



Legislative Fiscal Bureau

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June 24, 2008

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Transportation: Section 13.10 Request for Funding for Kenosha-Racine-Milwaukee
Commuter Rail Project -- Agenda Item VIII

REQUEST

The Department of Transportation (DOT) requests the transfer of \$100,000 SEG in 2007-08 from the Joint Committee on Finance supplemental appropriation to the Department's passenger railroad station improvement and commuter rail transit system grants biennial appropriation. The \$100,000 in funding would be used for the purpose of providing a commuter rail transit system development grant to continue planning efforts for the proposed commuter rail corridor between Kenosha and Milwaukee.

BACKGROUND

The Governor's 2007-09 biennial budget recommendations included \$1,000,000 SEG in one-time funding from the transportation fund under DOT's commuter rail transit system grant program appropriation for preliminary engineering work on the Kenosha-Racine-Milwaukee (KRM) commuter rail extension project. The Legislature deleted the \$1,000,000 in 2007-08 from this DOT biennial appropriation. Instead, the Legislature provided \$800,000 from the transportation fund under the Committee's segregated fund supplemental appropriation.

The Legislature also specified that that the Committee could only approve a request by the DOT to transfer the funds to DOT's appropriation for commuter rail service if the Legislature has passed and the Governor has signed an act establishing a financing mechanism sufficient to pay all nonfederal costs, including capital and operating costs, for the proposed KRM commuter rail service. However, the Governor's partial veto deleted this requirement. As a result, DOT may request the release of the funds, and the Committee may release the funds, at any time.

The \$800,000 in potential funding for DOT's commuter rail development grant program

under 2007 Act 20 was provided to assist in funding preliminary engineering work on the KRM commuter rail project. A copy of the budget issue paper (LFB Paper #777) analyzing the Department's 2007-09 budget request for the KRM project funding is attached.

If the KRM commuter rail project is to receive federal assistance under the federal new starts grant program, it must have Federal Transit Administration (FTA) approval to advance into the preliminary engineering phase of design. The FTA has yet to approve the project for preliminary engineering.

2005 Act 25 modified the role of the Southeastern Wisconsin Regional Transit Authority (RTA), which includes the geographic area composed of Kenosha, Milwaukee, and Racine counties. Act 25 provided the RTA with a funding source (a \$2 car rental transaction fee) to fund expenses related to the compilation of a report for the Legislature by November 15, 2008. Among other requirements relating to coordination of mass transit in the three-county region and the continued existence of the RTA, Act 25 specifically requires that the RTA report identify: (a) a permanent regional funding source to provide local funds for a portion of the operating and capital costs of commuter rail and public transit in the region; (b) a recommendation as to whether the responsibilities of the RTA would include the operation of commuter rail and/or transit service in the region; and (c) a recommendation on the use of bonding for commuter rail and transit in the region. The RTA is currently in the process of drafting this report.

ANALYSIS

During the 2007-09 budget deliberations, DOT indicated that the state funding provided for the project was needed to complete preliminary engineering work on the project. At that time, the Southeastern Wisconsin RTA and Southeastern Wisconsin Regional Planning Commission (SEWRPC) staff indicated that the project would be submitted to FTA in June, 2007, for consideration to receive discretionary federal funding that would allow the project to move to the preliminary engineering phase of project development. It was believed that FTA would approve the project for preliminary engineering and the state funding (\$1.0 million under the Governor's budget request) would fund 20% of the \$5.0 million in costs associated with the preliminary engineering work to be completed through 2008, or early 2009.

During the summer of 2007, the RTA submitted the federal new starts application for the KRM project to FTA for consideration. Subsequently, at RTA's November, 2007, meeting, SEWRPC staff indicated to the RTA Board that, subsequent to submitting the federal application, SEWRPC staff had conversations with FTA officials about the project application. SEWRPC staff indicated to the RTA Board that FTA could not be expected to approve the request to initiate preliminary engineering for the project because the project does not have a financial plan or local funding in order to match the proposed federal funding. They also noted that the RTA was not provided statutory authority to sponsor or operate the KRM commuter rail project in the state's budget. Staff recommended that the RTA Board make a request that the KRM project application be put on hold to avoid a recommendation by the FTA against funding the project. At its December, 2007, meeting, the RTA voted unanimously to request FTA to place the application for the KRM project on hold.

