



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #778

Passenger Rail Operations Assistance (Transportation -- Local Transportation Assistance)

[LFB 2023-25 Budget Summary: Page 637, #14]

CURRENT LAW

The Department's passenger rail service continuing appropriation provides base funding of \$6,800,000 for the purpose of administering a passenger rail assistance and promotion program. Under this program, the Department of Transportation (DOT) may do any of the following: (a) conduct financial and technical planning for rail passenger service in this state and evaluate existing rail passenger service; (b) contract with Amtrak, railroads or other persons to provide rail passenger service or support services, equipment, station improvements, passenger platforms, equipment maintenance shops, parking areas or other support facilities for rail passenger service; (c) consult with other states and with local governments regarding service levels for additional rail passenger service in this state; (d) monitor the quality of rail passenger service; (e) conduct or contract for marketing studies and promotional activities to increase rail passenger service ridership; (f) apply for and accept federal funds for rail passenger service; (g) acquire equipment or facilities for the purpose of providing passenger rail service; and (h) enter into agreements with other states to assist or promote rail passenger service.

DISCUSSION POINTS

1. DOT has three funding sources that fund passenger rail service and/or passenger rail facilities development: (a) passenger rail service continuing SEG, FED, and SEG-L appropriations; (b) a passenger rail development continuing SEG appropriation; and (c) a GPR-supported general obligation bonding authorization for passenger rail development. AB 43/SB 70 recommends a \$1,700,000 SEG in 2023-24 and \$1,850,000 SEG in 2024-25 increase to the passenger rail service appropriation to assist in funding existing passenger rail service, expanded future rail service, and capital costs for passenger rail service.

2. Table 1 shows the projected expenditures and base expenditure authority (\$6,800,000 annually) for the 2023-25 biennium, from the Department's passenger rail service SEG continuing appropriation. The appropriation has an estimated carry-in balance of \$16.0 million at the start of 2023-24, which is a higher continuing balance than is typical due to several factors. These factors include savings realized from the historically high level of passenger revenue received in the years just prior to the COVID-19 pandemic, supplemental funding provided to Amtrak in the federal American Rescue Plan Act of 2021, and delays in previously anticipated capital projects resulting from the impacts of the pandemic.

TABLE 1

Passenger Rail Service SEG Appropriation, Estimated Expenditures and Balance

	<u>2023-24</u>	<u>2024-25</u>
Revenues		
Carryover balance from prior fiscal year	\$15,981,300	\$5,234,600
Appropriation Amount	<u>6,800,000</u>	<u>6,800,000</u>
Total Revenues	\$22,781,300	\$12,034,600
Operating Expenditures		
Amtrak Operating Agreement for Hiawatha -Hiawatha Service	\$7,140,500	\$7,354,700
Amtrak Operating Agreement for Hiawatha - Thruway Bus	866,000	909,300
Amtrak Operating Agreement for Hiawatha - Capital Charges	1,731,200	1,817,800
Hiawatha and Thruway Bus Marketing	300,000	300,000
Amtrak Operating Agreement for TCMC	<u>303,100</u>	<u>518,100</u>
Operating Expenditure Subtotal	\$10,340,800	\$10,899,900
Planned Capital Expenditures		
Fleet Management and Locomotive Overhaul	\$2,034,000	\$480,900
Siemens Train Car Acquisition Costs	331,900	2,000,000
MARS Platform Canopy Replacement	600,000	
Muskego Yard	1,000,000	
CTC Installation at MIS	3,240,000	
Northern Lights Express - WI share of design costs		<u>2,200,000</u>
Capital Expenditures Subtotal	<u>\$7,205,900</u>	<u>\$4,680,900</u>
Total Expenditures	\$17,546,700	\$15,580,800
Fiscal Year-End Appropriation Balance	\$5,234,600	-\$3,546,200

Existing Passenger Rail Service

3. Wisconsin's existing passenger rail service includes the state-supported Hiawatha route which provides seven daily round trips between Milwaukee and Chicago, and the Empire Builder, which provides one round-trip daily between Chicago and Seattle/Portland with seven stops in the state. This service also includes Amtrak Thruway bus service, which extends Amtrak service access to parts of the state not directly served by Amtrak trains, allowing people to travel to a rail station by intercity bus. Amtrak, in coordination with DOT, provides connecting intercity Thruway bus service through agreements with private bus companies. Passengers using both services purchase a single ticket for both the train and bus portions of their trip.

