



## Legislative Fiscal Bureau

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May 31, 2007

Joint Committee on Finance

Paper #776

### **Passenger Rail Service -- Additional Bonding for Milwaukee to Madison Service**

#### **Passenger Rail Service -- Eligibility of Additional Routes**

##### **(DOT -- Local Transportation Assistance)**

###### *Bill Agency*

[LFB 2007-09 Budget Summary: Page 537, #2 and #3]

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#### **CURRENT LAW**

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 service between Milwaukee and Waukesha County; or (c) rail passenger station improvements related to an existing rail passenger service. The Joint Committee on Finance must approve any use of these bonds. In 2000, the Committee approved the use of \$2,000,000 from this authorization for improvements at the Milwaukee Amtrak station, leaving \$48,000,000 in unused authority.

#### **GOVERNOR**

Provide \$32,000,000 of additional bonding authority for passenger rail service development, bringing the total amount of unused authority to \$80,000,000 in general fund-supported, general obligation bonds.

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

## **DISCUSSION POINTS**

1. The additional bonds provided by the bill would increase the total amount of unissued bonds available for passenger rail development to \$80 million. According to the administration, the intent of providing this increase would be to allow the state to seek federal funds to provide 80% of the capital cost of upgrading the track and purchasing rail equipment for a high-speed rail route between Milwaukee and Madison. The state bonds would provide the other 20% of the cost, up to a total project cost of \$400 million.

2. Current passenger rail service in Wisconsin consists of two Amtrak routes. 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. The Empire Builder runs through Wisconsin on a route between Chicago and Seattle, Washington, with additional Wisconsin stops at Columbus, Portage, Wisconsin Dells, Tomah, and La Crosse, and proximate Minnesota stops in Winona, Red Wing, and St. Paul.

3. Madison has not been served by intercity passenger rail service since 1971 (the closest current station to the city is in Columbus). Since that time, there have been various proposals to establish rail service to Madison, as well as other areas of the state. One such proposal was made in the early 1990s, which became the impetus for authorizing \$50 million in bonds for that purpose. This service has not materialized, however, primarily due to a lack of federal funding available to assist with the capital costs.

4. The goal of expanding rail service in the state gained new attention beginning in 1996 as a coalition of nine midwestern states, including Wisconsin (the others are Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Nebraska, and Ohio), developed the Midwest Regional Rail Initiative (MRRI). The MRRI plan calls for a 3,000-mile system of passenger rail routes with a hub in Chicago. Most of this network would be upgraded to allow passenger trains to travel at 110 miles per hour (MPH), although some new routes would be established with a top speed of 79 MPH (the current top speed for most Amtrak routes) or possibly 90 MPH. In Wisconsin, the MRRI would follow the existing route for the Empire Builder, with the exception that the train would divert from the current route at Watertown and continue to Madison. From Madison, the route would continue north to rejoin the existing Amtrak route at Portage. In addition, the initiative proposes the establishment of service between Milwaukee and Green Bay, passing through Fond du Lac, Oshkosh, and the Fox Cities, with at least a portion of this route able to accommodate 110-MPH trains. A later phase would upgrade the line between Milwaukee to Chicago to allow 110-MPH trains.

5. The other states in the MRRI coalition are in various stages of planning and

development of the proposed high-speed rail routes. In particular, Illinois and Michigan have made track and signaling system upgrades on, respectively, the routes between Chicago and St. Louis and between Chicago and Detroit.

6. For Wisconsin, the MRRI proposed that the Madison to Milwaukee route would be the first phase of the improved passenger rail network in the state. The Department of Transportation has completed an environmental assessment and preliminary engineering for the project and has received federal approval to proceed with final design and construction. Construction work would involve upgrading track, ties, and ballast, installing a train control system, upgrading railroad crossing protections (to meet Federal Railroad Administration standards for quiet zone crossings), installing security fencing, and building new stations at certain stops. In some cases, additional track capacity would be added to allow existing freight service to be maintained without interfering with passenger service, but no new property acquisitions would be required since these improvements could be added within existing railroad right-of-way. Other capital costs would be incurred for purchasing train equipment capable of traveling at high speeds.

7. In addition to capital improvements in the Madison to Milwaukee corridor, the Department indicates that improvements would be made between Milwaukee and Chicago in order to reduce potential conflicts between freight and passenger service. The ultimate intent of these improvements would be to allow the number of daily round trips to be increased from seven to ten.

8. The segment of the Milwaukee to Madison route east of Watertown is owned by Canadian Pacific and is used for Amtrak's Empire Builder route, while the segment west of Watertown is currently owned by the state and leased to Wisconsin & Southern Railroad for freight operations. Both segments would require track and crossing upgrades to accommodate high-speed trains.

9. According to the preliminary engineering, the total capital cost needed to establish the new service is estimated at \$404 million. This amount includes \$269 million for the infrastructure improvements in the Madison to Milwaukee corridor, \$105 million for train equipment, and \$30 million for upgrades in the Chicago to Milwaukee corridor, some of which could be paid by the State of Illinois. The Department has indicated that the total cost could range between \$400 million and \$500 million to account for possible cost increases due to inflation and contingencies (such as unforeseen changes to the project design).

10. Under current law, DOT may only proceed with a project that uses the bonds if the Joint Committee on Finance approves such use. Consequently, if the additional bonding is approved, the Committee would still have an additional opportunity to review any proposed project before DOT is allowed to issue the bonds. If the additional bonding is approved and the full \$80 million is issued for the project, debt service payments, which would be made from the general fund, would be \$6.4 million annually.

