



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #659

### Freight Rail Preservation Program Bonding (DOT -- Local Transportation Assistance)

[LFB 2011-13 Budget Summary: Page 436, #6]

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#### CURRENT LAW

The Department of Transportation's freight rail preservation program provides grants or loans for the acquisition of abandoned railroad lines or the rehabilitation or construction of rail facilities on existing, publicly owned lines. Eligible applicants include local governments, railroads, current or potential users of rail service, or rail transit commissions organized by local governments for the preservation of rail service. Applicants are required to pay at least 20% of the cost of an acquisition of railroad track or improvement project, but the Department may provide a loan to cover up to 15% of the total cost. No match is required for the acquisition of railroad property (exclusive of the railroad tracks and other improvements). Funding for the program is provided with transportation fund-supported, general obligation bonds.

#### GOVERNOR

Provide \$60,000,000 in transportation fund-supported, general obligation bond authorization for the freight rail preservation program.

#### DISCUSSION POINTS

1. Freight rail companies generally invest a higher percentage of their revenues in capital expenditures than other industries. Because of these high capital expenditures for track and equipment, railroads have generally concentrated their investments in the most profitable lines since federal deregulation of the industry in the late 1970s, oftentimes abandoning lower-traffic lines in the process. Although many abandoned lines have remained out of service, regional and short-line

railroads have assumed service on certain smaller networks of low-traffic lines that otherwise would have been abandoned. In some cases, these railroads ship commodities from origin to destination within their networks, but they also serve as localized collectors and distributors for larger, long-haul railroads.

2. The freight rail preservation program (FRPP) was established to maintain rail service for shippers and customers who are dependent on the service, but who are located on low-traffic lines. Because these lines have relatively few shippers, the amount of revenue earned by the railroad may not be sufficient to support the cost of capital improvements to the line. By assuming responsibility for the ownership and improvement of these lines with the use of FRPP funds, the state can allow a short-line or regional railroad to continue to operate profitably.

3. The \$60,000,000 in FRPP bonds provided by the bill would be the same amount that was provided by the 2009-11 budget. However, this amount represents a substantial increase over the amount provided in previous biennia. The following table shows the biennial bond authorization for the program over the past five biennia, plus the amount proposed for the 2011-13 biennium.

**Freight Rail Preservation Program Bond Authorization**

| <u>Biennium</u> | <u>Bond Authorization</u> |
|-----------------|---------------------------|
| 2001-03         | \$4,500,000               |
| 2003-05         | 4,500,000                 |
| 2005-07         | 12,000,000                |
| 2007-09         | 22,000,000                |
| 2009-11         | 60,000,000                |
| 2011-13*        | 60,000,000                |

\*Amount proposed in the bill.

4. As the previous table illustrates, the freight rail preservation program has been expanded significantly over the past decade. Although the state highway program continues to be the most significant use of transportation bonds, the share of total bonds allocated to the freight rail preservation program has grown. Whereas freight rail bonds accounted for 1.5% of total transportation-fund supported bond authorization in the 2001-03 biennium, the proposed \$60 million would account for 9.0% of total, transportation-fund supported bonding authorized under the bill.

5. The Department has awarded a total of \$64.3 million in FRPP grants during the 2009-11 biennium, using bonds authorized by the 2009-11 budget and carry-over bonds from the previous biennium. Of that amount, \$52.2 million has been provided for either rehabilitation of track and bridges on publicly-owned lines in the Wisconsin & Southern Rail (WSOR) network or for track acquisitions to expand that network. Of the remainder, \$7.7 million was awarded for acquisition and rehabilitation of track in Progressive Rail's Wisconsin Northern network in

Chippewa and Barron counties, and \$4.4 million was awarded for rehabilitation of track in the Escanaba & Lake Superior network between Green Bay and Niagara.

6. As in the 2009-11 biennium, most grants in previous biennia have been awarded for rehabilitation projects on the WSOR network or for the acquisition of track that now comprises the WSOR network. Much of the rehabilitation work supported on the WSOR network goes toward replacing tracks and bridges that, in some cases, are 80 years old. Those facilities are often not adequate to accommodate 286,000 pound rail cars, which is the current industry standard. On certain lines in this network, the deteriorating condition of the rails limits trains to a speed of 10 miles per hour. Improvements to the rails and bridges allow the railroad to haul heavier loads and operate at a faster speed, increasing transportation efficiency for shippers.

7. The Department indicates that the FRPP bonds authorized by the 2009-11 biennial budget will likely be committed by the end of the biennium, and that enough applications have been submitted to utilize the \$60 million in proposed bonds for the 2011-13 biennium. Despite the fact that the size of the program has been significantly expanded in the past few years, demand for FRPP funds exceeds the amount of available funds.

8. When fully issued, the annual debt service payments on the proposed freight rail bonds would be about \$4.8 million annually. Due to the time elapsed between when projects are approved for funding and the time that bonds are actually issued, the full, annualized debt service on the proposed bonds would not be paid during the biennium. The Department of Administration's general obligation debt service estimates assume that \$15 million of the \$60 million in newly-authorized bonds would be issued during the biennium. Debt service on that amount would be \$150,000 in 2012-13, an amount that was included in a general reestimate of general obligation debt service.

9. As a bond-funded program, the freight rail preservation program allows the state to realize the benefits of transportation system improvements with no upfront costs, and then pay for those improvements over the course of the life of the improvement. However, increases in debt service costs for various types of transportation bonding have consumed an increasing percentage of transportation fund revenues. [For a discussion of transportation bonding and debt service, see LFB Issue Paper #641.] If the Committee determines that the overall level of transportation bonding should be reduced, the FRPP bond authorization could be reduced [Alternative #A2].

10. If a lower level of bonding is authorized for freight rail preservation projects, not all eligible projects that have submitted applications could receive funding. The Department uses an evaluation process, which includes a benefit-cost analysis, to rank projects. At a reduced level of bonding, lower ranking projects would not receive funding during the biennium. One modification to the program that may increase the number of projects completed at a given level of state funds would be to require the Department to give preference to projects for which the applicant offers to pay more than the minimum 20% match [Alternative #B1].

## ALTERNATIVES

### A. Freight Rail Preservation Program Bond Authorization

1. Approve the Governor's recommendation to provide \$60,000,000 in bond authorization for the freight rail preservation program.

2. Modify the Governor's recommendation by reducing the bond authorization for the freight rail preservation program by one of the following amounts and reducing SEG funding for debt service by the corresponding amount in 2012-13.

|    | <u>Reduction<br/>in Bonding</u> | <u>SEG<br/>Debt Service</u> |
|----|---------------------------------|-----------------------------|
| a. | -\$10,000,000                   | -\$25,000                   |
| b. | -20,000,000                     | -50,000                     |
| c. | -30,000,000                     | -75,000                     |
| d. | -40,000,000                     | -100,000                    |
| e. | -50,000,000                     | -125,000                    |

3. Delete provision.

| <b>ALT 3</b> | <b>Change to Bill<br/>Funding</b> |
|--------------|-----------------------------------|
| BR           | - \$60,000,000                    |
| SEG          | <u>- 150,000</u>                  |
| Total        | - \$60,150,000                    |

### B. Freight Rail Preservation Program Matching Policy

1. Modify current law provisions related to the match required for freight rail preservation program grants to specify that the Department shall give priority to projects for which the sponsor agrees to pay greater than 20% of the project cost.

2. Maintain current law.

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