



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>

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Joint Committee on Finance

Paper #772

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

[LFB 2023-25 Budget Summary: Page 633, #5]

CURRENT LAW

The Department of Transportation's (DOT) 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. 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.

DISCUSSION POINTS

Background

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 directly 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. 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. 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 Wisconsin freight rail network consists of more than 3,300 miles of rail corridor. 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. There are currently 625 miles of publicly-owned rail lines in the state. The Wisconsin and Southern Railroad is the primary railroad operating on this track, although other railroads operate on certain short segments. According to the Department, in 2022, 77.5% of state-owned track met the Federal Railroad Administration's (FRA) Class 2 standard which means that a track is capable of operating loaded 286,000 pound rail cars above 10 miles per hour, compared to 53.1% in 2011. However, it continues to have rail that needs replacement to carry today's traffic volumes and carload weights. DOT's goal is to have 95% of state-owned rail line miles functioning at FRA Class 2 operating speed standards. Freight railroads are responsible for the maintenance of this existing track. In addition, railroads may also choose to privately fund certain track expansion projects to address growth and capacity issues.

4. Wisconsin's most recent state freight plan, published in March, 2018, discusses the importance of the freight rail sector in the state, and DOT's strategy to preserve and upgrade the state's freight rail infrastructure. The plan describes that freight rail provides a low-cost alternative transportation mode for industry, and plays a particularly important role in the state's coal, heavy machinery, manufacturing, automobile assembly, and pulp and paper product industries. The plan recommended continued funding for FRPP, which allows DOT to maintain, improve, and increase rail service in the state, and minimize service reductions and rail abandonments. The Department is currently working on a new state freight plan, which is scheduled to be completed in 2023.

5. Freight railroads currently pay an ad valorem (property) tax to the state, which is deposited in the transportation fund. For the 2023-25 biennium, revenues from this tax are estimated at \$67.6 million. [This figure does not include the estimated impact of the Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) recommendations that would exempt personal property tax owned by railroad utilities from taxation, and transfer GPR to the transportation fund to compensate for lost personal property tax revenue from railroads.] Total SEG appropriations that support the freight rail system in the biennium, including debt service on FRPP bonds, are estimated at \$41.0 million in the 2023-25 biennium. 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 would represent 73.6% of state appropriations for freight rail programs in the 2023-25 biennium.

Program Funding

6. In the 2021-23 biennium, \$20.0 million in bonding authority was provided for the FRPP program. The following table reflects the \$143.8 million in bonds provided to this program over the past five biennia (an average of \$28.8 million per biennium).

TABLE 1

**Freight Rail Preservation Program Bond Authorizations -- 2013-15 through 2021-23
(\$ in Millions)**

<u>Biennium</u>	<u>Bonding Authorization</u>
2013-15	\$52.0
2015-17	29.8
2017-19	12.0
2019-21	30.0
2021-23	<u>20.0</u>
Total	\$143.8
Average	\$28.8

7. Each year DOT awards funding for FRPP projects. Table 2 reflects the most recent project awards (\$13.9 million) that DOT has committed to using existing FRPP bond authority.

TABLE 2

Recently Awarded FRPP Projects Using Existing Program Funding

<u>Applicant</u>	<u>Project Location & Description</u>	<u>Funding</u>	<u>Contract Year</u>
Wisconsin & Southern	Waunakee to Devil's Lake - 22 miles of rail rehabilitation	\$3,782,400	2022
Wisconsin & Southern	Prairie Subdivision - Replace 4 bridges	2,995,400	2022
Wisconsin & Southern	Reedsburg Subdivision - Rehabilitate 2 bridges	621,400	2022
Wisconsin & Southern	Janesville - Rehabilitate 5 bridges & 1 mile of track	3,384,200	2022
City of Madison	Madison - Replace 1 bridge	<u>3,068,800</u>	2022
Total		\$13,852,200	

8. Table 3 provides information as of April, 2023, on how much of FRPP's existing bonding authority for FRPP projects has been spent, how much has been committed to be spent, and how much is expected to remain uncommitted to begin the 2023-25 biennium.

TABLE 3

**Existing Bonding and Commitments
(\$ in Millions)**

Existing Bonding	
Total Bonding Authorized	\$300.3*
Less Bonds Issued Through Spring, 2023	<u>-242.6</u>
Authorized, Unissued Bonding	\$57.7
Use of Unissued Bonding	
Less Projects with Funding Encumbered	-\$26.2
Less Approved, Unencumbered Projects	<u>-21.4</u>
Unissued Bonding Committed	-\$47.6
Remaining Uncommitted Bonding	\$10.1

*Reflects the total amount of bonds authorized since the program's inception.

9. As indicated in Table 3, of the \$300.3 million in FRPP bonding authorized to date, \$242.6 million has been obligated (either issued or allotted) by the Building Commission as of March, 2023. The Department has encumbered an additional \$26.2 million of the remaining authority for projects awarded in prior contract years, and plans to award another \$21.4 million in projects by July 1, 2023, for the 2023 contract year. As a result, \$10.1 million in existing authority would remain available for the 2023-25 biennium to fund additional project work.

Funding Options

10. As of April, 2023, the Department identified six potential projects totaling \$22.7 million that could receive funding in the 2023-25 biennium. Table 4 below reflects candidates for 2023-25 funding according to DOT.

