



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #657

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

[LFB 2011-13 Budget Summary: Page 436, #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 route between Chicago and Milwaukee. In 2010-11, total funding of \$6,442,800 is provided for the service in two Department of Transportation (DOT) appropriations for passenger rail service. Of that amount, \$5,218,200 is provided through an allocation of the state's federal highway aid and \$1,224,600 is provided from a transportation fund appropriation.

#### GOVERNOR

Provide \$1,375,400 SEG and \$1,081,800 FED in 2011-12 and \$2,912,900 SEG and \$2,331,800 FED in 2012-13 to fund estimated costs of the state's share of Amtrak's Hiawatha service between Milwaukee and Chicago.

#### DISCUSSION POINTS

1. Although total funding provided in DOT's appropriations for the Hiawatha service in 2010-11 is \$6,442,800, the actual cost in that year is expected to be lower. Under the terms of the state's Hiawatha contract, the state's costs are estimated at \$5.2 million, although fuel cost adjustment factors may increase that amount, up to a maximum of \$6.0 million. Costs are lower than the amount that was expected when the 2009-11 budget was passed in large part because ridership revenue has been greater than expected.

2. Total funding under the bill for the Hiawatha service would be \$8,900,000 in 2011-12 and \$11,687,500 in 2012-13, an increase above the appropriation base by \$2,457,200 in 2011-12 and \$5,244,700 in 2012-13. However, since actual costs for the service are anticipated to be below the base appropriation level in 2010-11, the proposed funding increase in the bill over the current actual costs is greater. Relative to the estimated contract cost for 2010-11, the proposed funding represents an increase of \$3.7 million in 2011-12 and \$6.5 million in 2012-13.

3. The total funding for passenger rail service provided under the bill consists of two components: (a) the costs associated with maintaining new train equipment that the state purchased in 2009; and (b) the Department of Transportation's estimate of the state's share of the contract with Amtrak to provide the Hiawatha service during the two years of the biennium.

4. The state contracted for the purchase of two passenger rail car sets from Talgo, a Spanish train manufacturer, using \$48.0 million in general fund-supported, general obligation bonds. At the time of the Talgo purchase, the Department indicated that the cars would be utilized in a proposed high-speed passenger rail service between Milwaukee and Madison if the state received federal funds for establishing such a route, but would also be used to replace Amtrak passenger cars on the Hiawatha service between Chicago and Milwaukee, even if the state did not receive the grant. Although the state was awarded a federal grant of \$810 million in 2010 for the Milwaukee to Madison service, the Governor made a decision to not accept the grant. Nevertheless, the state is contractually obligated to maintain the equipment that was purchased. Passenger car maintenance costs include two components, totaling \$4,125,000 in 2011-12 and \$6,700,000 in 2012-13. Of this amount, \$3,100,000 in 2011-12 and \$4,450,000 in 2012-13 is the cost to contract for the maintenance services for the cars, while \$1,025,000 in 2011-12 and \$2,250,000 in 2012-13 is for other maintenance costs, including the lease for the maintenance facility and non-capital maintenance supplies and material.

5. The Department indicates that the new passenger rail cars are expected to be put into service on the Hiawatha route in the spring of 2012, although the final date has not been determined. The new cars are expected to offer several service improvements over the existing Amtrak coaches, many of which are over 40 years old. For instance, they will be lighter than the current equipment, to allow for faster acceleration and deceleration, and will offer a smoother ride and more passenger amenities.

6. Based on initial discussions with Amtrak, the Department estimates the contract for the provision of the Hiawatha service at \$4,775,000 in 2011-12 and \$4,987,500 in 2012-13. This represents an overall decrease from the estimated \$5.2 million that the state is currently paying for the service, although some costs within the contract would decrease while others would increase. The most significant decrease is the elimination from the contract of costs associated with the maintenance of Amtrak's passenger cars, to reflect the replacement of that equipment with the new Talgo equipment. That savings is partially offset, however, by other factors. In addition to an assumed increase in the cost of fuel, Amtrak is proposing charging a higher percentage for system costs (such as the ticketing system, which cannot be apportioned to specific routes). While these matters are currently under negotiation, the Department indicates that the budget figures reflect an

approximation of the state's new costs, based on the current state of those negotiations.