11. The proposed route would operate as an extension of the current Hiawatha service, with six daily round trips between Milwaukee and Madison, although the environmental assessment

for the project states that the number of daily round trips could eventually be increased to ten. Intermediate station stops would be made in Brookfield, Oconomowoc, and Watertown. New stations would have to be constructed in Madison and Watertown, while existing, historic train stations would be used in Brookfield and Oconomowoc.

12. The capital cost estimates cited earlier include amounts needed for the construction of a basic train station in the cities where new stations would need to be built. Any enhancements, such as building improvements needed to allow the facilities to serve other purposes, would be a local responsibility. Three different locations have been proposed for a Madison station, including a downtown location and an airport location. The capital cost estimates reflect the cost for a downtown station, which, because it would require several more miles of track and crossing upgrades, would be the most expensive option.

13. It is expected that the trip between Madison and Milwaukee would be scheduled to take one hour and 21 minutes, although it may run somewhat shorter than that on some trips if conflicts with freight trains are minimized. With the proposed improvements to the Chicago to Milwaukee corridor, it is expected that an express trip between Madison and Chicago, via Milwaukee, would take about two hours and 33 minutes (prior to upgrading the Milwaukee to Chicago corridor to accommodate high-speed trains).

14. The passenger rail operating plan proposed by the Midwest Regional Rail Initiative forecasts that the system could eventually operate without operating subsidies. The plan notes that the frequent trips and improved operating times to a variety of destinations would attract enough passengers to offset operating costs. The operating costs per passenger mile are expected to be lower than current passenger rail service because of the faster train speeds and more frequent service (leading to lower labor costs per passenger-mile traveled) and because the equipment proposed for the service would be lighter, reducing fuel and track maintenance costs. A situation where the system attracts enough passengers to cover operating costs would only occur, however, when and if the entire system, or at least the key segments, are completed. Until that time, or if the system does not reach the forecasted positive operating revenue-to-cost ratio, the service would require a subsidy. DOT estimates that the initial subsidies would be \$15.0 million to \$20.0 million per year, an amount that includes the current subsidy for the Hiawatha service. Wisconsin pays \$6.3 million for the Hiawatha service, so the net increase would be between \$8.7 million and \$13.7 million.

15. The MRRI proposes that initial operating subsidies could be provided through an existing federal transportation loan program that allows a 35-year repayment schedule. Payments would be made using future operating revenue surpluses, although if such surpluses do not materialize, the payments would have to be made from other sources.

16. In making a case for the potential benefits of establishing the high-speed passenger rail service, the Department points to the recent gains in ridership on the Hiawatha train service, which has grown steadily over the past several years. 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.

17. In order to complete a \$400 million project using just the \$80 million in proposed bonds, the state would have to receive federal assistance covering 80% of the cost. There is currently no federal program to provide grants for passenger rail service upgrades, although there are some proposals being considered in Congress. One Senate bill would provide \$1.4 billion for grants on a 80%/20% basis, while a proposal under consideration in the House would make \$12 billion available in tax credit bonds. Under the tax credit bonds proposal, the recipient of the bond proceeds (in this case, the state) would provide a matching contribution equal to approximately 35% of the cost of the project. Bond investors would receive a federal tax credit in lieu of interest earnings, and the principal would be repaid at the end of 20 years from the matching contributions and the accrued interest on those contributions. The 35% match is the amount estimated to be necessary to generate sufficient earnings to make the principal payment. In order to allow for the earnings to accrue on the matching contribution, the state would have to issue taxable bonds, instead of tax-exempt bonds, for this purpose.

18. The Department indicates that if federal legislation is passed to provide assistance for passenger rail service, it is possible it would include a mix of 80%/20% grants and tax credit bonds. Although the state would pursue the 80%/20% grants, if possible, it may be necessary to pursue assistance in the form of the tax credit bonds. Since the tax credit bonds would require a larger non-federal match, the \$80 million in state bonds would not be sufficient to complete a \$400 million project. Similarly, if the project cost exceeds \$400 million, the proposed state bonds would not be sufficient to cover the capital costs, even if the state receives a grant for 80% of that amount. The Department indicates that, in either of these instances, it may be necessary to revisit the total funding needs for the project in a future biennium. Even if the project receives federal funding in the 2007-09 biennium, construction would not start, at the earliest, until relatively late in the biennium. The funding that would be provided under the bill would be sufficient to start certain parts of the project, such as the infrastructure improvements.

19. In addition to providing additional bonding authority, the bill would increase the purposes for which the bonding could be used to include improvements related to new or existing service routes between Milwaukee and Chicago and between Madison and La Crosse. The intent of this change is to allow the bonding authorization to be used for future segments of the high-speed rail route between Chicago and Minneapolis, although additional increases to the bonding authorization would be needed for those segments. The change would also allow the bonds to be used for the proposed improvements between Milwaukee and Chicago to increase the number of daily round trips of the current Hiawatha service.

20. If the additional bonds are not authorized, the Department could decide to proceed with improvements to a portion of the route, leaving the rest to be done in subsequent years. However, the inability to provide funding sufficient to complete the entire project may impact the state's ability to compete for federal funding with projects in other states.

**ALTERNATIVES TO BILL**

**A. Passenger Rail Development Bonds**

1. Approve the Governor's recommendation to provide \$32,000,000 of additional bonding authority for passenger rail service development, bringing the total amount of unused authority to \$80,000,000 in general fund-supported, general obligation bonds.

<b>ALT A1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
BR	\$0	\$32,000,000

2. Delete provision.

<b>ALT A2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
BR	-\$32,000,000	\$0

**B. Eligibility of Additional Routes**

1. Approve the Governor's proposal to specify that bonds for passenger rail development may be used for improvements related to new or existing service routes between Milwaukee and Chicago and between Madison and La Crosse.

2. Delete provision.

Prepared by: Jon Dyck