The RTA Board chairman directed staff to work with FTA officials to identify ways in which the federal new starts grant application for the KRM project could be enhanced. Staff have identified specific technical and planning work that would improve the project application and may permit the KRM project to be considered favorably for preliminary engineering by FTA. Specifically, in its application for a state grant, SEWRPC indicated that the scope of this work would entail: (a) completing the project's financial plan; (b) updating and refining capital, operating, and maintenance cost projections; (c) enhancing coordination with railroad operators; (d) analysis and refinement of commuter rail operations and fleet management plans; (e) review of transit-oriented development around stations; (f) sensitivity analysis of ridership forecasts; and (g) updating the draft environmental impact statement.

It is estimated that the cost of this additional technical and planning work on the KRM federal new starts grant application will total \$1.0 million. SEWRPC, on behalf of the RTA and local units of government in the region, submitted an application under DOT's commuter rail transit system development grant program for \$100,000 to complete this work. It is this SEWRPC grant request that is the basis for DOT's s. 13.10 request for the release of \$100,000 from the \$800,000 in funding set aside in the Committee's appropriation for the KRM project. The remaining costs associated with this technical and planning work on the KRM project application would be funded with \$800,000 in existing federal funding earmarked for the project and \$100,000 in local, in-kind staff funds.

DOT reviewed SEWRPC's grant application and determined that it meets the grant program's eligibility criteria and established program guidelines. In addition, DOT determined that the grant application meets the statutory cost share requirements, which limits the grant to one-half the non-federal share or 25% of the total project cost, whichever is less. Aside from the \$800,000 in the Committee's appropriation, no other funding is provided under DOT's passenger railroad station improvement and commuter rail transit system grants appropriation in the 2007-09 biennium.

SEWRPC staff indicate that without the state grant, the planning and engineering work will likely not proceed, the KRM project will not be eligible for a discretionary FTA grant, and the KRM commuter rail project will not proceed.

ALTERNATIVES

1. Approve DOT's request for a \$100,000 SEG supplement for the passenger railroad station improvement and commuter rail transit system grants appropriation in 2007-08 to fund a grant for technical and planning work on the KRM federal new starts grant application.
2. Deny the request.

Prepared by: Al Runde
Attachment



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May 31, 2007

Joint Committee on Finance

Paper #777

Kenosha-Racine-Milwaukee Commuter Rail Extension Project (DOT -- Local Transportation Assistance)

Bill Agency

[LFB 2007-09 Budget Summary: Page 537, #4]

CURRENT LAW

The commuter rail grant program provides grants to political subdivisions for the development or extension of commuter rail transit systems in the state. Grants are limited to an amount equal to 50% of the portion of the project cost in excess of the federal aid funding for the project or 25% of the total project cost, whichever is less.

GOVERNOR

Provide \$1,000,000 SEG in 2007-08 for the Kenosha-Racine-Milwaukee (KRM) commuter rail project in Southeastern Wisconsin under the commuter rail system development grant program.

DISCUSSION POINTS

KRM Commuter Rail Project

1. The KRM commuter rail project was initially proposed as a 33-mile extension of Metra (Chicago-Northeastern Illinois commuter rail) service on the Union Pacific North line that currently runs between Chicago and Kenosha. However, the current KRM commuter rail alternative would operate separately from Metra, but would contract with Union Pacific North to use the same train lines being used by Metra.

2. The proposed new service would extend to Milwaukee's Amtrak station, making intermediate stops in Kenosha, Somers, Racine, Caledonia, Oak Creek, South Milwaukee, and Cudahy-St. Francis. The service would consist of 14 weekday trains in each direction between Kenosha and Milwaukee. In addition, certain trains would also run to and from Waukegan. The service would be coordinated with the existing Metra commuter rail service to allow for timed transfers with Metra trains to and from Chicago.

3. One benefit of a KRM commuter rail line extension would be the creation of an additional transportation and economic link between Milwaukee, Racine, Kenosha, and other communities in southeastern Wisconsin and northeastern Illinois. The project could provide a transportation alternative to freeway travel in the area, which is becoming increasingly congested. In addition, the KRM project could provide an alternative to automobile or bus travel during the I-94 reconstruction between Milwaukee and the Illinois state line. Proponents of commuter rail in this corridor contend that it could provide economic growth and development opportunities for communities along the rail line. The project could also make a larger number and a wider array of job opportunities accessible for the area's labor market. The project has support from several major employers in the area and the commerce associations of Kenosha, Racine, and Milwaukee, who wish to access that labor market to a greater extent.

