



Legislative Fiscal Bureau

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December 7, 2011

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Transportation: Section 13.10 Request for Preliminary Engineering and Final Design Costs of a Permanent Maintenance Facility for Passenger Rail Cars -- Agenda Item I

REQUEST

The Department of Transportation (DOT) requests an appropriation supplement of \$5,000,000 SEG in 2011-12 for the Department's appropriation for rail passenger service, state funds, for costs related to preliminary engineering and final design of a permanent maintenance facility for passenger rail cars used on Amtrak's Hiawatha service between Milwaukee and Chicago.

BACKGROUND

The state purchased two passenger car train sets in 2009 for use on Amtrak's Hiawatha route between Milwaukee and Chicago, as well as for a proposed extension of that route to Madison. Although the Madison extension project has been cancelled, the cars will be used on the existing Hiawatha service once they have been completed, likely in the fall of 2012. Under the purchase agreement with Talgo, the equipment manufacturer, the state agreed to assume the cost of maintaining the equipment. Initially, the cars will be maintained at a temporary facility in the City of Milwaukee, which is also being used for final assembly. However, the Department indicates that Canadian Pacific Railroad, which owns the tracks providing access to that facility from the downtown Amtrak station, will only allow those tracks to be used for that purpose through the end of 2012. For that reason, as well as because of some logistical concerns related to the location of the facility, the Department has determined that a permanent maintenance facility must be built to comply with the terms of the purchase contract.

The Department has conducted a feasibility analysis to select potential sites for a

permanent maintenance facility, and is now ready to begin preliminary engineering and final design for the facility. The Department indicates that it is necessary to begin design soon in order to complete construction in a timely manner. Although the Department believes it will not be possible to complete the construction by the end of 2012, it is believed that if the Department can demonstrate that work is well underway, then it would be possible to negotiate a short-term extension of the agreement for the use of the Canadian Pacific tracks to the existing maintenance facility.

Based on a review of similar facilities constructed in other states, the Department believes that the engineering contract would be about \$5,000,000. The Department indicates that if the cost is greater than \$5,000,000, other existing sources of funds in the Department's budget would be used to cover the difference. If the cost is less than \$5,000,000, the surplus funds would be applied to the cost of the construction of the facility.

The requested appropriation supplement would be provided from the balance of the transportation fund. Upon passage of the 2011-13 biennial budget (Act 32), the biennium-ending balance in the fund was estimated at \$1.4 million. Although the Department has not conducted a comprehensive reestimate of transportation fund revenues and expenditures, the Department now believes that the biennium-ending balance will be somewhat higher, based primarily on the fact that the July 1, 2011, opening balance in the fund was higher than anticipated. With the passage of Act 32, it was assumed that the opening balance would be \$0. However, the actual, biennium-opening balance in the fund was \$17.5 million. With the higher balance, and because actual revenue collections during the first several months of the 2011-13 biennium appear to be close to budget estimates, the Department concludes that there is a sufficient, unobligated balance in the fund to make the supplemental appropriation.

ANALYSIS

With the purchase of the passenger car sets from Talgo, the state also entered into a 20-year maintenance agreement with the company. Under the terms of that agreement, the state and Talgo agreed that the facility would be located in Wisconsin, and that DOT would be responsible for developing and equipping a suitable facility for the maintenance. Although the Department could make a decision to terminate the contract due to nonappropriation of funds, the state would, nevertheless, need to maintain the cars if they were to be used on the Hiawatha service. In other words, if the request is not approved, and no alternative maintenance site is found, the state would own, but likely not be able to use, the passenger car sets. The Department indicates that it has explored the possibility of having Amtrak maintain the cars at its facility in Chicago, but it was determined that the capital expenses necessary to add maintenance facility capacity in Chicago would likely be more expensive than building a new, Milwaukee maintenance facility.

