



Legislative Fiscal Bureau

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May 31, 2007

Joint Committee on Finance

Paper #775

Milwaukee to Chicago Passenger Rail Service (DOT -- Local Transportation Assistance)

[LFB 2007-09 Budget Summary: Page 536, #1]

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 2006-07, Wisconsin's share of the cost is \$6,285,900. Typically, 80% of the funding for the service has been provided through an allocation of the state's federal highway aid, while 20% has been paid with an appropriation from the transportation fund. In certain years, however, the Federal Highway Administration has approved a 90%/10% matching percentage on the grounds that the service serves as traffic mitigation for highway construction projects in the Chicago to Milwaukee corridor occurring in that year.

The Hiawatha route has seven daily round-trip trains between Chicago and Milwaukee (six on Sunday), with Wisconsin stops at the downtown Milwaukee station, the Mitchell Airport station, and the Sturtevant station.

GOVERNOR

Provide \$761,800 SEG and \$527,700 FED in 2007-08 and \$800,600 SEG and \$682,700 FED in 2008-09 to fund Wisconsin's share of the cost of Amtrak's Hiawatha route.

DISCUSSION POINTS

1. When added to base funding for the service, the total amount of funding provided by the bill would be \$6,959,100 in 2007-08 and \$7,152,900 in 2008-09, with 20% paid from the SEG appropriation for passenger rail service and 80% paid from the FED appropriation. Although the cost of Wisconsin's share for the service is \$6,285,900 in 2006-07, the base appropriations for passenger rail service total \$5,669,600, or \$616,300 less than the actual cost in 2006-07. The reason for this shortfall is that the Governor reduced funding for the service through a partial veto of the 2005-07 budget act, directing the Department to provide funding for the service through reallocation of funding for other programs. The Department was able to cover the additional cost with the use of additional federal funds, after the Federal Highway Administration determined that the service was eligible for a 90% federal funds/10% state funds matching arrangement. However, since the allocation of additional federal funds was made on a one-time basis, the bill would fund the full, estimated costs in relation to the lower base.

2. At the time that the budget was submitted, the actual amount that Amtrak would require the states to pay for the service in the next two years was unknown. Consequently, the funding in the bill was based on the assumption that the cost of the service would grow by 2.8% in 2007-08 and an additional 3.0% in 2008-09. On top of these increases, the bill would provide \$500,000 annually for an additional train car on each of the three train sets used for the service to alleviate overcrowding.

3. Since the time that the budget was introduced, Amtrak has provided the Department a proposed contract, outlining the cost of providing the service in 2007-08 including the cost of the additional train cars. The state's share of the cost of providing the same service (without the additional cars) would be \$5,916,300 in 2007-08, or \$542,800 less than the amount provided in the bill. The cost of the additional rail cars is now estimated at \$572,000, higher than the previous estimate. However, it appears likely that Illinois will pay 25% of the cost, something that was not assumed when the bill was introduced. Therefore, the cost to Wisconsin of the additional cars would fall, relative to the amount provided by the bill, by \$71,000. The total savings to continue the current service and provide the additional cars would be less than the amount provided under the bill by \$613,800 in 2007-08.

4. The Department indicates that the additional train cars are needed due to steadily increasing ridership on the route. In 2006, the service had 588,036 passengers, which was an 8.0% increase over 2005, while the number of passengers carried in 2005 was 15.8% higher than the number carried in 2004. These increases have meant that some passengers have to stand on the busiest trips. Periodically, Amtrak has been able to provide additional cars to alleviate overcrowding, but indicates that this could not be continued on a consistent, long-term basis unless the states pay the cost of the additional cars.

5. It is not yet known whether the state would be able to pay 90% or 80% of the costs of the Hiawatha contract with federal funds. However, since federal highway aid and state transportation fund dollars are used interchangeably in many DOT programs, the decision to

provide the funding under one or the other assumption does not have significant consequences. For the purposes of this paper, it is assumed that 80% federal funds would be used. To provide funding based on the new estimated costs, assuming an 80% federal share, the funding in the bill could be reduced by \$122,700 SEG and \$491,100 FED in 2007-08.