4. During deliberations on the 2005-07 biennial budget, the implementation schedule for the project indicated preliminary engineering would be completed by 2005. Under that schedule, final design, construction, and vehicle procurement were to occur through 2009, with service beginning in 2010. However, that project timeline has slipped and the following, updated project schedule has been developed.

Preliminary Engineering	2007-2008
Final Engineering	2008-2009
Construction	2009-2011
Vehicle Procurement	2010-2011
Begin Revenue Service	2011-2012

Project Funding

5. In 2005-06, DOT was appropriated \$800,000 in grant funding to assist in funding preliminary engineering and begin final design work on the project. However, the preliminary engineering work has yet to be undertaken because the project has yet to receive Federal Transit Administration (FTA) approval to advance to preliminary engineering under the federal new starts program. The \$1.0 million in funding under the bill would be used to replace and supplement the \$800,000 provided in 2005-06, which is expected to lapse to the state transportation fund at the end of the 2005-07 biennium. The \$1.0 million grant would make up a 20% share of the costs estimated to complete preliminary and final engineering work on the project.

6. Prior to preliminary engineering, a plan that outlines the funding sources for the

implementation, construction, and operation of the proposed project must be identified. While a possible funding plan for construction and operation has been outlined, no federal, state, or local funding has been committed for project construction or operation. However, Southeastern Wisconsin Regional Planning Commission staff indicate that the funding plan would be sufficient for the project to receive FTA approval for preliminary engineering. Even FTA approval to initiate preliminary engineering would not be seen as a federal commitment to approve entry into final design or to fund construction.

7. The estimated construction cost of the current KRM proposal is \$200 million and the projected, net operating costs associated with the project are \$12.9 million annually. The following funding plan has been outlined for the capital costs of the project: (a) \$100 million in FTA new starts funding; (b) \$18.0 million to \$27.0 million from the Federal Highway Administration's congestion mitigation and air quality improvement program; and (c) \$36.5 million to \$41.0 million each in state and local funds.

8. The state currently does not provide operating assistance for commuter rail transit. However, the federal government does provide some commuter rail operating assistance. Currently, the extent to which the state would be asked to provide operating assistance for the KRM commuter rail project is not certain. However, project planners indicate that the state could be asked to provide \$5.0 million toward the initial annual operating costs of the system. Specifically, the current funding plan indicates that the estimated \$12.9 million in annual operating costs would be funded from \$2.3 million (17.8%) in federal funds, \$5.0 million (38.8%) in state funds, \$4.6 million (35.7%) in farebox revenue, and \$1.0 million (7.7%) in local funding.

9. The Committee is not being asked at this time to commit state funds for the eventual capital and operating needs of the KRM project. However, providing additional state funding for the design and engineering of the project could be seen as the state taking another step toward making a long-term financial commitment for the eventual construction and operation of the project. In fact, project planners have indicated that the \$1.0 million would represent an initial share of the state funding commitment that will be needed for capital costs for the project. Based on the current funding plan, the eventual state share of the construction and capital purchase costs of the KRM project could be as high as \$41.0 million.

10. Conversely, providing state funding for the project could be seen as the state making a commitment to assist in keeping the project moving forward. Such a commitment may also provide an incentive for local units of government, private sector businesses, and citizens to provide financial support for the project. Further, having the state show continued financial support for the project could assist in moving the project through the federal project approval and funding processes.

Project Sponsor and Funding Issues

11. Under 2005 Act 25, a three-county, regional transit authority (RTA) was established in southeastern Wisconsin to coordinate the transit and commuter rail programs in the region. The

RTA's region includes the geographic areas composed of Kenosha, Milwaukee, and Racine counties. Act 25 provided the RTA board with the authority to impose a vehicle rental fee that cannot exceed \$2 per rental transaction in the region. The RTA board voted to impose a \$2 vehicle rental fee, effective June, 2006. Through February, 2007, \$480,000 in revenue from the fee has been distributed to the RTA Board.

12. The KRM project is expected be submitted to FTA in June, 2007, for consideration to receive discretionary federal funding that would allow the project to move into the preliminary engineering phase of project development. Prior to such federal approval, a lead sponsor for the project must be determined. The project sponsor must then submit a request to FTA for permission to initiate preliminary engineering. The RTA board has committed to be the lead sponsor for the KRM project and submit the project's preliminary engineering application to FTA. The application must also provide information that demonstrates the readiness of the project to advance into preliminary engineering, including the project justification and the nonfederal financial commitment criteria.

