



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

April 22, 2015

Joint Committee on Finance

Paper #645

Freight Rail Preservation Bonding (Transportation -- Local Transportation Assistance)

[LFB 2015-17 Budget Summary: Page 441, #1]

CURRENT LAW

The Department of Transportation's freight rail preservation program provides grants or loans for the acquisition of abandoned railroad lines or the rehabilitation or construction of rail facilities on existing, publicly-owned lines. Eligible applicants include local governments, railroads, current or potential users of rail service, or rail transit commissions organized by local governments for the preservation of rail service. Applicants are required to pay at least 20% of the cost of an acquisition of railroad track or an improvement project, but the Department may provide a loan to cover up to 15% of the total cost. No match is required for the acquisition of railroad property (exclusive of the railroad tracks and other improvements). Funding for the program is provided with transportation fund-supported, general obligation bonds. Debt service on the bonds is funded from the transportation fund.

GOVERNOR

Provide \$43,000,000 BR in transportation fund-supported, general obligation bond authorization for the freight rail preservation program. Increase debt service by \$273,400 SEG in 2016-17 to reflect the additional bonding.

DISCUSSION POINTS

1. The primary purpose of the freight rail preservation program (FRPP) is to maintain and improve rail service on low-traffic rail lines that may otherwise be abandoned or fall into disrepair. By assuming the responsibility for the ownership and improvement of these lines, the state can allow a railroad to continue to profitably serve these lines. That is, since the railroads do not need to invest in the ownership and improvement of the rail, they can operate at a lower rate of return than

would otherwise be necessary to maintain service. The program provides grants for up to 80% of the cost: (a) to purchase abandoned rail lines (up to 100% for the cost of land) in an effort to continue freight service, or for the preservation of the opportunity for future rail service; and (b) to rehabilitate facilities, such as tracks or bridges, on publicly-owned rail lines.

2. The state has been providing freight rail assistance since the late 1970s, a time when many railroad companies were abandoning unprofitable lines. Throughout the late 1970s and 1980s, grants were provided to local rail transit commissions to assist in the purchase of rail lines in order to maintain service for customers and shippers dependent on rail service. Then, in 1992, an amendment to the Wisconsin Constitution allowed the state to issue debt for the direct acquisition and improvement of rail lines.

3. The state currently owns 603 miles of rail lines. The Wisconsin and Southern Railroad is the primary railroad operating on this track, although other railroads operate on certain short segments. In the most recent acquisition, which was finalized in December, 2014, the Department purchased a 70-mile segment of rail line between Madison and Reedsburg and Madison and Cottage Grove for \$30 million, with \$5 million going toward track improvements.

4. To date, the Legislature has authorized \$208.5 million in FRPP bonding, with debt service on these bonds being paid from the transportation fund. The additional \$43 million in bonds that would be authorized under the bill would be \$9 million less than the amount provided in the 2013-15 biennium, but it would be \$13 million greater than the amount provided in the 2011-13 biennium. The last three biennial budgets authorized more total bonds (\$142 million) than the prior eight biennial budgets combined (\$66.5 million), extending back to the first bonds issued under the program. The following table shows the bond authorization in each biennium since bonds were first issued for freight rail acquisition and rehabilitation. The amount proposed under the bill is also shown.

TABLE 1

Freight Rail Preservation Program Bond Authorization

<u>Biennium</u>	<u>Bond Authorization</u>
1993-95	\$10,000,000
1995-97	4,500,000
1997-99	4,500,000
1999-01	4,500,000
2001-03	4,500,000
2003-05	4,500,000
2005-07	12,000,000
2007-09	22,000,000
2009-11	60,000,000
2011-13	30,000,000
2013-15	52,000,000
2015-17	43,000,000*

*Amount proposed in the bill.

5. The \$43 million in FRPP bonding is associated with a corresponding \$43 million reduction in passenger rail bonding included in the bill, which results in no net increase in bonding among the two programs. The Legislature has authorized \$122.0 million in bonding for passenger rail projects in the state. To date, approximately \$70.9 million in bonding for passenger rail projects has been issued. It is anticipated that \$8.0 million in bonding will be used for the passenger concourse improvement project at the Milwaukee Intermodal Station, which would leave about \$43.0 million in remaining passenger rail bonding that would not be needed at this time. However, the fund paying the debt service on the bonds authorized for each of the two programs differs. FRPP bonds are repaid from the transportation fund, while passenger rail bonds are repaid from the general fund. Therefore, authorizing \$43 million in FRPP bonding will increase future debt service costs to the transportation fund. Conversely, the proposed corresponding \$43 million reduction in passenger rail bonding could reduce future GPR debt service if that bonding authority would remain and those bonds would be issued at a later date.

6. Table 2 provides information on the how much of the \$208.5 million in existing bonding for the FRPP projects has been spent, how much has been committed to be spent, and how much currently remains uncommitted.

