

Task 3. Funding

Requirement

Of critical concern is the financial capacity of the partner communities to initiate and sustain this service. The contractor shall review the preliminary budget spreadsheet and assumptions in light of additional work, if any, identified in Task 2. The contractor shall provide projections of revenue streams in broad categories; fares, local government subsidy, state and federal support. The contractor shall provide examples of revenue sources used by other similar services.

The contractor shall identify a plan that would provide the resources to sustain service for a period of ten years. The basis for allocating costs to the various revenues sources should be outlined in sufficient detail to provide confidence in the sustainability of the service.

Deliverables:

1. *Technical Memorandum Defining Capital needs for service start-up*
2. *Definition of initial annual and ongoing operations budget including revenue projections*
3. *Identification of possible funding sources with documentation of assignment of local costs*

Discussion

To provide a comprehensive understanding of the capital and operating costs, and funding and revenue sources contemplated to support the proposed service, RLBA built its analysis upon the following detailed budget files and reports:

- “Master Budget and Contact Info from Terri B 042908 Budget Revised March 08 TB 10 yr.”, Excel file provided by Washtenaw Area Transportation Study (WATS). *For brevity, cited as “Wally Budget” in the following discussion.*
- “WALLYOPERBUDGET from Great Lakes Central RR – Mike Bagwell”, Excel file provided by Great Lakes Central Railroad (GLC). *For brevity, cited as “GLC Budget”*
- “Review of Proposed Operating and Capital Costs”, Excel file prepared April 30, 2008 by RLBA. *For brevity, cited as “April 30 Review”.*
- “Track, Signals and Grade Crossing-table”, Excel file developed for Subtask 2.3 by RLBA. *For brevity, cited as “Track & Signals”*
- Various Federal laws and regulations pertaining to funding opportunities.

Various members of the Coalition, including Washtenaw Area Transportation Study (WATS), Michigan Department of Transportation (MDOT), and Great Lakes Central Railroad (GLC), were consulted about various aspects of these budget files and reports. RLBA made appropriate adjustments based upon these conversations and upon its

experience with other commuter rail startups. Ten-year projections of all cost and revenue streams were then calculated along with key summary calculations such as operating surplus (shortfall). These data are summarized in Table 1 on the next page.

In this discussion, the first time that a value from Table 1 is cited, it is followed by a reference to the line number of Table 1 on which it appears. Additionally, where these specific values come from the above support files, the name and line number of the support file are cited. Where there is no such additional citation, the values result from RLBA analysis and calculations.

The Funding and Financial Plan needs to support a projected annual ridership (Table 1, line 2) of 655,200 trips in Operating Year 1, which is projected to grow to 854,887 annual trips in Year 10, applying the Coalition's three percent annual growth rate. These figures reflect ridership only at Howell, Chilson/Brighton, and Whitmore Lake stations since survey-based ridership estimates for a prospective station at Hamburg are not yet available.

Successful management of the project's financial plan, including systematic targeting and securing of funding, and management of vendor contracts, will require additional efforts, perhaps including establishment of a formal management organization, which we call for purposes of this discussion the Wally Regional Transportation Authority (WRTA).

Capital Needs for Start-up and Sustained Operation

Technical information that defines capital needs for startup is detailed in Subtask 2.3 Track, Signals and Grade Crossings, and other subtask reports. These costs have been included in the Capital Plan section (Table 1, line 3; and Track & Signals, entire table) of this Funding and Financial Plan analysis, and some are mentioned in the following discussion.

\$32.4 million (Table 1, line 4; and Track & Signals, "Total" line) will be required to build track, station, signal and bus infrastructure that supports safe and sustainable operation, and to deliver fare and service levels that attract riders from their present commuting modes. The most critical and largest single amount, \$18.4 million, would be invested in track, signal and grade crossing upgrades to allow safe operation of commuter trains at a track speed of 60 mph. Other major investments that will be required include \$3.85 million for new shuttle buses and \$4.3 million for platforms and parking at stations. The latter amount does not include uncertainties and environmental mitigation, which are addressed in the contingency item under Subtask 2.3. These expenditures should be made prior to starting operations and should be viewed as the minimum necessary to launch a successful service. While sequencing of individual investments might be shifted for project management purposes, no one investment is more important than another to the launch of service.