Following the completion of the design, the Department indicates that additional funds will be requested for construction of the facility, probably late in 2012. The Department has not developed a precise estimate of the cost of construction, indicating, instead, that such an estimate would be developed in the course of preliminary engineering. However, the Department

reviewed records of the construction of two maintenance facilities constructed recently in other states and, based on that review, estimates that the facility could cost between about \$35 million and \$53 million. It should be noted that this estimate relies on a gross cost-per-square-foot methodology, and, therefore, does not take into consideration site-specific issues, such as the particular cost of real estate and environmental mitigation. That is, while these costs are included in the estimate, they could vary significantly from site to site. This estimate does not include the cost of construction engineering, which would add approximately 8% to the total.

By way of comparison, this estimate would be in line with the preliminary estimate of the cost of the maintenance facility proposed for the Madison extension project. Under the Department's plan for the Milwaukee to Madison passenger rail extension route, the maintenance facility would have been built in or near the City of Madison. In its application for federal funds for the project, the Department estimated the cost of building that facility at \$41.7 million in 2010 dollars, a figure that does not include engineering, real estate, or environmental mitigation costs. [Although the Department's application for federal funds included estimates for real estate acquisition and environmental mitigation, these estimates were for the entire project, not individual components.]

As noted above, the requested funds would be provided from the balance in the transportation fund, which would be a departure from previous DOT requests for passenger rail funding. On three occasions, the Department has requested, and the Committee approved, the use of passenger rail development bonds for train equipment and facilities. The following table shows the history of approvals of passenger rail development bonding by the Committee.

Approvals of Passenger Rail Development Bonds

<u>Date</u>	<u>Amount</u>	<u>Purpose</u>
July, 2000	\$2,000,000	Milwaukee station renovation
August, 2009	47,500,000	Passenger rail car sets purchase
July, 2011	29,404,300	Milwaukee platform/canopy renovation; car maintenance equipment; and train set delivery costs

Since the passenger rail development bonds are the source of funding that has been established by the full Legislature for passenger rail projects, a case could be made that the bonds should be the source of funding for the maintenance facility preliminary engineering and final design. The Department indicates that approval for the use of bonds was not requested in this case because of uncertainty regarding the timing of the necessary approvals. The Department believes that it is necessary to begin the engineering work as soon as possible in order to make sufficient progress on the project prior to the expiration of the track use agreement with Canadian Pacific. In addition to approval by the Committee, the issuance of the bonds must also be approved by the Building Commission. A delay in that approval could delay the

execution of the engineering contract. If the Committee were to approve the use of bonds, instead of an appropriation supplement from the transportation fund, the earliest that the issue could be considered by the Building Commission would be at its December 21 meeting (although this would likely require the Governor, the Chair of the Building Commission, to make an exception to the normal timing for placing an item on the Commission's December agenda). Otherwise, approval would have to wait until a subsequent meeting of the Commission, which meets monthly, generally on the third Wednesday.

There are currently \$43,095,700 in unissued passenger rail bonds available for projects, out of a total of \$122,000,000 that have been authorized. Depending upon the final cost of construction, there may not be sufficient bonds remaining to complete construction of the project, in which case, other sources of funding would be needed. Additional bonding would require approval by the full Legislature. Use of SEG funds would require a subsequent s. 13.10 request. Approval of \$5,000,000 of bonds for the project would reduce the amount of remaining bond authorization to \$38,095,700. Once fully issued, annual debt service on \$5,000,000 in passenger rail development bonds would be approximately \$0.4 million. Debt service on the bonds is paid from the general fund.

ALTERNATIVES

1. Approve the Department's request for an appropriation supplement of \$5,000,000 SEG in 2011-12 for the passenger rail service appropriation for preliminary engineering and final design of a permanent maintenance facility for passenger rail cars used on the Milwaukee to Chicago Hiawatha service.
2. Approve the use of \$5,000,000 in passenger rail development bonds for the preliminary engineering and final design of the maintenance facility.
3. Deny the request.

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