



Legislative Fiscal Bureau

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April 26, 2005

Joint Committee on Finance

Paper #736

Milwaukee to Chicago Passenger Rail Service and Passenger Rail Service Development (DOT -- Local Transportation Projects)

[LFB 2005-07 Budget Summary: Page 477, #3 & # 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 Milwaukee and Chicago. Under the contract for the service, the two states each pay a fixed amount, based on a calculation of the variable costs of the route, while Amtrak pays the fixed costs, such as interest, depreciation, and indirect overhead. Wisconsin currently pays 75% of the two states' share, while Illinois pays 25%. In 2004-05, funding for Wisconsin's share for the service is \$5,715,800, which is provided with \$1,143,200 SEG and \$4,572,600 FED. The federal funds used for the service are provided through the congestion mitigation and air quality improvement (CMAQ) program, a component of the federal highway aid program. The use of these funds requires a 20% match, which is provided with the SEG funds.

The 1993-95 biennial budget act authorized \$50,000,000 in general fund-supported, general obligation bonds for passenger rail service development. These bonds may be used for the following purposes: (a) an extension of Amtrak passenger rail service or other rail service from Milwaukee to Madison or from Milwaukee to Green Bay; (b) railroad track or rail passenger station improvements related to an Amtrak service extension, or the establishment of commuter rail service, between Milwaukee and Waukesha County; or (c) rail passenger station improvements related to an existing rail passenger service. Use of this bonding requires the approval of the Joint Committee on Finance. Currently, \$2,000,000 has been approved for improvements at the Milwaukee Amtrak station, leaving \$48,000,000 in existing authority.

GOVERNOR

Provide \$365,800 SEG and \$1,463,300 FED in 2005-06 and \$667,600 SEG and \$2,670,500 FED in 2006-07 to support anticipated higher costs under the state's contract with Amtrak for the provision of the Hiawatha train route between Chicago and Milwaukee.

Modify existing general obligation bonding authority for passenger rail service improvements to specify that these bonds may be used for capital costs related to Amtrak service extension routes or other rail service routes between Milwaukee and Chicago and between Madison and La Crosse.

DISCUSSION POINTS

1. State support of the Hiawatha train service began in 1989, when two daily round trips were added, at the request of Wisconsin and Illinois, to the three that Amtrak was running at the time. In subsequent years, the states gradually increased their financial support of the route as additional daily round trips were added and as Amtrak asked the states to pay for a portion of the nonsupported round trips in response to reductions in the federal budget for Amtrak. Currently, Wisconsin and Illinois pay a fixed amount for seven daily round trips on Monday to Saturday and six daily round trips on Sunday. At the end of January, the Hiawatha added a stop at the new General Mitchell International Airport station

2. Wisconsin has historically paid 75% of the two states' share for the Hiawatha service, while Illinois has paid the remaining 25%, which are proportions that were negotiated when state support of the route began, based on the approximate share of the state of origin of passenger trips.

3. The following table shows the amount paid by the state under the Hiawatha contract over the past three biennia. The significant increase in 2003-04 was due to a decision by Amtrak to require the states to pay the full amount of the variable costs of the route. Prior to that time, Amtrak paid a portion of these costs.

<u>Fiscal Year</u>	<u>Wisconsin's Contract Cost</u>	<u>Percentage Increase</u>
1999-00	\$3,712,500	--
2000-01	3,837,105	3.4%
2001-02	3,859,847	0.6
2002-03	3,975,642	3.0
2003-04	5,061,750	27.3
2004-05	5,314,838	5.0

4. There are 13 states that currently support Amtrak rail service on regional routes. The Hiawatha service is the only route supported by the State of Wisconsin. Illinois supports three

routes in addition to the Hiawatha service.