Table 1
Washtenaw - Livingston North South Commuter Rail Service (Wally)
Funding and Financial Plan

Line	Item	Start-up Construction	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
1	Ridership											
	Based on 2,600 daily trips in Operating Yr. 1 and assumes 3% average annual growth		655,200	674,856	695,102	715,955	737,433	759,556	782,343	805,813	829,988	854,887
2												
3	Capital Plan											
4	Total Capital Expenses	\$ 32,446,000	\$ 300,000	\$ 311,400	\$ 323,233	\$ 335,516	\$ 348,266	\$ 361,500	\$ 375,237	\$ 389,496	\$ 404,297	\$ 419,660
5	Total Capital Funding	\$ 575,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Capital Funding Surplus (Shortfall)	\$ (31,870,100)	\$ (300,000)	\$ (311,400)	\$ (323,233)	\$ (335,516)	\$ (348,266)	\$ (361,500)	\$ (375,237)	\$ (389,496)	\$ (404,297)	\$ (419,660)
7	Operating Plan											
8	Expenses											
9	Railroad Operations Expense		\$ 4,657,730	\$ 4,834,723	\$ 5,018,443	\$ 5,209,144	\$ 5,407,091	\$ 5,612,561	\$ 5,825,838	\$ 6,047,220	\$ 6,277,014	\$ 6,515,541
10	Other Operations Expense		\$ 1,875,300	\$ 1,948,437	\$ 2,024,426	\$ 2,103,378	\$ 2,185,410	\$ 2,270,641	\$ 2,359,196	\$ 2,451,205	\$ 2,546,802	\$ 2,646,127
11	WALLY Regional Transportation Authority (WRTA) Expense		\$ 551,250	\$ 572,749	\$ 595,086	\$ 618,294	\$ 642,408	\$ 667,462	\$ 693,493	\$ 720,539	\$ 748,640	\$ 777,837
12	Total Operating Expenses		\$ 7,084,280	\$ 7,355,909	\$ 7,637,954	\$ 7,930,816	\$ 8,234,909	\$ 8,550,663	\$ 8,878,527	\$ 9,218,963	\$ 9,572,456	\$ 9,939,504
13	Revenues											
14	Farebox Revenue		\$ 2,104,200	\$ 2,167,326	\$ 2,232,346	\$ 2,414,282	\$ 2,486,710	\$ 2,561,312	\$ 2,638,151	\$ 2,846,691	\$ 2,932,091	\$ 3,020,054
15	Advertising & Service Revenue		\$ 25,000	\$ 26,250	\$ 27,563	\$ 28,941	\$ 30,388	\$ 31,907	\$ 33,502	\$ 35,178	\$ 36,936	\$ 38,783
16	State & Federal Operating Subsidies		\$ 2,090,569	\$ 2,170,611	\$ 2,253,718	\$ 2,640,007	\$ 2,738,600	\$ 2,840,895	\$ 2,947,029	\$ 3,057,148	\$ 3,171,403	\$ 3,289,949
17	Grant Revenue		\$ -	\$ 1,510,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000
18	Other Government & Non-Government Organization Contributions		\$ 2,141,000	\$ 1,506,000	\$ 1,506,000	\$ 1,256,000	\$ 1,256,000	\$ 1,256,000	\$ 1,256,000	\$ 1,256,000	\$ 1,256,000	\$ 1,256,000
19	Sub-total: Subsidies, Grants & Contributions		\$ 4,231,569	\$ 5,186,611	\$ 5,009,718	\$ 5,146,007	\$ 5,244,600	\$ 5,346,895	\$ 5,453,029	\$ 5,563,148	\$ 5,677,403	\$ 5,795,949
20	Grand Total Revenue		\$ 6,360,769	\$ 7,380,187	\$ 7,269,626	\$ 7,589,230	\$ 7,761,698	\$ 7,940,113	\$ 8,124,682	\$ 8,445,017	\$ 8,646,431	\$ 8,854,787
21	Operating Surplus (Shortfall)		\$ (723,510)	\$ 24,278	\$ (368,328)	\$ (341,587)	\$ (473,211)	\$ (610,550)	\$ (753,844)	\$ (773,947)	\$ (926,025)	\$ (1,084,718)
22	Net Capital + Operating Surplus (Shortfall)	\$ (31,870,100)	\$ (1,023,510)	\$ (287,122)	\$ (691,561)	\$ (677,103)	\$ (821,476)	\$ (972,050)	\$ (1,129,081)	\$ (1,163,442)	\$ (1,330,321)	\$ (1,504,378)
23	Accumulated Net Surplus (Shortfall)	\$ (31,870,100)	\$ (32,893,610)	\$ (33,180,732)	\$ (33,872,293)	\$ (34,549,396)	\$ (35,370,872)	\$ (36,342,922)	\$ (37,472,003)	\$ (38,635,445)	\$ (39,965,767)	\$ (41,470,144)
24	Key Ratios											
25	Farebox Recovery of Total Operating Expenses		30%	29%	29%	30%	30%	30%	30%	31%	31%	30%
26	Farebox as Percentage of Grand Total Revenue		33%	29%	31%	32%	32%	32%	32%	34%	34%	34%
27	Total Operating Subsidies, Grants, & Contributions as Percentage of Grand Total Revenue		67%	70%	69%	68%	68%	67%	67%	66%	66%	65%