TABLE 2

Existing Bonding and Commitments

Existing Bonding	
Total Bonding Authorized	\$208.5
Less Bonds Obligated Through Spring, 2015	<u>135.2</u>
Authorized, Unissued Bonding	\$73.3
Use of Unissued Bonding	
Projects With Funding Encumbered	\$38.7
Plus Approved, Unencumbered Projects	<u>22.7</u>
Unissued Bonding Committed	\$61.4
Remaining Uncommitted Bonding	\$11.9

7. As indicated in Table 2, of the \$208.5 million in FRPP bonding authorized to date, \$135.2 million has been obligated (either issued or allotted) by the Building Commission (the recent purchase of the rail line between Reedsburg and Cottage Grove is included in the \$135.2 million). The Department has encumbered an additional \$38.7 million of the remaining \$73.3 million in available bonding, some of which may still be paid out in 2014-15, and some of which could be paid out in 2015-16. As a result, even with the recent, sizeable purchase of the Reedsburg to Cottage Grove line, \$34.6 million in existing bonding authority remains available for projects approved for 2014-15 and beyond. DOT indicates that currently \$22.7 million in projects have been approved by the Department for which funding has not yet been encumbered, which would leave only \$11.9 million in existing authority that could remain available beyond 2014-15.

8. Applications for the 2016 grant cycle may be filed at any time for rail banking or acquisition for continued operation or substitute service. However, for track and/or bridge rehabilitation or track construction, 2016 applications had to be filed by February 2, 2015. These

2016 projects would first be funded in 2015-16. Based on current project applications, a demand exists for this remaining bonding as well as the \$43.0 million in the Governor's recommendations. The Department indicates that it has received project submissions totaling \$79.4 million for the 2016 application cycle, including those carried over from previous funding cycles. Applications for acquisitions, or other projects not due by February, 2015, could continue to be submitted for funding throughout 2015-16. Also, additional, first-time project submissions would be expected for the 2017 cycle. The attachment to this paper indicates the \$79.4 million in 2016 projects, including the carryover projects from previous grant cycles that could be approved for funding.

9. The Department indicates that the demand for FRPP funding continues to increase as the growing freight rail industry moves to rail cars with greater load capacity. Under its 2015-17 budget request, the Department requested \$60 million in additional bonding authority to meet anticipated program demand in the biennium. DOT indicates that without the additional \$43 million recommended by the Governor, the Department would be unable to respond to the requests for FRPP assistance to preserve and rehabilitate rail freight lines and to preserve abandoned corridors for future transportation uses.

10. The Department of Administration's general obligation bond debt service estimates assume that \$19.4 million of the \$43 million in newly-authorized bonds would be issued during the biennium. The estimated debt service in the biennium on that bonding would be \$273,400 in 2016-17 (as reestimated in LFB Paper 630). Due to the time that exists between when projects are approved for funding and when the bonds are actually issued, the full, annualized debt service on the proposed bonds would not be paid during the biennium. When fully issued, the annualized debt service to be paid from the transportation fund associated with the \$43 million recommended increase in bonding would be an estimated \$3.1 million.

11. As a bond-funded program, the freight rail preservation program allows the state to realize the benefits of transportation system improvements with no upfront costs, and then pay for those improvements over the course of the life of the improvement. However, increases in debt service costs for various types of transportation bonding have consumed an increasing percentage of transportation fund revenues. Under the Governor's 2015-17 budget recommendations, total, estimated debt service to be paid from the transportation fund as a percentage of revenues to the fund would reach 21.4% in 2016-17 (22.3% of revenues excluding transfers from other funds). If the Committee determines that the overall level of transportation bonding should be reduced, the FRPP bond authorization could be reduced.

12. The average amount of new FRPP bonding provided in the past five biennia has been \$35.2 million. Reducing the recommended bonding to that level would result in a \$7.8 million reduction to the bonding amount recommended by the Governor. [Alternative #2] Along with the \$11.9 million in remaining bonding, a total of \$47.1 million would be available to the program under this alternative. Alternatively, if the Committee chose to use the \$35.2 million figure as the total bonding to remain available to the program for the biennium, the Committee could delete \$19.7 million from the Governor's recommend bonding amount, which would allow \$11.9 million in remaining bonding and \$23.3 million in new bonding to be available to the program. [Alternative #3]

13. At the bonding level recommended by the Governor or any lower level, not all eligible

projects that submit applications in 2016 and 2017 may receive funding. The Department uses an evaluation process, which includes a benefit-cost analysis, to rank projects. At a reduced level of bonding, lower ranking projects would not receive funding during the biennium. However, these eligible projects could be carried over to, and be eligible for, a subsequent funding cycle.