5. Although the current contract, covering the period corresponding to state fiscal year 2004-05, requires Wisconsin to pay \$5,314,800 and Illinois to pay \$1,771,600 (75% and 25%, respectively, of the total state subsidy), the amount that the State of Illinois had budgeted for the service was just \$1,356,200, or \$415,400 less than the required amount. Discussions between the two states are ongoing on how to fund this shortfall. However, in part because the amounts provided by Act 33 for Wisconsin's share exceeded the actual amounts needed to pay for the 2003-04 and 2004-05 contracts, the Department expects to have an unencumbered balance of \$486,300 at the end of 2004-05, which could be used to pay for Illinois' shortfall, if necessary.

6. The SEG and FED increases provided by the bill for the Hiawatha service would total \$1,829,100 in 2005-06 over the 2004-05 base and an additional \$1,509,000 in 2006-07, which amount to increases of 32% in 2005-06 and an additional 20% in 2006-07. The actual amounts that the state will be required to pay for the service are not known, since the current contract only covers the period through June 30, 2005. Consequently, the amounts provided by the bill are estimates, based on two assumptions. First, it was assumed that Amtrak would increase the portion of the total cost of providing the service that would be covered by the states. Under the current contract, the states' share is based on the total variable cost of providing the service, while Amtrak funds the fixed costs, such as interest, equipment depreciation, and indirect overhead. Based on initial discussions with Amtrak on the next contract, DOT assumed that the company would begin requiring the states to also pay a portion of these fixed costs. Second, based on amounts provided for passenger rail service in the Illinois Governor's 2005-06 budget, it was believed that Wisconsin would have to pay a portion of that state's traditional 25% share in order to avoid a shortfall. Specifically, for 2005-06, the amounts provided by AB 100 assume that the total share for both states would increase by 20% over the 2004-05 contract, and Wisconsin would have to pay about 88% of that total, instead of 75%. The trend towards a higher state share was assumed to continue in 2006-07 and Wisconsin would continue paying about 88% of that share.

7. Since the time that the budget was introduced, Amtrak has provided DOT with a preliminary estimate of the amount that the state would have to pay under a contract for fiscal year 2005-06. That amount, which assumes that Wisconsin will pay its traditional 75% share, is \$5,726,800. While this would be a 7.8% increase above the state's share in 2004-05, it would be just \$11,000 over the 2004-05 funding base, since the 2004-05 appropriations exceed the amount needed for the 2004-05 contract. Therefore, if Illinois pay its traditional 25% share in 2005-06, DOT would have enough carry-over funds from 2004-05 to pay the contract in the first year without a funding increase, even if Wisconsin pays the 2004-05 Illinois shortfall with funds provided in that year.

8. Although the Department would have enough funding for the proposed 2005-06 contract amount without an increase, the base funds would not be sufficient if Illinois does not fully fund its 25% share in 2004-05 and in 2005-06. Illinois has preliminarily set aside \$942,500 for the service in 2005-06, which is \$966,400 less than the amount that would be needed to fund a 25% share of Amtrak's initial contract offer. If Wisconsin is required to pay the Illinois shortfall in 2004-

05 using unencumbered funds, there would still be \$71,000 remaining in the appropriation to be applied to the 2005-06 contract. When added to the base funds, this would leave \$5,786,800 available for the 2005-06 contract. If both the preliminary contract amount and the amount budgeted by Illinois for the service do not change, an above-base increase of \$906,400 would be required in 2005-06 to pay both the state's increased share and the Illinois shortfall (\$6,693,200 total). This is, however, \$922,700 less than the increase provided by the bill in that year.

9. Amtrak's preliminary contract proposal for 2005-06 would cover just one year and, therefore, does not provide any indication of what the state's cost would be for 2006-07. Since the total contract would increase by 7.8% in 2005-06 over the previous year under Amtrak's proposal, it could be assumed that a similar increase will be required in the following year. A slightly more conservative estimate would be to assume that the total amount of the Amtrak contract will increase by 10% in 2006-07 over the 2005-06 amount, and that Illinois will not increase the amount budgeted for the service. In this case, the state's total cost would increase to \$7,456,800, which would require an above-base increase of \$1,741,000. This would be a savings of \$1,597,100, relative to the amount provided by the bill.