Long-term success of commuter rail operations also depends upon on-going capital outlay in the form of program maintenance. This addresses long-term “wear and tear” on track structure and generally occurs in the form of replacing ties, and in ballasting and surfacing the track. This critical work constitutes renewal of what will be the existing commuter rail infrastructure, and is considered capital investment. \$300,000 is projected for Operating Year 1 (Table 1, line 4; and Wally Budget, tab Howell to Barton, line 8) with annual cost increases growing it to approximately \$420,000 in Year 10.

The Coalition has identified \$375,000 in potential one-time capital funding from the Michigan Department of Transportation (MDOT) and \$200,000 from the Great Lakes Central Railroad (GLC). (Table 1, line 5; and Wally Budget, tab Howell to Barton, lines 16 & 18) Potential federal capital funding sources such as the Small Starts Program and Section 130 Grade Crossing Improvement Program are discussed below under Possible Funding Sources.

Operations Budget for Sustained Operation

The Operating Plan portion (Table 1, line 7) of the Funding and Financial Plan illustrates the additional funding challenge facing the Coalition and WRTA, and the need for a reliable, on-going funding stream. As presently composed, the plan projects an operating shortfall (Table 1, line 21) in every year but Year 2, beginning with a \$0.72 million shortfall in Operating Year 1, improving to a \$0.02 million surplus in Year 2 and finishing with a \$1.08 million shortfall in Year 10. The surplus in Year 2 is driven by the Coalition’s expectation that \$1.5 million in Federal grants (Wally budget, tab Howell to Barton, line 47) will begin to flow in Year 2. While implementation of fare increases is often politically challenging, RLBA assumed a five percent fare increase would occur in Year 4 and in Year 8.

Operating Expenses (Table 1, line 8)

Initial annual and ongoing operations budget requirements, including revenue projections for Wally, are discussed below.

RLBA re-organized the operating expenses into three segments to illustrate where funding and management attention would be focused. The projected \$7.54 million Operating Year 1 (and future years) expense is comprised of Railroad Operations Expense (Table 1, line 9; and various lines in April 30 Review and GLC Budget), Other Operations Expense (Table 1, line 10; and various lines in April 30 Review and Wally Budget) and WRTA Expense (Table 1, line 11; Wally Budget, tab Authority).

Railroad Operating Expense is the largest cost area and reflects charges that WRTA would pay to the railroad that will be operating the commuter rail service, and to any other railroad whose facilities might be used. The \$4.66 million projected for Operating Year 1 is approximately \$0.10 million higher than was projected in RLBA’s April 30 snapshot report because diesel fuel expense (using current prices) increased from

\$3.25 per gallon in Great Lakes Central Railroad's original budget to \$3.84 per gallon being paid in June 2008. Train fuel expense was determined separately from the original Train Equipment, Fuel & Maintenance category because its price has been volatile over the past year. It is the third largest railroad expense, behind Train and Equipment Maintenance (\$1.63 million in Operating Year 1) and Railroad Personnel (\$0.96 million in Operating Year 1). RLBA attempted to identify a separate fuel cost escalation factor that seemed reasonable but was unable to do so. Therefore we applied the average five-year change of the Association of American Railroads' all-inclusive index less fuel factor to escalate all of the Railroad Operations Expenses by 3.8 percent per year. This projects Railroad Operations Expenses to be \$6.52 million in Operating Year 10.

Railroad Operating Expense includes a \$30,000 estimated expense, based upon RLBA's industry experience, for Trackage Rights on Ann Arbor Railroad (AARR) even though this plan does not contemplate operating passenger service over AARR into downtown Ann Arbor. This expense results because GLC expects to use a portion of the AARR mainline south MP47.5 to hold the first three morning trains while awaiting the fourth train to arrive, and then relocate these trains to Osmer for layover prior to afternoon outbound commuter train service.