4. The most significant ongoing expense from this SEG continuing appropriation is the state's operating agreement with Amtrak for Hiawatha service. Wisconsin, in cooperation with the State of Illinois, contracts with Amtrak for the provision of passenger rail service on the Hiawatha route between Chicago and Milwaukee. According to the Department, the state is still negotiating the 2023-2024 Hiawatha operating agreement with Amtrak, but it is anticipated the cost will be approximately \$7.1 million, with a 3% increase in the following fiscal year, as shown in the table. Also shown in Table 1, the "Amtrak Operating Agreement for Hiawatha - Capital Charges" which are equivalent annual costs required to operate the Hiawatha line and each individual train that it comprises. States are required to pay capital charges to Amtrak based on the amount of Amtrak equipment used on a given corridor. These costs are estimated at approximately \$1.8 million annually over the next biennium and include depreciation expenses for rolling stock. The third largest category of planned operating expenditures for the biennium, approximately \$0.9 million annually, is the operating subsidy for Amtrak Thruway bus service, which primarily helps pay for two daily round-trips between Green Bay and Milwaukee, with stops in Appleton, Oshkosh and Fond du Lac, and providing connections to and from Chicago via Amtrak Hiawatha trains.

Future Passenger Rail Service

5. As shown in Table 1, Wisconsin's share of operating costs for the new Twin Cities-Milwaukee-Chicago (TCMC) service are estimated by DOT to be \$303,100 in 2023-24, and \$518,100 in 2024-25. The TCMC project will eventually provide one additional daily round-trip between Chicago and the Twin Cities to augment Amtrak's current Empire Builder service, with stops in St. Paul, Red Wing, Winona, La Crosse, Tomah, Wisconsin Dells, Portage, Columbus, Milwaukee, General Mitchell International Airport, Sturtevant, Glenview, and Chicago's Union Station. Through an agreement with partnering states (Illinois and Minnesota) and Amtrak, Wisconsin will share in the costs of operating the service.

6. TCMC service is currently scheduled to begin in September, 2023. TCMC-related design improvements and construction projects will begin in early 2024, and conclude mid to late-2025. Since the TCMC service will use existing routes, and the planned construction projects are only intended to improve train movements and flow, TCMC service can begin prior to construction. The service is estimated to have \$14.4 million in annual operating costs and is projected to generate annual revenue of \$6.1 million, resulting in \$8.3 million remaining in net operating costs that would need to be covered. TCMC operating costs for the first three years of service will be partially offset by the receipt of a \$12.6 million federal grant received by partnering entities, which will pay for 90% of operating costs in 2024, 80% of costs in 2025, and 70% of costs in 2026. The remainder of net operating expenses will be paid for by the three participating states, with Wisconsin and Minnesota each paying a 35% cost-share, and Illinois paying the remaining 30% share. In 2026, it is estimated that Wisconsin's share of cost will equal \$0.8 million. According to the Department, the agreement between Wisconsin, Minnesota, Illinois, and Amtrak is still under development, so some aspects of these costs will likely change once the agreement is finalized. Also, similar to the Hiawatha agreement, DOT will have an annual payment to Amtrak that will depend on the route's farebox revenues and actual costs incurred.

Capital Costs for Passenger Rail Service

7. The Department is required to administer a passenger rail route development program which is funded, in part, from DOT's passenger rail service SEG continuing appropriation. This appropriation can be used to support passenger rail service and capital development; however, these funds are primarily used to support the operating costs of providing passenger rail service in Wisconsin, such as Amtrak's state-supported Hiawatha service.

8. Table 1 shows projected capital costs for projects that would be funded from the passenger rail service appropriation. As shown in the table, the Department's projected \$3.5 million deficit in this appropriation includes \$7.2 million of planned capital expenditures in 2023-24, and \$4.7 million in planned capital expenditures in 2024-25. These capital costs are mainly attributable to improvements needed for additional Hiawatha and TCMC service, and include the following projects:

- Muskego Yard freight bypass of Milwaukee Intermodal Station (MIS)
- MIS signal and centralized train control (CTC) upgrades
- Milwaukee Airport Railroad Station (MARS) second platform
- Hiawatha next generation equipment acquisition and implementation

9. One exception to the planned capital expenses for Hiawatha and TCMC service improvements, is the estimated \$2.2 million contribution to design costs for the Northern Lights Express, which is a Minnesota-led project to connect Target Field in downtown Minneapolis to downtown Duluth, with several stops along the way, including a stop in Superior, WI. Minnesota is still attempting to secure state and federal construction financing for the Northern Lights Express and, as such, there is currently no timeline for the project.

Funding Alternatives

10. Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) would provide \$1,700,000 in 2023-24 and \$1,850,000 in 2024-25 to the Department's SEG passenger rail service continuing appropriation. The funding is comprised of \$1,700,000 annually in new base funding. According to the Department, one-time funding of \$150,000 in 2024-25 was requested to hire an engineering consultant to provide technical support for the final design of the newly acquired Siemen's passenger rail equipment which will run on the Hiawatha line. The bill would increase funding by \$3,550,000 over the biennium, which would fill the Department's projected \$3.5 million deficit for this appropriation account indicated in Table 1.

