



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>

October 31, 2019

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Department of Transportation: Request for Passenger Rail Bonding -- Agenda Item II

REQUEST

On October 3, 2019, the Department of Transportation (DOT) submitted a request under s. 85.061 (3)(b) of the statutes for approval to use \$13,248,100 BR in GPR-supported, general obligation bonding from DOT's passenger rail route development appropriation to fund the required state match for a recently awarded Federal Railroad Administration (FRA) grant for the purchase of six single-level coach cars and three cab-coach cars to be placed into service in the Milwaukee-Chicago Hiawatha corridor.

BACKGROUND

DOT is required to administer a rail passenger route development program funded from a transportation fund continuing appropriation (SEG) and a general fund-supported, general obligation bonding appropriation (BR). From these sources, DOT may fund capital costs related to Amtrak service extension routes (the Hiawatha service, for example) or other rail service routes between the cities of Milwaukee and Madison, Milwaukee and Green Bay, Milwaukee and Chicago, Madison and Eau Claire, and Madison and La Crosse. Under the program, DOT is not allowed to use any bond proceeds unless the Joint Finance Committee (JFC) approves the use of the proceeds and, with respect to any allowed passenger route development project, the Department submits evidence to JFC that Amtrak, or the applicable railroad, has agreed to provide rail passenger service on that route.

A total of \$114,000,000 of funding for passenger rail route development has been appropriated by the Legislature, from the following sources: (a) \$79,000,000 BR in GPR-supported, general obligation bonding authority provided in biennial budget acts prior to 2019, (b) \$10,000,000 BR in additional bonding authority provided under 2019 Act 9, and (c) \$25,000,000 SEG provided from a new continuing appropriation created under Act 9.

ANALYSIS

The Hiawatha Service is equipped with two train sets, each with a total seating capacity of 408 passengers. Each train is comprised of one Next Generation (Next Gen) Siemens Charger locomotive, six Amtrak-owned coach cars, and one Amtrak-owned Non-Powered Control Unit (NPCU) functioning as a cab-baggage car. The federal grant would provide funding for the acquisition of six Next Gen single-level coaches and three Next Gen single-level cab/coach cars to replace the existing coaches and NPCUs. According to the Department, when combined with six additional Next Gen coach cars from the Midwest rail equipment pool that would also support the Hiawatha service, the acquisition of nine cars under the request would be enough to replace all Amtrak-owned coach cars and NPCUs currently in use for the Hiawatha service.

The multi-state Midwest rail equipment pool is a shared ownership agreement where rail equipment is owned jointly by member states (Wisconsin, Illinois, Missouri and Michigan) and leased to Amtrak to provide passenger rail service in the Midwestern region. Each state's share of the equipment is based on the revenue miles of service provided within that state. Under the agreement, Wisconsin is sharing ownership of rolling stock that is currently being procured by the Illinois Department of Transportation (IDOT). For example, the Next Gen Siemens Charger locomotives were introduced in 2017 on the Hiawatha Service as part of the Illinois-led locomotive procurement for the Midwest rail equipment pool. With the ongoing IDOT procurement of coach cars for the Midwest rail equipment pool, the Hiawatha will be equipped with six new Next Gen coaches from the equipment pool. However, for the Hiawatha to be fully equipped, a total of 12 coaches and three cab-coach cars are required. As mentioned earlier, the Department request would support the DOT's acquisition of the six additional coaches and three cab-coach cars needed to supplement the existing six coaches available from the Midwest equipment pool, which would fulfill the equipment needs of the Hiawatha Service. The three Next Gen cab-coach cars would rotate between the two train sets that the Hiawatha service operates to minimize operating and maintenance costs. In total, the new train sets would have between 468 and 475 total revenue seats, or an additional 60-67 seats per train when compared to the existing service.

The Hiawatha service currently utilizes 30-year-old Amtrak Horizon coach cars, 40-year-old Amfleet coach cars, and cab-baggage cars are 40-year-old converted NPCUs that house both train controls and a baggage/cargo hold in each unit. According to the Department, because this equipment is near the end of its life cycle, mechanical and reliability issues have increased, contributing to delays for riders on the Hiawatha Service. According to DOT, the Horizon and Amfleet coaches on the Hiawatha service have had reliability issues with 169 failures of the coaches resulting in nearly 43 hours of delay within the last five years. During the same period, there were 277 failures of the NPCUs resulting in over 45 hours of delay.

Ridership on the Hiawatha line grew from 809,785 during the 2015 fiscal year to 880,227 in 2019, representing a 8.7% ridership increase over that period and a 2.1% annual average rate of growth. According to DOT, ridership growth during this period contributed to an increase in the number of trains experiencing near-capacity or over-capacity conditions during peak travel hours. The Hiawatha line currently experiences standing room only conditions on an average of 19 trains per month, mostly on weekdays. In peak summer months, some trains operate with more than 50

standees, which can pose safety concerns. The overcrowding experienced on the Hiawatha will require DOT and Amtrak to add a 7th coach car to all train consists by 2021-22 to accommodate these passengers which would generate additional costs in excess of the current Amtrak contract. The procurement of the new equipment associated with this request would eliminate the need for the addition of the 7th coach cars and NPCUs because the new cars would cumulatively provide 60-67 additional passenger seats.