Other Operating Expense (Table 1 line 10) is the second largest cost area and is expected to total \$1.88 million in Operating Year 1. This includes costs of supporting functions such as \$0.7 million for operating connector buses, \$0.47 million for station/parking leases, and \$0.43 million for passenger injury and loss liability insurance. Other Operating Expense is \$0.20 million higher than reported in the April 30 estimate because RLBA expects that more buses to be operated than originally projected. For the ten-year projection, all costs under Other Operating Expense are inflated at 3.9 percent per year, a five-year average change in the Consumer Price Index-Transportation through 2007.

The final major cost segment, Wally Regional Transportation Authority (WRTA) (Table 1 line 11) reflects estimates from the Wally Business Plan of February 2008. These costs include \$0.28 million for staff and \$0.17 million for marketing.

Revenues (Table 1, line 13)

The Coalition has done a good job of identifying a base of 33 potential revenue sources which project generation of \$6.36 million in Operating Year 1 and \$8.85 million in Year 10 (Table 1, line 20). However, as was pointed out at the beginning of this operations budget discussion, these revenue sources are not large enough to avoid an operating shortfall between \$0.34 million and \$1.08 million in nine of ten years. Addition of annual capital program track maintenance expense (Table 1, line 4 beginning under Operating Year 1; and Wally Budget, line 8) makes the Net Capital plus Operating Shortfall between \$0.29 million and \$1.50 million over the plan's ten years (Table 1, line 22). This reinforces the importance of the Coalition obtaining additional funding commitments so as to develop additional revenue streams. It is understood that some

of the organizations identified as potential sources of revenue may not be willing to commit; therefore additional sources may have to be pursued.

The single largest revenue stream is projected to come from Michigan DOT's State Operating Formula subsidy. This subsidy is based upon a percentage of reasonable operating costs, which is 32 percent in FY2008, and would amount to \$2.09 million in Operating Year 1. An MDOT representative indicated to RLBA that it is "assumed that full Wally operating costs would be allowable." Calculation of this subsidy has no connection to ridership levels or mileage, according to MDOT.

Payment of fares by the University of Michigan for the equivalent of about 554,400 annual trips by University employees would amount to the second largest revenue stream during the three years of its existence. This \$1.78 million represents 28 percent of total revenue and 85 percent of total farebox revenue in Operating Year 1, in which the University would pay 100 percent of the fares for 2,200 daily trips. The University would pay 75 percent of the fare in Year 2, and 50 percent in Years 3 through 10. Delivering high levels of satisfaction to this customer segment should be Wally's chief mission in its early years to maximize the likelihood that these customers stay with Wally as they pay progressively more of their own fares.

"Farebox Recovery" is a common yardstick for measuring a transit operation and represents the percentage of operating expenses that are covered by farebox revenue. The projected farebox recovery ratio for Wally ranges between 29 percent and 31 percent over the ten-year plan (Table 1, line 25). Wally's farebox recovery ratio is within a range that would be expected, as illustrated by the following sample of farebox recovery ratios from other transit operations:

<u>Operation</u>	<u>Farebox Recovery %</u>
Altamont, CA, Commuter Express (commuter rail)	28.6
Ann Arbor, MI (AATA buses)	14.4
(most bus systems nationwide have very low farebox ratios)	
Dallas – Fort Worth, TX (commuter rail)	8.0
Los Angeles, CA, Metrolink (commuter rail)	37.3
Miami – Fort Lauderdale, FL, Tri-Rail (commuter rail)	27.1
Northern Virginia – Wash., DC, Virginia Railway Express (commuter rail)	55.2

RLBA revised ridership levels downward (to 655,200 from 850,752 annually in Operating Year 1) and adjusted distribution of ridership revenue (from \$2.44 million to \$2.10 million in Year 1 and similarly in following years). University of Michigan's fare payment increased by about \$0.02 to \$0.04 million in each of its first three years due to a revised average fare per trip and application of the 3 percent ridership growth factor to the University's rider population. (The latter was not done in the original Business Plan.)

The 23 organizations which comprise the Other Government and Non-Government

Organization Contributions represent \$2.14 million of potential revenue in Operating Year 1 (Table 1, line 18; and Wally Budget, tab Howell to Barton, lines 65 - 95). In its research about the reasonableness of assuming that such a significant revenue stream can be reliably expected from many small organizations, RLBA identified the following examples of local funding.