14. Given that the state incurs debt service costs associated with bonds issued for FRPP rail acquisitions and improvements, having the rail lines that benefit from the state's expenditures pay something to the state for those acquisitions and improvements from which they benefit, beyond the required match for the state funds, was among the recommendations of the Transportation Finance and Policy Commission in January, 2013. DOT, in its 2015-17 budget request, proposed a \$10 per carload user fee for railroads using state-owned rail lines, which is the fee level recommended by the Commission. The Department's request would have defined carloads as loaded freight railroad cars that are operated in revenue service and would have required all railroads operating on state-owned rail lines to annually report the number of carloads hauled on those lines for the previous calendar year. Estimated revenues from such a fee would be \$550,000 annually once implemented. Based on current experience, the bulk of this revenue would come from the Wisconsin and Southern Railroad. [Alternative #4]

15. Freight railroads currently pay an ad valorem (property) tax to the state, which is deposited in the transportation fund. During the 2015-17 biennium, revenues from this tax are estimated at \$65.4 million. Total appropriations for freight rail programs in the biennium, including debt service on FRPP bonds, are estimated at \$27.2 million. Therefore, taken as a whole, the freight rail industry pays more in taxes than the related programs spend. However, the companies operating on state-owned lines pay less than 5% of the ad valorem taxes, while FRPP bond debt service represents almost 60% of state appropriations for freight rail programs.

16. DOT also administers the harbor assistance program (HAP) to assist harbor communities along the Great Lakes and Mississippi River in maintaining and improving waterborne commerce. Port projects typically include dock reconstruction, mooring structure replacement, dredging, and the construction of facilities to hold dredged material. This program is also provided general obligation bonding to assist in funding these projects. The Governor's recommendations would not provide any increase in general obligation bonding for the HAP program. DOA indicates that additional bonding was not provided for HAP projects because the program has unused bonding available for the 2015-17 biennium. While DOT acknowledges that \$5.7 million in unencumbered bonding authority currently remains available, it anticipates awarding the balance of these funds by the end of 2014-15. If the Committee accepts the Governor's recommendation for harbor bonding, providing no increase in bonding authority for FRPP projects would treat the programs consistently. [Alternative #5]

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$43,000,000 in transportation fund-supported, general obligation bond authorization for the freight rail preservation program (\$273,400 in additional debt service is estimated in the biennium).

2. Modify the Governor's recommendation and provide \$35,200,000 in transportation

fund-supported, general obligation bond authorization for the freight rail preservation program instead of \$43,000,000 (\$47.1 million in carryover and new bonding would be available to the program in the 2015-17 biennium). Decrease estimated debt service by \$49,800 in 2016-17 to reflect this change.

ALT 2	Change to Bill
SEG	- \$49,800
BR	<u>- 7,800,000</u>
Total	-\$7,849,800

3. Modify the Governor's recommendation and provide \$23,300,000 in transportation fund-supported, general obligation bond authorization for the freight rail preservation program instead of \$43,000,000 (\$35.2 million in carryover and new bonding would be available to the program in the 2015-17 biennium). Decrease estimated debt service by \$125,300 in 2016-17 to reflect this change.

ALT 3	Change to Bill
SEG	- \$125,300
BR	<u>- 19,700,000</u>
Total	-\$19,825,300

4. Provide the Department authority to establish a \$10 per carload rail line user fee for railroads using state-owned rail lines, effective January 1, 2016. Define a carload as a loaded freight railroad car that is operated in revenue service. Require all railroads operating on state-owned rail lines to annually report the number of carloads hauled on those lines for the previous calendar year and to submit the required fee with this report. Specify that the revenues be deposited to the transportation fund and estimate revenue from such a fee at \$550,000 in 2016-17.

ALT 4	Change to Bill
SEG-REV	\$550,000

5. Delete provision (only the \$11.9 million in carryover bonding would be available to the program in the 2015-17 biennium). Decrease estimated debt service by \$273,400 in 2016-17 to reflect this action.

ALT 4	Change to Bill
SEG	- \$273,400
BR	<u>- 43,000,000</u>
Total	-\$43,273,400

Prepared by: Al Runde
Attachment

ATTACHMENT

Potential FRPP Projects (\$ in Millions)

<u>Project</u>	<u>Requested Funding</u>	<u>Grant Cycle</u>	<u>Details</u>
Wisconsin Southern Bridges	\$16.0	2014/2015	System-wide on state-owned lines
Wisconsin Southern Waukesha Subdivision	15.5	2014/2016	Track rehabilitation -- Waukesha to Milton (41.3 miles)
Wisconsin Southern Prairie Subdivision (Phase I)	3.0	2015	Tie replacement -- Crawford to Avoca (45.4 miles)
Wisconsin Southern Janesville to Fox Lake (Phase II)	3.8	2016	Track rehabilitation -- Zenda to Walworth (6.3 miles)
Wisconsin Southern Reedsburg Rehabilitation	8.2	2016	Track rehabilitation -- Madison to Reedsburg (70 miles)
Wisconsin Southern Prairie Subdivision (Phase II)	7.6	2016	Track weld -- Prairie du Chien to Wauzeka (15 miles)
Wisconsin Southern Bridge Rehabilitation	7.9	2016	System-wide
Wisconsin Southern Glendale Acquisition	5.5	2016	Sidings, yard, and passing track (4.8 miles mainline track)
City of New London	0.8	2016	Not specified
Wisconsin Southern -- TIGER	<u>11.1</u>	2016	Track rehabilitation between Spring Green and Madison (35.5 miles)
Total	\$79.4		