13. Proposed new starts projects are scored in each step of the FTA project development process based on several project justification criteria, such as land use, mobility improvements, cost effectiveness, environmental benefits, and operating efficiencies. Projects are also scored on financial rating criteria, including nonfederal new starts funding share, and the stability and reliability of capital and operating funding for the project. FTA guidelines indicate that the expectations for firm commitments for the nonfederal share of a project's capital and operating costs increase as the project progresses further through development from preliminary engineering to final design.

14. Consistent with its statutory responsibilities, the RTA has taken a lead role on the KRM commuter rail project. In a January 18, 2006, letter to the Governor, the chairman of the RTA board requested that the Governor include several items related to the KRM project in the state's 2005-07 biennial budget. The \$1.0 million for preliminary and final engineering on the project was among the items requested. The other items involved providing the RTA with the following authority: (a) to sponsor and operate the proposed KRM commuter rail service; (b) to retain the present authority to levy a vehicle rental fee (currently \$2 per rental transaction) in the three-county region; and (c) to issue up to \$50 million in bonds for the anticipated local funding share required for initiating KRM commuter rail service, with it being understood that a source of local revenue to cover the debt service on the bonds remains to be determined.

15. In a subsequent letter to the Governor, the RTA chairman amended the Board's request and asked that the RTA be given the authority to increase the vehicle rental fee from \$2 to \$15 per transaction. The Chairman indicated that the revenue from the fee increase would be used to support the \$50 million in bonding authority that is also being requested. The Board voted to approve the \$13 increase to the rental fee at its January, 2007, meeting. Consultants to the RTA Board estimate that the \$13 increase would raise \$4.2 million annually.

16. RTA staff indicate that despite the fact that the Governor did not include these items

in the biennial budget, a competitive federal application could still be submitted for the KRM project in June, 2007. However, RTA officials and staff have noted that they hope to work with the Legislature to get the other items requested included in the biennial budget bill. They indicated that identifying the RTA as the project sponsor, having the \$2 per transaction vehicle rental fee as a permanent funding source, and having authority to issue \$50 million in bonding for the project would strengthen the KRM project's application. For example, while the bonding could not be issued until a local funding source is identified to allow for repayment of the bonds, the bonding authorization alone could be seen by FTA as a significant step toward a local commitment to fund the project.

17. Act 25 also created specific reporting requirements for the southeastern Wisconsin RTA, including the submission of a report to the Legislature by November 15, 2008. Among other requirements relating to coordination of mass transit in the three-county region and the continued existence of the RTA, Act 25 specifically requires that the RTA report identify: (a) a permanent regional funding source to provide local funds for a portion of the operating and capital costs of commuter rail and public transit in the region; (b) a recommendation as to whether the responsibilities of the RTA would include the operation of commuter rail and/or transit service in the region; and (c) a recommendation on the use of bonding for commuter rail and transit in the region.

18. Some disagreement continues to exist in the region as to whether the \$15 vehicle rental fee should be the local funding source. Also, disagreement exists in the region and among the RTA board as to whether the board should be recommending a local funding source for the KRM project without determining whether the scope of the RTA is to be limited to the KRM project or whether it should cover all public transit in the region. Some area officials and RTA board members have contended that the RTA board should be recommending a funding source that is broad enough to also replace all or a portion of the existing local property tax funding for transit in the three counties. Therefore, the Committee could decide to not amend the authority of the RTA until the RTA has decided the scope of its responsibilities and reported back to the Governor and Legislature on these issues, as required under Act 25.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$1,000,000 SEG in 2007-08 for the KRM commuter rail extension project in Southeastern Wisconsin under the commuter rail system development grant program.

ALT 1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$1,000,000

2. Provide the southeastern Wisconsin RTA the following authority:

- a. to sponsor and operate the proposed KRM commuter rail service;
 - b. to levy a vehicle rental fee of up to \$15 per transaction in the three-county region (currently \$2 per rental transaction); and/or
 - c. to issue up to \$50 million in bonds for the anticipated local funding share required for initiating KRM commuter rail service.
3. Delete provision.

ALT 3	Change to Bill Funding	Change to Base Funding
SEG	-\$1,000,000	\$0

Prepared by: Al Runde