Music City Star (Nashville, TN Regional Transportation Authority)

Three Wilson County entities (the County itself, City of Lebanon, and City of Mt. Juliet) each committed to \$20,000 annual contributions toward the line's operating subsidy during the first five years of operation. By then, it is expected that the Regional Transportation Authority (RTA) will develop a permanent, stable funding mechanism. Other than these three, there is no assistance provided by other on-line local government organizations, chambers of commerce, development authorities, schools, etc. These entities made their contributions part of their general budgets without establishing separate funding sources to support their contributions.

Each of the three entities also committed to providing in-kind services (local police providing security at stations, local parks departments maintaining landscaping and trash collection at stations, etc.) which were valued in RTA's budget at \$75,000 for each of the entities (totaling \$225,000 per year). However, it was discovered that such in-kind services really did not reduce the line's cash expenses by much and so created a nearly \$225,000 hole in their revenue stream. The RTA representative who spoke with RLBA firmly recommended against including such in-kind services in any transit start-up's financial plan. RTA is considering asking the local entities to pay the monthly electric charges for their stations. RTA's electric cost averages \$700 per month per station (\$8,400 annually per station).

Virginia Railway Express (northern Virginia suburbs of Washington, DC)

Local jurisdictions that support Virginia Railway Express (VRE) are party to a master funding agreement, which allocates operating subsidy responsibility among them. Many, like Stafford County, Prince William County, City of Fairfax, and City of Alexandria, dedicate gas tax revenue to fund their support of VRE. It is not clear to RLBA whether the money comes from locally imposed tax on gasoline purchases, or if it comes from local shares of a state-imposed gasoline tax. At least one supporting jurisdiction, Fairfax County, funds its share of VRE's operating subsidy directly from its general budget and has no dedicated funding source for this. Fairfax County also provides in-kind support by funding free shuttle buses that connect to the VRE station at Burke.

New Mexico Rail Runner Express (runs north and south of Albuquerque, NM)

This relatively new service started in 2006 and receives operating fund support from the counties (Sandoval, Bernalillo and Valencia) through which it operates. They currently provide support from their general budgets. A dedicated funding source, in the form of

a gross receipts tax on businesses, is pending voter approval. Sandoval County has also contributed \$10 million to purchase a trainset of equipment and to support station development within the county. The State of New Mexico is considering use of revenue from a tax on railroads that operate within the state to support passenger rail operations and to replace Federal grants that will expire in 2008.

Possible Funding Sources

Federal

Recent-Year Federal Authorizations

There have been three federal surface transportation authorizations in recent years. The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) introduced a number of new federal funding programs. The Transportation Efficiency Act for the 21st Century (TEA-21) became federal law in 1998, continuing many of the policies and programs in ISTEA. Both authorizations provided flexibility which allows states and metropolitan planning organizations (MPOs) to employ federal funding from various sources to use in rail projects. For example, rail projects may under certain circumstances be funded from the Surface Transportation Program (STP), National Highway System, Congestion Mitigation and Air Quality Improvement Program (CMAQ), Transportation Enhancement Activities, Rail-Highway Crossing Program (often called the Section 130 program), High Speed Rail Development and others.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), signed into law in August 2005, carries on the tradition of flexibility inherent in ISTEA AND TEA-21. Briefly, and with application to rail assistance programs, SAFETEA-LU:

- Expands the “earmarks” program, which guarantees funding of a great number of projects, including passenger and freight rail;
- Reduces the threshold to obtain federal Transportation Infrastructure Finance and Innovation Act (TIFIA) assistance;
- Makes important changes in the FTA-administered New Starts program, including designation of a “Small Starts” program;
- Adds new freight rail authorization categories;
- Improves focus on freight projects;
- Greatly increases Railroad Rehabilitation and Improvement Financing (RRIF), which may be applied to passenger rail projects in addition to freight rail projects; and

- Increases grade crossing safety funds (the Section 130 program).

Flexibility in Surface Transportation Funding

As stated above, ISTEA, TEA-21 and SAFETEA-LU promote flexibility in the use of surface transportation funding. However, not all states and MPOs take advantage of that flexibility; many resist the diversion of highway funds to non-highway projects.