TABLE 4

FRPP Project Candidates for Funding -- 2023-25

<u>Applicant</u>	<u>Project Description</u>	<u>Potential Funding</u>
Wisconsin & Southern	Wauzeka to Blue River Rail Replacement	\$7,500,000
Wisconsin & Southern	Devil's Lake to Reedsburg Track Rehabilitation	5,500,000
Wisconsin & Southern	2 Elkhorn Sub Bridges	1,500,000
Wisconsin & Southern	Several Prairie Sub Bridges	5,800,000
Wisconsin & Southern	2 Watertown Sub Bridges	1,700,000
Wisconsin & Southern	4 Reedsburg Sub Bridges	<u>725,000</u>
Total		\$22,725,000

11. Under AB 43/SB 70, \$20.0 million additional transportation fund-supported, general obligation bond authorizations is recommended for FRPP in the 2023-25 biennium. Estimated transportation fund-supported, general obligation bond debt service associated with the partial issuance of these bonds would be \$207,900 SEG in 2024-25. Once fully issued, estimated transportation fund debt service on these general obligation bonds would equal \$1,604,900 SEG annually. This level of funding, along with the \$10.1 million in remaining uncommitted bonding from the previous biennium, would be sufficient to fund the \$22.7 million in estimated project expenditures for the six projects that DOT has already identified for the FRPP program in the biennium. [Alternative 1]

12. Given that DOT has identified six potential projects in the 2023-25 with total potential project costs of \$22,725,000, \$22,725,000 in transportation fund-supported, general obligation bonds could be provided to the program in the biennium to fully fund these projects. Estimated transportation fund-supported, general obligation bond debt service associated with the partial issuance of these bonds would be \$236,200 SEG in 2024-25. Once fully issued, estimated transportation fund debt service on these general obligation bonds would equal \$1,823,500 SEG annually. [Alternative 2]

13. Past transportation funding studies have discussed FRPP scenarios that would provide a level of biennial FRPP bonding authority between \$30.0 million and \$34.2 million in order to fully fund program demand. In addition, as noted earlier, the rail industry contributes more to the transportation fund than it receives in assistance from the fund. Therefore, providing a somewhat higher level of bonding to the program than the level recommended by the Governor in the 2023-25 biennium may be warranted. For example, the Committee could provide \$30,000,000 in transportation fund-supported, general obligation bonds, reflecting the recommended funding levels contained in previous funding studies. Estimated transportation fund-supported, general obligation bond debt service associated with the partial issuance of these bonds would be \$311,900 SEG in 2024-25. Once fully issued, estimated transportation fund debt service on these general obligation bonds would equal \$2,407,300 SEG annually. Despite the higher funding level recommended in previous funding studies, as of April, 2023, DOT had had only identified six potential FRPP projects worth \$22.7 million in the biennium. If additional bonding were provided, DOT could work to identify additional projects that could receive funding in the biennium. [Alternative 3]

14. AB 43/SB 70 includes a variety of requests for the appropriation of additional SEG funding, which introduce competing demands on the transportation fund while limited revenues are available. In addition, \$10.1 million in existing bonding authority previously provided for the FRPP remains uncommitted to projects as of April, 2023. Given these considerations, the Committee could provide \$13.0 million in bonding authority to the program in the 2023-25 biennium. Combining these funds with the previously authorized, unissued bonds available in the program could provide a level of funding in the biennium consistent with the level of funding needed to fund the six projects that DOT has already identified for the FRPP program in the biennium (\$23.0 million). Estimated transportation fund-supported, general obligation bond debt service associated with the partial issuance of these bonds would be \$135,100 SEG in 2024-25. Once fully issued, estimated transportation fund debt service on these general obligation bonds would equal \$1,043,200 SEG annually. [Alternative 4]

15. If concerns exist regarding the availability of revenues from the transportation fund, as well as the need for additional funds for FRPP, the Committee could choose to provide no new bonding authority for FRPP projects at this time. An estimated total of \$10.1 million in uncommitted bonding authority from previous biennia would remain available for the program. This would result in at least \$8.5 million of potential FRPP projects remaining unfunded in the biennium. [Alternative 5]

ALTERNATIVES

1. Authorize \$20,000,000 in transportation fund-supported, general obligation bonds to be issued for the purpose of funding the freight rail preservation program in the 2023-25 biennium. Increase estimated debt service by \$207,900 SEG in 2024-25. When the bonds are fully issued, the annualized debt service to be paid from the transportation fund would be an estimated \$1,604,900 SEG.

ALT 1	Change to Base
BR-SEG	\$20,000,000
SEG	<u>207,900</u>
Total	\$20,207,900

2. Authorize \$22,725,000 in transportation fund-supported, general obligation bonds to be issued for the purpose of funding the freight rail preservation program in the 2023-25 biennium. Increase estimated debt service by \$236,200 SEG in 2024-25. When the bonds are fully issued, the annualized debt service to be paid from the transportation fund would be an estimated \$1,823,500 SEG.

ALT 2	Change to Base
BR-SEG	\$22,725,000
SEG	<u>236,200</u>
Total	\$22,961,200

3. Authorize \$30,000,000 in transportation fund-supported, general obligation bonds to be issued for the purpose of funding the freight rail preservation program in the 2023-25 biennium. Increase estimated debt service by \$311,900 SEG in 2024-25. When the bonds are fully issued, the annualized debt service to be paid from the transportation fund would be an estimated \$2,407,300 SEG.

ALT 3	Change to Base
BR-SEG	\$30,000,000
SEG	<u>311,900</u>
Total	\$30,311,900

4. Authorize \$13,000,000 in transportation fund-supported, general obligation bonds to be issued for the purpose of funding the freight rail preservation program in the 2023-25 biennium. Increase estimated debt service by \$135,100 SEG in 2024-25. When the bonds are fully issued, the annualized debt service to be paid from the transportation fund would be an estimated \$1,043,200 SEG.

ALT 4	Change to Base
BR-SEG	\$13,000,000
SEG	<u>135,100</u>
Total	\$13,135,100

5. Take no action.

Prepared by: Peter Mosher