6. The new estimates outlined in the previous points have not been finalized, but represent the latest information on which to make funding decisions for the service. If the Committee approves the funding decreases outlined in the previous point and actual costs are higher, the Department would either have to submit a request under s. 13.10 of the statutes for a funding supplement or reallocate funding from other DOT programs to cover the additional costs.

7. According to the new estimates, the cost of providing the base service in 2007-08 (without the additional train cars) would be lower than the 2006-07 costs. The Department indicates that the lower costs are due to higher ticket revenues from both an increase in ridership and a recent increase in the fares. However, since the base funding for the service is below actual costs, an increase to the base is still required to fund a continuation of the current service.

8. No new information is available on the cost of the service in 2008-09. Under the bill, it was assumed that the cost of the base service would increase by 3.0% in 2008-09, relative to 2007-08, and the cost of the additional cars would remain the same. These same assumptions could be used to reestimate the 2008-09 cost, but based on the new 2007-08 estimates. Accordingly, the total cost in 2008-09 would be \$6,522,800, or \$630,100 less than the amount provided in the bill. To maintain the 80% federal share assumption, the reductions by fund source would be \$126,000 SEG and \$504,100 FED.

9. If it is determined that the state should continue the existing service without the additional rail cars, additional appropriation reductions of \$429,000 annually (-\$85,800 SEG and -\$343,200 FED) would be possible. Under this alternative, the funding in the bill could be reduced by a total of \$208,500 SEG and \$834,300 FED in 2007-08 and \$211,800 SEG and \$847,300 FED in 2008-09. Without the additional rail cars, the Hiawatha service would not have enough seating capacity for the peak-period trains to accommodate all passengers, except when Amtrak is able to provide additional cars.

10. If no above-base funding increases are provided for the Hiawatha contract, the Department would either have to reallocate funding from the base resources for other DOT programs, most likely departmental management and operations, or renegotiate the terms of the contract. Any renegotiation may involve a reduction in the number of round trips. If the parties fail to reach an agreement on new terms, Amtrak could decide to discontinue the service.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$761,800 SEG and \$527,700 FED in 2007-08 and \$800,600 SEG and \$682,700 FED in 2008-09 to fund Wisconsin's share of the cost of Amtrak's Hiawatha train route between Milwaukee and Chicago, with an additional rail car

for each train set.

ALT 1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$1,562,400
FED	<u>0</u>	<u>1,210,400</u>
Total	\$0	\$2,772,800

2. Modify the Governor's recommendation by reducing funding by \$122,700 SEG and \$491,100 FED in 2007-08 and \$126,000 SEG and \$504,100 FED in 2008-09, based on new estimates of the cost to maintain the service with an additional rail car for each train set.

ALT 2	Change to Bill Funding	Change to Base Funding
SEG	-\$248,700	\$1,313,700
FED	<u>- 995,200</u>	<u>215,200</u>
Total	-\$1,243,900	\$1,528,900

3. Modify the Governor's recommendation by reducing funding by \$208,500 SEG and \$834,300 FED in 2007-08 and \$211,800 SEG and \$847,300 FED in 2008-09, based on new estimates of the cost to maintain the service and deleting funding provided for an additional rail car for each train set.

ALT 3	Change to Bill Funding	Change to Base Funding
SEG	-\$420,300	\$1,142,100
FED	<u>- 1,681,600</u>	<u>- 471,200</u>
Total	-\$2,101,900	\$670,900

4. Delete provision.

ALT 4	Change to Bill Funding	Change to Base Funding
SEG	-\$1,562,400	\$0
FED	<u>- 1,210,400</u>	<u>0</u>
Total	-\$2,772,800	\$0

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