Selected Rail Aspects of SAFETEA-LU

SAFETEA-LU includes re-authorization of the programs mentioned above and also a number of others which may have application to rail projects, including the following:

Transportation, Community, and System Preservation Program (Section 1117)

Freight Intermodal Distribution Pilot Grant Program (Section 1306)

Deployment of Magnetic Levitation Transportation Projects (Section 1307)

Transportation Infrastructure Finance and Innovation Act Amendments (TIFIA) (Section 1601) (carry-on program from a previous surface transportation authorization)

State Infrastructure Banks (Section 1602) (also carried forward from previous authorization)

Transportation Improvements (Section 1934)

High Speed Rail Corridor Development (Section 9001) (amends Section 26101 and 26104 of Title 49)

Capital Grants for Rail Line Relocation Projects (Section 9002) (amends Code by establishing grant program)

Rehabilitation and Improvement Financing (Section 9003)

High Priority Projects Program (Section 1701) (earmarks)

There are others. The Federal Transit Administration administers programs covering both capital and operating funds.

Brief descriptions of the federal programs which may provide surface transportation funding opportunities are in the following paragraphs.

Federal Transit Administration (FTA) Programs

Following is a brief discussion of FTA passenger transportation programs.

The Section 5309¹ Capital Investment Grants (New Starts) exists to provide funding primarily of major, fixed guideway, capital investment projects, generally in highly populated urban areas, and is very competitive. Selection factors favor high-passenger-density urban transit systems. The program requires alternatives analysis, justification and local financial commitment. Projects are rated by FTA, with successful projects receiving multiyear full funding grant agreements (FFGAs).

The Small Starts Program (Section 3011 of SAFETEA-LU, and now part of 49 U.S.C. Section 5309) is a new transit program which provides assistance to smaller projects seeking a federal, News Starts share below \$75 million and a total project cost ceiling of \$250 million.² Eligible projects include commuter rail, light rail and bus rapid transit, if on a separate right of way. SAFETEA-LU requires some changes in the New Starts Program (Section 3011), including the rating system.

The Section 5307 Urbanized Area Formula Grants support public transportation capital investments and operating expenses in areas under 200,000 population, from the Mass Transit Account of the Highway Trust Fund. Recipients must be designated by Metropolitan Planning Organizations (MPOs) and projects must be in an approved Statewide Transportation Improvement Program (TIP, or STIP). Non-federal matching funds are required (twenty percent of net project cost for capital (other than vehicles), seventeen percent of net project cost for ADA/CAAA vehicles).

Earmarks

At least fourteen commuter rail projects received special “earmark” authorizations in SAFETEA-LU.³

The profusion of earmarks in SAFETEA-LU suggests that it may be wise to anticipate the next surface transportation authorization (SAFETEA-LU expires September 2009) and discuss needs with elected officials. On the other hand, earmarks are not a sure thing and the Coalition will have more control of its own destiny without heavy reliance on funding from earmarks.

The next Surface Transportation Authorization is “scheduled” for 2009.

¹ 49 U.S.C. Section 5309

² Cliff Henke, “\$53 billion SAFETEA-LU Signed Into Law,” *Business in Motion*, American Public Transit Association, September 2005.

³ “Transit gets \$52.6 billion boost,” *Railway Age*, September 2005, pages 30-35.

Congestion Mitigation and Air Quality (CMAQ) (Section 1808)

The primary purpose of the Congestion Mitigation and Air Quality (CMAQ) program is to fund transportation projects and programs, which reduce transportation-related emissions, in non-attainment and maintenance areas. A local match of at least twenty percent is required. Transit projects must be part of an approved, five-year Capital Improvement Program and must be included in the TIP.

Section 1808 of SAFETEA-LU adds direction to the Congestion Mitigation and Air Quality (CMAQ) program. CMAQ funding may be used on freight and passenger rail projects which accomplish CMAQ goals. As examples, CMAQ funding has been used to add freight rail infrastructure (track) in a heavily-congested freight rail corridor and to build freight intermodal facilities.

Rail Rehabilitation and Improvement Financing (RRIF)

The Rail Rehabilitation and Improvement Financing (RRIF) program provides direct loans and loan guarantees to state and local governments, government-sponsored authorities and corporations, railroads and joint ventures that include at least one railroad. Eligible projects include: 1) acquisition, improvements or rehabilitation of intermodal or rail equipment or facilities (including tracks, components of tracks, bridges, yards, buildings and shops); 2) refinancing outstanding debt incurred for these purposes, or 3) development or establishment of new intermodal or railroad facilities. Section 9003 of SAFETEA-LU improves this program by eliminating some onerous loan conditions and by increasing the total authorization in loans outstanding to \$35 billion (from \$3.5 billion). Loans can be for periods up to 25 years. Passenger rail projects are eligible. The Great Smoky Mountain Passenger Railroad is an example of RRIF assistance to passenger rail.