10. The President's budget for 2006 proposes an elimination of the federal subsidy for Amtrak, which, if implemented, would likely force the company into bankruptcy. In this event, the Hiawatha service would cease unless it becomes part of a restructured passenger rail service.

11. One funding alternative would be to reduce the amount of the increase in the bill to provide the amounts as calculated in the reestimate in the above points. However, given the uncertainties involving the future of Amtrak, the amounts that the state will be required to pay under the Hiawatha contract, and the funding provided for that service by Illinois, the Committee may decide to adopt a policy that allows the funding decisions to be reviewed when these issues become more certain. The Committee could decide to provide the amounts for the service as estimated in Points #8 and #9, but place a portion of the SEG funds in the Committee's appropriation, to be disbursed upon request of the Department when more information is available. In order to give the Department sufficient flexibility to fund the service prior to making a request, one-half of the SEG funds necessary to match the federal funds could be provided in the Department's appropriation in both years and one-half could be withheld. The Department could be given the authority to submit a request to provide the balance of SEG funding necessary for the service. If the total amount of funding set aside exceeds the amounts needed for the service, the Committee could be given the authority to reallocate the remaining SEG and FED amounts to other DOT appropriations. If the amount set aside is less than the amount actually needed, the Committee could supplement the SEG appropriation from the unencumbered balance of the transportation fund. The following table summarizes the funding decisions under this alternative, relative to the amounts provided by the bill.

	<u>2005-06</u>	<u>2006-07</u>
AB 100 Funding		
SEG	\$1,509,000	\$1,810,800
FED	<u>6,035,900</u>	<u>7,243,100</u>
Total	\$7,544,900	\$9,053,900
Reestimate of WI Share	\$5,726,800	\$6,299,500
Estimated Illinois Shortfall	<u>966,400</u>	<u>1,157,300</u>
Total WI Payment	\$6,693,200	\$7,456,800
Funding Alternative		
SEG in DOT Appropriation*	\$598,300	\$745,700
SEG in JFC Appropriation	669,300	745,700
FED in DOT Appropriation	<u>5,354,600</u>	<u>5,965,400</u>
Total	\$6,622,200	\$7,456,800
Change to Bill	-\$922,700	-\$1,597,100

*Assumes that \$71,000 SEG in carry-over funds will be available in 2005-06 to fund the cost of the service in that year.

12. Another alternative would be to provide enough funding for Wisconsin's share of the costs of the service, as reestimated above, but not provide additional funds to cover any shortfall in the amount that Illinois is obligated to pay under the Hiawatha contract. In this case, Illinois would be required to increase the amount that the state has budgeted for the service. Relative to the bill, this would reduce funding by \$1,889,100 (\$434,600 SEG and \$1,454,500 FED) in 2005-06 and \$2,754,400 (\$550,900 SEG and \$2,203,500 FED) in 2006-07.

13. If the amount of funding available for the Hiawatha service is less than the amount that Amtrak requires, the states would have to renegotiate the terms of the contract. This could include a reduction in the number of daily round trips or a reduction in the amount that the states are required to pay for the existing service. If the parties fail to reach an agreement on new terms, Amtrak could discontinue the service.

14. In addition to the funding provided for the Hiawatha service, the bill would make changes to the bonding authorization for rail passenger service improvements in order to expand the eligible uses for the \$48,000,000 in the existing bond authorization. The new eligible uses would include capital costs on new or existing rail service between Madison and La Crosse and between Chicago and Milwaukee.

15. A consortium of Midwestern states, including Wisconsin, developed a proposal in 2000 to build a network of high-speed rail routes with a hub in Chicago. The proposed route between Chicago and the Twin Cities would pass through Milwaukee, Madison, and La Crosse, as well as other cities along that corridor. It has generally been expected that the first segment on this route to be improved, and, consequently, the first priority for the use of the bonds, would be the

Milwaukee to Madison segment. The change to add the La Crosse and the Chicago to Milwaukee segments would allow the Department to eventually proceed on other parts of the route, although this would likely require additional bonds to be authorized. The partnering states are generally awaiting federal funds to initiate improvements on the proposed routes.

