



Legislative Fiscal Bureau

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August 4, 2009

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Transportation: Section 13.10 Request for the Approval of the Use of Passenger Rail Development Bonds -- Agenda Item XXIX

REQUEST

The Department of Transportation requests approval of \$48,000,000 of passenger rail route development bonds for the purchase of two passenger rail car train sets for use on rail service between Chicago and Milwaukee and for potential high-speed rail service between Milwaukee and Madison.

BACKGROUND

The Department's request is for the use of bonds authorized under the passenger rail route development program. A total of \$122,000,000 of passenger rail route development bonds have been authorized by the Legislature, including \$50,000,000 in 1993 Act 16, \$32,000,000 in 2007 Act 20, and an additional \$40,000,000 provided by 2009 Act 28. The bonds may be used for the following purposes: (a) capital costs related to Amtrak service extension routes 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; (b) railroad track or rail passenger station improvements related to an Amtrak extension route, or establishing commuter rail service, between the City of Milwaukee and Waukesha County; and (c) rail passenger station improvements related to an existing rail passenger service. Of the \$122,000,000 in bonds authorized, \$2,000,000 was used in 2000 for renovation of the downtown Milwaukee Amtrak station, leaving \$120,000,000 available for other eligible purposes. Use of these bonds requires the approval of the Joint Committee on Finance.

The Department proposes to use \$48,000,000 of bond proceeds for the purchase of two passenger rail car train sets and related equipment from Patentes Talgo, a train manufacturer based

in Spain. The Department entered into a "letter of intent" with Talgo on May 11, 2009, which outlines the basic terms of the purchase agreement.

Under the letter of intent, each of the two train sets would consist of 13 passenger cars, with total capacity for 420 passengers, and one cab car, used for auxiliary power. The train sets would not include the locomotives. In addition, the Department would purchase three spare cars, and an inventory of spare parts for the cars. The two train sets would cost \$21,329,000 each, for a total of \$42,658,000, while the spare cars and spare parts would cost a total of \$4,431,000, bringing the total equipment cost to \$47,089,000. The Department's request for \$48,000,000 includes funding for a liability policy for the delivery and assembly of the equipment, expected to be about \$400,000, and approximately \$500,000 for any contingencies.

In addition to outlining the equipment purchase agreement, the letter of intent includes a statement of Talgo's intention to establish a train car assembly facility and a maintenance facility in Wisconsin. The assembly facility would be used for the two train sets purchased by the state under the letter of intent, as well as any other train sets purchased by the state, Amtrak, or other states, unless other contracts that Talgo enters into require assembly at other locations. Final assembly would include piecing together parts shipped from the Talgo manufacturing facility in Spain and completing all interior work. In addition, under the terms of the agreement, Talgo would use components from U.S. vendors when feasible and, specifically, Wisconsin vendors when available. The Department indicates that the assembly facility would create a minimum of 55 jobs for the duration of the assembly, but could create more if additional cars are purchased by the state or other entities. The location of the assembly facility would be determined by Talgo.

The maintenance facility would be used for the train equipment purchased under the agreement and, to the extent practical, any other Talgo equipment sold to other entities and used in the region. The Department indicates that the maintenance facility would create at least 25 jobs on an ongoing basis. The location of the maintenance facility would depend upon the logistics of the passenger service established using the train sets.

The Department indicates in the request that the Talgo train cars would have several advantages over the coaches that are currently used by Amtrak for the Hiawatha route and other passenger rail service in the state. The Talgo cars are lighter than Amtrak coaches, which would allow for faster acceleration and deceleration, and would reduce fuel costs. In addition, the new cars are designed to tilt to maintain an upright position on curves, which allows the train to proceed at a faster speed through the curve. Finally, the new cars would provide a smoother ride with more passenger amenities (such as video screens and electric and audio outlets at each seat) than the Amtrak coaches, many of which are over 40 years old.

If the Department's request is approved, the Department would execute a contract with Talgo, formalizing the terms in the letter of intent. Under the agreement, the cars would be delivered, assembled, and be ready for pre-service testing within 24 months of the date that the purchase contract is executed. Initially, the train sets would be used on Amtrak's Hiawatha route

between Chicago and Milwaukee, utilizing existing Amtrak locomotives. DOT indicates that it is expected that the state's contract with Amtrak for the Hiawatha service would be renegotiated to reflect Wisconsin's ownership of the passenger cars. In particular, the cost of passenger car maintenance would be excluded from the Amtrak contract and would be paid separately to Talgo. In addition, DOT indicates that the per-trip operations costs could be somewhat lower, due to fuel savings. Precise estimates of the continuing costs, including operational savings, remain unknown, and would depend upon other decisions regarding the frequency of service, and any other service changes.

Eventually, the Department's intent would be to utilize the passenger cars in both the Chicago to Milwaukee corridor and for the extension of high-speed service (up to 110 miles-per-hour) to Madison, with intermediate stops in Brookfield, Oconomowoc, and Watertown. The extension of service to Madison, however, is contingent upon receiving a federal grant under the high-speed intercity passenger rail (HSIPR) program for the costs of making track and signal improvements, constructing stations, and purchasing additional train equipment. The Department has submitted a pre-application for HSIPR funds for these improvements, as required under federal guidance for the program, and will submit a complete application by the October 2 final deadline. In the pre-application, the Department indicates that construction could start in December, 2009, and be finished by December, 2012, but this timeline would depend upon the timing of the federal grant. The final federal deadline for making grant awards is September 30, 2011, but it is expected that the Federal Railroad Administration will make awards prior to that time for projects that are approved and are deemed ready to start. If the state receives a grant, the Governor would be required to submit a plan to the Committee for approval of expenditure of those funds, under a provision of 2009 Act 2.