7. Without additional funding for passenger rail service, the Department would likely have to negotiate a change in the service with Amtrak to absorb higher costs within base resources. These adjustments could involve the elimination of some service or an increase to fares. In either case, these adjustments would have to be weighed against the possibility that they may result in a loss in fare revenue, without any net savings to the state. In the event that a workable adjustment is not found, service may have to be temporarily or permanently canceled.

8. The state has typically funded 80% or 90% of the cost of the Hiawatha contract with an allocation of the state's federal highway aid, as is allowed under federal transportation law. Generally, the state may use 90% federal funds when the service can be determined to serve as traffic mitigation for an interstate highway construction project, while at other times the state may use up to 80% federal funds. At the time of budget introduction, the Department assumed that the Amtrak contract and the passenger car maintenance contract would be eligible for 80% federal funds, but that other maintenance costs (facility lease and maintenance supplies) would not be eligible for federal funds. However, since that time, the Federal Highway Administration has notified the Department that only the Amtrak contract is eligible for federal funds, although the 90% matching percentage would apply. Consequently, the amounts provided in the state and federal appropriations for passenger rail service must be adjusted to conform with this determination. Specifically, the SEG appropriation would have to be increased by \$2,000,000 in 2011-12 and \$3,061,300 in 2012-13, and the FED appropriation would have to be decreased by a corresponding amount to make this adjustment. The Department of Administration submitted an errata to the bill reflecting this change [Alternative #1].

9. Although the state's Hiawatha contract costs have traditionally been funded partially with an allocation of federal highway aid, doing so does not increase the total amount of federal aid that the state receives. That is, the state's federal highway aid is a fixed amount, not dependent upon the level of state funding in any particular program. The use of federal highway aid for a portion of the Hiawatha costs, rather than state funds, increases the amount of state funds available for other purposes and decreases, by an equal amount, the availability of federal funds for other purposes. However, the limits on the funding for particular transportation programs are generally the overall amount of state and federal funding available, not the availability of one particular funding source. For this reason, the decision to allocate federal highway aid to passenger rail service does not have significant advantages versus funding all passenger rail costs with state funds. On the other hand, the use of federal highway funds in the 2011-13 biennium could present some risks. The current, multi-year federal authorization act for surface transportation expired at the end of federal fiscal year 2009, but has been temporarily extended several times. If Congress passes a new multi-year reauthorization act, it is possible that eligibility rules would be changed in a way that would exclude passenger rail service costs. To ensure that such a change would not disrupt the financing for the Hiawatha service, an alternative to the bill would be to substitute state funds for all of the federal funding for the program. Relative to the bill, this would involve an increase of \$6,300,000 SEG in 2011-12 and \$7,550,000 SEG in 2012-13, and a corresponding decrease in the FED appropriations [Alternative #2].

10. The funding share adjustments described in the previous two points would have to be accompanied by adjustments to other transportation programs. Since several programs are funded with a combination of both state and federal funds, these adjustments could be made without changing the total funding level of any program.

**ALTERNATIVES**

1. Approve the Governor's recommendation to provide a total of \$2,457,200 in 2011-12 and \$5,244,700 in 2012-13 to fund estimated costs of the state's share of Amtrak's Hiawatha service between Milwaukee and Chicago, but modify the bill by increasing the SEG appropriation for passenger rail service by \$2,000,000 in 2011-12 and \$3,061,300 in 2012-13 and by providing a corresponding decrease in the FED appropriation for passenger rail service, to conform to federal funding eligibility determinations for the service.

<b>ALT 1</b>	<b>Change to Bill Funding</b>
SEG	\$5,061,300
FED	<u>- 5,061,300</u>
Total	\$0

2. Modify the Governor's recommendation by increasing the SEG appropriation for passenger rail service by \$6,300,000 in 2011-12 and \$7,550,000 in 2012-13 and by providing a corresponding decrease in the FED appropriation for passenger rail service, to fund the passenger rail service costs entirely with state funds.

<b>ALT 2</b>	<b>Change to Bill Funding</b>
SEG	\$13,850,000
FED	<u>- 13,850,000</u>
Total	\$0

3. Delete provision.

<b>ALT 3</b>	<b>Change to Bill Funding</b>
SEG	- \$4,288,300
FED	<u>- 3,413,600</u>
Total	- \$7,701,900

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