16. In addition to allowing a future expansion of rail service, the changes in the bill would allow the Department to use the bonds to make improvements on existing routes. The Department indicates that it was expected that this bonding could be used to purchase new rail equipment (coaches and locomotives) for use on the Hiawatha route. Amtrak has indicated that new equipment could be purchased that would modernize the service and perhaps reduce operating costs. In this case, the state may be asked to pay for a portion of the cost of the new equipment. However, since the financial condition of Amtrak remains uncertain, the purchase of new equipment seems less likely now than when the budget was introduced.

17. Since the purchase of new equipment for the Hiawatha may now be considered less likely and since any future expansion of rail service in the Madison to La Crosse corridor would likely require the authorization of additional bonds, a decision could be made to delay any change to the eligible uses of the existing bonds until these uses of bonds are more certain. If the bill's provisions are adopted, however, the Joint Committee on Finance would have the opportunity to review the proposed use of the bonds on one or both of the added uses, since the Committee's approval is required before DOT may issue the bonds.

ALTERNATIVES

A. Hiawatha Route Funding

1. Adopt the Governor's recommendation to provide \$365,800 SEG and \$1,463,300 FED in 2005-06 and \$667,600 SEG and \$2,670,500 FED in 2006-07 to support anticipated higher costs under the state's contract with Amtrak for the provision of the Hiawatha train route between Chicago and Milwaukee.

2. Modify the Governor's recommendation by deleting \$241,400 SEG in 2005-06 and \$681,300 FED in 2006-07 and \$319,400 SEG and \$1,277,700 FED in 2006-07 to reestimate the amounts needed to cover Wisconsin's costs under new Hiawatha contracts and to cover a projected shortfall in Illinois' share of the costs of the service.

<u>Alternative A2</u>	<u>FED</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$1,959,000	- \$560,800	- \$2,519,800

3. Modify the bill by deleting \$910,700 SEG and \$681,300 FED in 2005-06 and \$1,065,100 SEG and \$1,277,700 FED in 2006-07 from DOT's appropriations for passenger rail service and provide \$669,300 SEG in 2005-06 and \$745,700 SEG in 2006-07 in the Joint

Committee on Finance program supplement appropriation. Specify that DOT may submit a request to the Committee for providing an amount from the program supplement appropriation for passenger rail service. Specify that any request shall be submitted by the due date established for agency requests for the Committee's second quarterly meeting under s. 13.10 of the year in which the request is made. Specify that the Committee may allocate SEG funds in the program supplement appropriation and FED funds in the Department's passenger rail service appropriation that are not needed for passenger rail service to other DOT appropriations. Specify that the Committee may provide SEG funds for passenger rail service from unappropriated amounts in the transportation fund if the amounts in the program supplement appropriation are not sufficient to maintain passenger rail service.

<u>Alternative A3</u>	<u>FED</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$1,959,000	- \$560,800	- \$2,519,800

4. Modify the bill by deleting \$434,600 SEG and \$1,454,500 FED in 2005-06 and \$550,900 SEG and \$2,203,500 FED in 2006-07 to provide a reestimate of the state's share of costs under new Hiawatha contracts, but do not provide any funding to cover an Illinois shortfall.

<u>Alternative A4</u>	<u>FED</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$3,658,000	- \$985,500	- \$4,643,500

5. Delete provision.

<u>Alternative A5</u>	<u>FED</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$4,133,800	- \$1,033,400	- \$5,167,200

B. Passenger Rail Service Bonding

1. Adopt the Governor's recommendation to modify existing general obligation bonding authority for passenger rail service improvements to specify that these bonds may be used for capital costs related to Amtrak service extension routes or other rail service routes between Milwaukee and Chicago and between Madison and La Crosse.

2. Delete provision.

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