Section 130 Grade Crossing Improvement Program

Section 1401 of SAFETEA-LU, Highway Safety Improvement Program, elevates Federal funding of the Section 130 grade crossing improvement program to \$220 million annually (from \$165 million). This funding is used to improve grade crossing safety by either eliminating or improving grade crossings.

State Infrastructure Bank (Section 1602)

State Infrastructure Banks were created by Section 350 of the National Highway System Designation Act of 1995. They allow states to set aside up to ten percent of their federal transportation funding to support public-private investments. State Infrastructure Banks may offer loan and credit options to help finance infrastructure projects. Money for projects may be loaned at low rates to private investors or may serve as a capital reserve backing bond and debt financing. The loan may be repaid with revenues generated by the project.

SAFETEA-LU provides that a State Infrastructure Bank may make loans or provide other forms of credit assistance to a public or private entity in an amount equal to all or a part of the cost of carrying out an eligible project.

New York is among those states which have established State Infrastructure Banks.

TIFIA

The Transportation Infrastructure Finance and Innovation Act (TIFIA) provides credit assistance on flexible terms directly to public-private sponsors of major surface transportation projects to assist them in gaining access to capital markets. TIFIA authorizes the Secretary of Transportation to collect fees from borrowers and fund up to \$10.6 billion of direct loans, loan guarantees and lines of credit to support up to 33 percent of project costs. Eligible projects include highway and capital transit projects, intercity bus and rail projects (including Amtrak and maglev systems) and publicly-owned intermodal freight transfer facilities on or adjacent to the National Highway System. SAFETEA-LU reduced the TIFIA threshold from \$100 million to \$50 million, thus expanding project eligibility. The Secretary of Transportation selects projects based upon factors including national significance, credit-worthiness and private sector participation.

Capital Assistance to States - Intercity Passenger Rail Service Program

The Federal Railroad Administration (FRA) published in the Federal Register on February 19, 2008, a Notice of funding availability and solicitation of applications for the Capital Assistance to States - Intercity Passenger Rail Service Program.⁴ The authority for this program is found in the Transportation, Housing and Urban Development, and Related Agencies Appropriations Act, 2008 (Division K of Public Law 110-161 (December 26, 2007)). This act provides \$30 million and directs FRA to award one or more grants covering up to 50 percent of the capital investment cost necessary to support improved intercity passenger rail services. States may apply and eligible projects must primarily benefit intercity passenger rail service.

Non-U.S. Department of Transportation Programs

Also, there are programs not administered by the U.S. Department of Transportation from which – under certain circumstances – passenger rail transportation projects may be funded.

For example, the Economic Development Administration in the Department of Commerce administers grants to public works projects in areas experiencing substantial economic distress and in areas under threat of serious economic structural damage.

As another example, a U.S. Department of Agriculture Rural Development Grant was

⁴ This discussion is taken from the Federal Register, Volume 73, Number 33, Tuesday, February 19, 2008, pages 9162-9165.

used to renovate a railroad spur in order to improve economic development in Ohio.

Selected Examples of State Use of Federal Funding

Under SAFETEA-LU, the States of Maine and Oregon have continued to use CMAQ funding to offset operating costs of state-supported, Amtrak services.⁵

SAFETEA-LU authorizes \$80 million to build a commuter rail line between Minneapolis and Big Lake, Minnesota. This \$80 million is part of \$132.5 million which the Northstar Corridor Development Authority expects to receive from the federal government for the \$265 million project.⁶

Energy Independence and Security Act of 2007

In the May 2 meeting at City of Howell, Ms. Chong Anna Canfora said that there are \$50 million in grants available in the Energy Bill for short line railroad improvements.

Section 1111 instructs the Secretary of Transportation to implement a competitive grant program for railroad carriers and state and local governments to: (1) assist purchases of hybrid or other energy-efficient locomotives, including hybrid switch and generator-set locomotives; and (2) demonstrate the extent to which such locomotives increase fuel economy, reduce emissions, and lower costs of operation. The federal share of such program is set at a maximum 80 percent.

