 2007-09 biennium, when the timing of the final design phase may be more certain. Alternatively, a reduced level of state funds could be provided at this time to cover part of the final design costs. Since final design would take an estimated one year to 18 months to complete, additional funds could be provided in the 2007-09 biennium.

17. Conversely, providing state funding for the project could be seen as the state making a commitment to continue to be a partner in the project and to assist in keeping the project moving forward. Such commitment may also provide an incentive for local units of government, private sector businesses, and citizens to provide financial support for the project. Further, having the state show continued financial support for the project could assist in moving the project through the federal project approval and funding processes.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$800,000 SEG in 2005-06 for the Metra commuter rail extension project in Southeastern Wisconsin under the commuter rail system development grant program.

2. Modify the Governor's recommendation by providing \$400,000 SEG in 2005-06 for the Metra commuter rail extension project in Southeastern Wisconsin under the commuter rail system development grant program.

<u>Alternative 2</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$400,000

3. Delete provision.

<u>Alternative 3</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$800,000

Prepared by: Al Runde