If Wisconsin receives HSIPR funds for the Milwaukee to Madison service, the Department indicates that a portion of those funds would be used to purchase two more passenger car train sets and eight locomotives (two per set), to provide a total of four complete sets for use in the Chicago-Milwaukee-Madison corridor. The additional passenger car equipment would also be assembled and maintained at the Wisconsin facilities.

In addition to the purchase of train equipment, the Department would use federal funds to complete the necessary track and signal improvements for high-speed service between Milwaukee and Madison and for track improvements in the Milwaukee to Chicago corridor to allow for an increased number of round trips. The Department has estimated the total capital costs of the improvements, including the acquisition of the four train sets and building stations, at approximately \$520 million in 2008 dollars. That figure, however, is not based on a final engineering estimate. If the Department receives federal funding, a portion would be used to complete engineering to determine the precise capital needs. Final costs will also depend upon negotiations with Canadian Pacific Railroad, which owns the tracks between Milwaukee and Chicago and between Milwaukee and Watertown, which will establish the improvements necessary to maintain freight operations and the amount that would be paid by the railroad, if any, for improvements. (The state owns the track between Watertown and Madison.) In its pre-application

for funds, the Department indicated that the total capital cost could be \$600 million (the 2008 estimate inflated to 2013 dollars), but will depend on negotiations with Canadian Pacific.

Although the operational details have not been finalized, the Department's proposal is to increase the number of daily round trips in the Chicago to Milwaukee corridor from seven currently to 10, and to operate six daily round trips between Milwaukee and Madison (as extensions of Chicago to Milwaukee trips). The Department indicates that it is expected that the service will require operating cost subsidies, similar to the subsidies currently provided for the Hiawatha service. Although the Department is in the process of developing estimates of the operating costs, ridership, and revenues for the service, it does not yet have an estimate of the level of subsidies that would be required. In 2009-10, the state is paying \$4,999,000 for the current Hiawatha service, an amount that was reduced from \$6,522,800 in 2008-09, due to lower fuel costs and higher ticket revenue.

Debt service on passenger rail route development bonds is paid from the general fund. The amount of debt service paid during the 2009-11 biennium would depend upon the timing and structure of issuance, although once the \$48.0 million is fully issued, it can be expected that debt service would be approximately \$3.8 million annually. Debt service estimates for the biennial budget act assumed that \$24.0 million of the bonds would be issued during the biennium (one-half of the requested amount), while it was assumed that an additional \$24.0 million would be issued in the 2011-13 biennium. If the request is approved, it is possible that the actual amount of the bonds issued during the 2009-11 biennium would differ, resulting in a somewhat higher or lower debt service payment in the biennium. The precise issuance schedule, however, is not yet known, and would depend upon the Department's contract payment schedule and relative cash balances in the capital improvement fund.

ANALYSIS

The Department's request for bonding for the purchase of train sets is closely related to future plans for the expansion of passenger rail service in the Milwaukee to Chicago corridor and the initiation of new service between Milwaukee and Madison. Proposals for such rail service expansion (as well as other service extensions to Green Bay, La Crosse, and Eau Claire) have been part of legislative discussions for many years, but frequently with the acknowledgement that federal funds would be necessary to assist the state in making these improvements possible. With the passage of the federal Passenger Rail Investment and Improvement Act of 2008 and the American Recovery and Reinvestment Act of 2009 (economic stimulus act), which created the framework and provided funding for the HSIPR program, federal assistance for intercity passenger rail improvements is now available.

A decision to approve the Department's request would allow the Department to proceed with plans for establishing high-speed passenger rail service, but would not be sufficient for establishing such service. Although the Department indicates in its request that the state is in a good position to compete for federal funding for the project, it is possible that the state would not receive a grant or

that any grant that is received would cover only a portion of the total remaining cost. In this event, the Department may need to request additional bond funds to complete the project or reapply for additional federal funding at a later date.

Other issues related to the service would also need to be resolved before service is initiated. As noted above, for instance, it is assumed that the service would require operating subsidies, although the amount of these subsidies is currently unknown.

If the Department's request is not approved, the Department may be able to proceed with the Milwaukee to Madison high-speed rail service, including the purchase of passenger rail cars, if the state receives sufficient federal HSIPR program funding to cover the full amount of track and equipment costs. However, the Department identifies two principal benefits to purchasing the train sets with state bond funds now, instead of waiting for federal funds to make the purchase. First, the Department believes that purchasing the train sets with state funds could improve the chances of receiving federal HSIPR funding for the remainder of the Milwaukee to Madison capital costs. Although HSIPR funding provides up to 100% of the cost of an approved project, the FRA guidance for the program indicates that the evaluation criteria used to make awards favor projects that include non-federal investments.

Second, the Department indicates that purchasing the train sets with state bonds prior to the awarding of federal HSIPR grants would allow the state to enter into a purchase agreement with Talgo that would locate the assembly and maintenance facility in Wisconsin. If other states or Amtrak purchase train sets from Talgo, then the state could benefit from being the first to establish this arrangement with the company.

If the Committee approves of the Department's request in principle, one alternative would be to approve \$47,500,000 (instead of \$48,000,000), which would be sufficient for the quoted cost of the equipment and liability insurance, but would not provide an additional \$500,000 for contingencies. If actual costs exceed \$47,500,000, the Department could make another request for the approval of the remainder.

ALTERNATIVES

1. Approve the Department's request for \$48,000,000 in passenger rail route development bonds for the purchase of two train car sets, spare cars, spare parts inventory, liability insurance, and contingency funds.
2. Modify the Department's request by reducing the amount of bonds approved to \$47,500,000, which would exclude \$500,000 in contingency funds.
3. Deny the request.

Prepared by: Jon Dyck