Section 1112 amends federal transportation law to instruct the Secretary of Transportation to establish capital grants for class II and class III railroads to implement track capital projects, and requires a report to certain congressional committees on whether the program: (1) helps promote a reduction in fuel use associated with freight transportation; and (2) demonstrates innovative technologies for increased fuel economy, reduced greenhouse gas emissions, and lowered operation costs. The Act authorizes appropriations for fiscal years 2008 through 2011.

Homeland Security Funding

Many transit operators receive Federal assistance for purchasing or upgrading communication equipment.

State and Local

Likely state funding is discussed above, under "Revenues".

There are numerous means to raise local funding to support a passenger rail transportation project, subject to state law and voter approval where required, for

⁵ "Rail Projects in Highway/Transit Reauthorization," *National Association of Railroad Passengers News*, October 2005, page 2.

⁶ "Divvying up SAFETEA-LU dollars," *Progressive Railroading*, September 2005, page 14.

example, general obligation bonds, tax increment financing, transit tax, sales tax and property tax. Sometimes local municipalities are asked to fund their stations and parking. In California, for example, local funding has been sought and obtained in connection with collaborative track and station projects sponsored by local communities.

A “Business for Better Transportation” initiative in the State of Michigan advocates permissive legislation to allow county governments the ability to propose transportation taxes and fees, in order to help solve transportation funding problems in the state. The Business for Better Transportation proposal includes local option gas and diesel taxes, vehicle registration fees, license fees, property transfer fees and sales tax up to one percent.

State Category A TEDF funding based on the number of jobs preserved in the corridor, and Transportation Enhancement funding to fund some of the station related landscaping and other aesthetic aspects, are additional possibilities.

It is understood that draft by-laws of the Washtenaw and Livingston Line Regional Transportation Authority proposed before the Washtenaw County Board of Commissioners in September 2007 include a provision for taxing authority in which the Board would have to approve such a measure, limited to a maximum of five mills for five years except for projects that involve “fixed guide way” systems which may be levied for a twenty-five year period. Once approved by the Board, the millage question would have to receive a majority vote by those voting within the service area. Additionally, the incorporating public bodies, by a vote of their legislative bodies, could withdraw from the Authority subject to certain legal restrictions, if they did not wish to see their areas subject to the levy.

Private Funding Sources

There are private interests which may benefit from new or expanded passenger rail service. Private developers may be willing to fund passenger station improvements in return for the opportunity to provide private development (offices, homes, retail) in the vicinity of the station.

Examples of Revenue Sources Used by Similar Services

Other commuter rail services which have initiated operations over the past two decades have used a wide variety of federal, state, local and private funding sources. The federal sources cover the gamut of those listed above. CMAQ funding was used for a commuter rail service (now defunct) in Burlington, Vermont. CMAQ funding currently supports the Boston-Maine Downeaster. Long term use of CMAQ as a funding source needs to be tied to the continuation of the CMAQ program at the national level and increased funding levels.

The Harrisburg-Philadelphia service was funded in part with FTA operating funding. New Start Funding for commuter rail is problematic because of its relatively low

ridership density. State funding provides the majority of support for California's model intercity passenger rail operations. Nationwide, numerous state funding sources are used in various commuter rail services. Local and private funding have been utilized to construct stations. Metrolink (Los Angeles) provided the standards and specifications, and the local communities funded their stations. In Northern Virginia, private developers offered to build stations serving their developments.

Conclusions

Review of Wally Business Plan

The Wally Business Plan as represented in Table 1, which reflects revisions by RLBA, projects operating shortfalls in every year for ten years, as did the original February 2008. This is not unusual in public transit operations. Indeed, virtually every public transit system in the world requires public investment to sustain it.

There is no committed funding source for the capital expenses needed to build the track, signal, and station infrastructure need to launch an operation which will attract, retain and increase numbers of riders. RLBA recommends that the Coalition take steps to seek funding from federal, state and local sources. With regard to the latter point, RLBA has identified examples (Nashville, Tennessee's Music City Star; Virginia Railway Express; and New Mexico's Rail Runner Express) of municipal and county governments providing annual operating subsidies from their regular budgets, or providing the land and funds necessary to construct station facilities and parking. Operating subsidies from local governments have a high level of uncertainty associated with them unless they are supported by a specific on-going funding source.

Potential Funding Sources

There are many potential federal funding sources. All likely avenues should be investigated. The current federal surface transportation authorization expires in September 2009. Given the increasing use of earmarks nationwide, the Wally Coalition may wish to discuss this subject with its Congressional Delegation.