



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #913

Freight Rail Infrastructure Improvement Program (DOT -- Local Transportation Projects)

[LFB 2001-03 Budget Summary: Page 658, #6]

CURRENT LAW

DOT provides low- or no-interest loans to railroads, shippers or local governments to perform a variety of capital improvements related to freight rail service through the freight rail infrastructure improvement program (FRIIP). As the loans are repaid, these funds are made available for new loans. Base funding for the program is \$3,079,800 SEG and \$2,500,000 SEG-L. The SEG-L amounts represent repaid loan amounts that are available for making new loans.

GOVERNOR

Provide \$500,000 SEG-L in 2001-02 and \$1,000,000 SEG-L in 2002-03 to reflect estimated loan repayments, which would increase the total amount of funding for FRIIP to \$6,079,800 (\$3,079,800 SEG and \$3,000,000 SEG-L) in 2001-02 and \$6,579,800 (\$3,079,800 SEG and \$3,500,000 SEG-L) in 2002-03.

DISCUSSION POINTS

1. Since much of the capital in the freight rail industry is considered nonrecoverable by financial lenders, the availability of credit for capital improvements, particularly track upgrades, is limited. Consequently, railroads typically use their own capital for investing in track upgrades, which sometimes means that only the most profitable lines are improved. Lower density lines, where the return on the investment in track upgrades would be relatively lower, are less likely to be improved, which, over time, may reduce the quality of service provided to the shippers on those lines. FRIIP was created to provide an additional source of credit for improvements in order to

encourage railroads to invest in lower-density lines. Under FRIIP, DOT makes loans to both railroads and shippers served by railroads.

2. The program, which was created in 1993-94, began to receive loan repayments in 1996-97. In the four fiscal years between 1996-97 and 2000-01, the amount of SEG funding in the program was reduced by the amount of the anticipated loan repayments to maintain a constant budgeted level of funding for the program of \$5,579,800. In its budget request for the 2001-03 biennium, DOT asked that the SEG funds be reduced by the amount of the anticipated loan repayments, to continue to maintain the same total funding level. The bill, however, would not reduce SEG funding, which would result in the first increase in the total amount of the funding for the program since it was created.

3. One alternative to the bill would be to reduce funding by \$500,000 SEG in 2001-02 and \$1,000,000 SEG in 2002-03, as DOT requested, thereby keeping the program at its current size.

4. DOA indicates that SEG funding for the program was not reduced in the bill because the demand for loans is sufficiently high to justify an increase in the size of the loan fund.

5. For the current program cycle, DOT has received applications for loans totaling \$18.3 million, which is slightly lower than the amount requested in the previous year, but somewhat higher than it had been in prior years. Loans will be awarded in the fall using funding provided for 2001-02.

6. FRIIP loans are increasingly being awarded to shippers, rather than to railroads. Of the \$5.5 million in loans awarded in 2000-01, about two-thirds went to non-railroads. Similarly, about two-thirds of the amount applied for in the current program cycle is for non-rail projects. In contrast, only about 3% of the loans awarded during the first four years of the program went to non-railroads. Given this shift, the program may be serving a different purpose than that for which it was originally created.

7. DOT is currently developing a passenger and freight rail plan, which will address the status of the freight rail industry in Wisconsin. DOT indicates that among the issues that may be addressed in the plan is whether FRIIP is serving the purpose for which it was created, particularly since a significant portion of the loans is being provided to non-railroads. Before increasing the level of funding for FRIIP, the Committee may wish to consider the conclusions and recommendations developed in the plan. In this case, the Committee could reduce SEG funding for the program, as requested by DOT, to retain the program at its current size for the 2001-03 biennium and reconsider the issue as part of the 2003-05 biennial budget.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$500,000 SEG-L in 2001-02 and \$1,000,000 SEG-L in 2002-03 to reflect estimated loan repayments, increasing the total amount of funding for FRIIP to \$6,079,800 in 2001-02 and \$6,579,800 in 2002-03.

2. Modify the Governor's recommendation by decreasing funding by \$500,000 SEG in 2001-02 and \$1,000,000 SEG in 2002-03 to maintain the program at its current size of \$5,579,800 annually.

Alternative 2	SEG
2001-03 FUNDING (Change to Bill)	- \$1,500,000

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