The Department indicates in its request that the current equipment in use for the Hiawatha service is costly to operate and maintain because of its age. The Horizon coaches, Amfleet coaches and NPCUs are expected to require maintenance overhauls in the next five years in order to maintain a state of good repair. Given the equipment age and multiple overhaul cycles already performed for both the NPCUs and the coach cars, DOT states that these components are at, or past, a point where the life cycle cost of maintaining the assets is higher than the cost of replacing them, thereby placing them outside the definition of “state of good repair” as established in Federal code. In addition, because the old Horizon coaches and NPCUs would be replaced with new single-level coach and cab-coach cars, operating and maintenance cost savings for the Hiawatha service would be substantial. Analyzed over a 20-year study period, Quandel Consultants, LLC performed a benefit-cost analysis to support DOT's federal grant application for the Next Gen equipment acquisition project. The Quandel study estimates that the operating and maintenance cost savings of procuring the Next Gen equipment equates to \$27.70 million in benefits, discounted at a seven percent rate. This benefit figure does not include fuel savings or emissions reductions that would result from having Next Gen cab-coach cars that weigh 91 tons less than the current NPCUs and Next Gen coach cars that weigh 25 tons less than the Amtrak Horizon coaches.

In DOT's application to the FRA, the Department states that direct benefits to riders that result from the new Next Gen coaches include more seating, safer equipment, ADA accessibility, and fewer equipment delays. DOT has stated that the enhanced service and additional passenger seating supported by the Next Gen coaches will help sustain ridership growth on the Hiawatha, assisting tourism growth efforts and helping ensure more predictable and reliable movement of workers to employment centers along the I-94 corridor between Milwaukee and Chicago.

The Wisconsin DOT and IDOT, in partnership with Amtrak and the FRA, are in the process of completing an Environmental Assessment to study the impact of increasing Hiawatha service frequencies to 10 daily round-trips. The project to expand Hiawatha service from seven to 10 daily round-trips would require the completion of nine rail infrastructure projects to improve the reliability and safety of increased passenger rail service along the corridor as well as the purchase of one additional trainset. The plan to purchase an additional trainset to support the 10 daily round-trip program is independent of the current request which would support the existing equipment needs of the Hiawatha service.

The purchase of capital such as train cars is an allowable use of program funding as well as an appropriate use of long-term borrowing. Debt service on passenger rail route development bonds is paid from the general fund. The amount of debt service paid during the 2019-21 biennium would depend upon the timing and structure of issuance, although once the \$13,248,100 is fully issued, it can be expected that debt service would be approximately \$932,200 GPR annually. The precise

issuance schedule, however, is not yet known, and would depend upon the Department's contract payment schedule. Under Alternative 1, \$8,321,700 in unreleased bonding authority and \$25,000,000 SEG would remain in DOT's passenger rail development appropriations to fund future eligible projects.

Under Act 9, DOT was provided \$25,000,000 in SEG funding for passenger rail development that does not require JFC approval. On October 14, 2019, the Department applied for a \$26.0 million federal grant from the FRA to construct a bypass in Milwaukee's Muskego Yard that would route freight trains away from the downtown Milwaukee train station and involve signal, bridge and track upgrades. The Muskego Yard project is one component of a larger, multi-year project to increase the frequency of Hiawatha service between Milwaukee and Chicago. If awarded, the grant would require a \$20.0 million state funding match and \$8.0 million in funding from Amtrak. Because the Muskego railyard is largely privately owned by Canadian Pacific, most of the project costs would likely not be bond eligible. As a result, DOT would likely need to provide the federal funding match from the \$25.0 million SEG appropriation.

The Committee could choose Alternative 2 which would modify the Department's request and authorize DOT to provide the full \$13,248,100 state match from: (a) \$8,248,100 in GPR-supported bonding from the Department's passenger rail route development appropriation, and (b) \$5,000,000 in funding from the Department's passenger rail development SEG appropriation. Under Alternative 2, \$13,321,700 in unreleased bonding authority would remain in DOT's passenger rail route development bonding appropriation to fund future projects. In addition, \$20,000,000 would remain in the Department's passenger rail SEG appropriation to fund future projects that may have costs that would not be bond eligible, such as the Muskego Yard project.

The receipt of the \$25,716,900 FRA grant is contingent on the state committing to providing the required funding match. The Department has indicated that if the Committee approves the request to provide matching funds, the FRA would be expected to award the grant in December, 2019, followed thereafter with the completion of a purchase agreement with the manufacturer.

The Committee could deny the request. Under this alternative, the Department could still receive the FRA grant award by providing the required \$13,248,100 state match from DOT's passenger rail development SEG appropriation. The selection of this alternative would prevent the Department from meeting the required state match for the Muskego Yard project in the event the FRA awards the state the federal grant.

ALTERNATIVES

1. Approve the DOT request to use \$13,248,100 BR in GPR-supported, general obligation bonding from DOT's passenger rail route development appropriation.
2. Modify DOT's request to approve the use of \$8,248,100 BR in GPR-supported, general obligation bonding from DOT's passenger rail route development appropriation. In addition, specify that the Department use \$5,000,000 SEG from DOT's passenger rail development appropriation to fully fund the \$13,248,100 state match required to receive the recently awarded FRA grant.

3. Deny the request (The request could be funded from the \$25.0 million SEG appropriation, but other projects, including the potential Muskego Yard project, would be impacted).

Prepared by: Ryan Horton