11. Base funding in DOT's passenger rail service appropriation has been \$6,800,000 since 2014-15. Given the state-share of costs related to operating agreements with Amtrak for Hiawatha and TCMC service, and number of capital projects that are needed over the upcoming biennium to improve service levels along these corridors, the Committee could provide \$1,700,000 in 2023-24 and \$1,850,000 in 2024-25 to the Department's passenger rail service appropriation. Any funds that are not used for the Amtrak contracts or other rail program costs in any year carry over into the next fiscal year. [Alternative 1]

12. Given the projected 2022-23 carry-in balance of \$16.0 million in the passenger rail service appropriation, and the uncertain timing of capital projects over the next two fiscal years, the Committee could provide \$453,100 in 2023-24 and \$518,100 in 2024-25 to the Department's passenger rail service appropriation. This funding would be sufficient to fund the estimated additional contract costs related to TCMC service, and the \$150,000 in one-time funding request by the Department in 2024-25 to hire an engineering consultant to provide technical support for the final design of the newly acquired Siemen's passenger rail equipment for the Hiawatha line. [Alternative 2]

13. Passenger rail capital projects are typically funded with a mix of federal and state funds. Although the state can use funding from the SEG passenger rail service continuing appropriation to pay for capital projects, the Department has access to two additional funding sources that are more directly associated with capital expenditures. As noted, DOT has a GPR-supported, general obligation bonding appropriation (BR), that funds passenger route development projects and requires Joint Finance Committee approval for the use of proceeds. With respect to any allowed passenger route development project, the Department is also required to submit evidence to the Committee that Amtrak, or the applicable railroad, has agreed to provide rail passenger service on that route. 2019 Wisconsin Act 9 provided \$10 million in additional GPR-supported bonding authority for passenger rail route development. Currently, \$11.3 million in authorized bonding authority, which has not yet been approved by the Committee, remains available. The Department anticipates that the entire remaining amount will be needed to fund the state share of the Muskego Yard project.

14. DOT also has a passenger rail development continuing appropriation (SEG), for the purposes of funding a passenger rail development program. This appropriation was created under 2019 Wisconsin Act 9 and provided \$25 million in one-time funding. At the close of 2021-22, the balance in this appropriation was \$19.7 million. The Department states that the remainder of this funding is committed for a MARS 2nd Platform project (\$13.0 million), TCMC construction costs (\$6.2 million), and a Muskego Yard project (\$0.6 million).

15. Compared to AB 43/SB 70, net revenues to the transportation fund in the biennium are estimated to be lower by \$126.6 million in 2023-24 and \$258.2 million in 2024-25. However, net current law revenues, exclusive of the proposed additional general fund transfers to the transportation fund under AB 43/SB 70, are estimated to be lower by only \$43.7 million in 2023-24 and \$64.9 million in 2024-25. Incorporating these revenue reestimates, and the Committee's action to date, results in a projected \$28.1 million, June 30, 2025, transportation fund balance before the Committee begins actions to complete the 2023-25 transportation budget. Meanwhile, demands for the expenditure of transportation fund revenues may increase in 2023-25 and beyond due to large upcoming projects such as the I-94 East-West reconstruction project in Milwaukee County and the reconstruction of the John A. Blatnik Bridge in Superior, as well as inflationary demands across transportation programs.

16. Although the Department indicates that available funding in DOT's two dedicated passenger rail capital appropriations is earmarked for certain projects, expenditure authority remains in the SEG appropriation, and authorized funding in the bonding appropriation has yet to be approved by the Committee. Given the projected 2022-23 carry-in balance of \$16.0 million in the Department's

passenger rail service appropriation, and the uncertain timing of capital projects over the next two fiscal years, the Committee could choose to take no action. [Alternative 3]

ALTERNATIVES

1. Provide \$1,700,000 in 2023-24 and \$1,850,000 in 2024-25 to the Department's passenger rail service appropriation. This would increase funding from \$6,800,000 in base funding to \$8,500,000 in 2023-24 and \$8,650,000 in 2024-25.

ALT 1	Change to Base
SEG	\$3,550,000

2. Provide \$453,100 in 2023-24 and \$518,100 in 2024-25 to the Department's passenger rail service appropriation. This would increase funding from \$6,800,000 in base funding to \$7,253,100 in 2023-24 and \$7,318,100 in 2024-25.

ALT 2	Change to Base
SEG	\$971,200

3. Take no action.

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