

Fiscal Analysis

AMTRAK OPERATING SUBSIDY



Bill/Sponsor **HOUSE BILL 4343 (H-1) As Reported**, Rep. Lauren Hager

House Committee Transportation

Analysis

Summary

The state of Michigan currently provides an operating subsidy to AMTRAK for rail passenger service on the Pere Marquette (Port Huron – Chicago) and International (Grand Rapids – Chicago) lines. The terms of the subsidy, including the amount of the subsidy, are governed by a contract between the state and AMTRAK. The contract is set to expire on March 31, 2003. In order to continue service for the remaining six months of the current fiscal year, AMTRAK is asking for such additional funding as to bring the total annual subsidy amount to \$7.1 million.

Section 711 of PA 561 of 2002, the FY 2002-03 transportation appropriations act, limits the amount of state subsidy to \$5.7 million. This language prevents the state from accepting AMTRAK's current service offer. House Bill 4343 would amend Section 711 of PA 561 of 2002 by striking the language limiting the amount of state subsidy.

If the section is not amended and the AMTRAK service is not continued, funds not expended for the AMTRAK subsidy could be redirected. However, the funds used to provide the AMTRAK subsidy – from the Comprehensive Transportation Fund - are restricted for public transportation purposes. No state General Fund revenue is used to support AMTRAK service.

Note that the H-1 substitute reported from committee is identical to the bill of introduction except for a technical correction of the fiscal year reference in the bill title.

Background

For a number of years the Michigan Department of Transportation (MDOT) has paid the National Railroad Passenger Corporation (AMTRAK) an annual operating subsidy to provide rail passenger service on the Pere Marquette (Port Huron – Chicago) and International (Grand Rapids – Chicago) lines¹. See Table 1 on next page. AMTRAK also provides service between Detroit and Chicago; this route does not receive a state operating subsidy.

These subsidies have been paid from the state-restricted Comprehensive Transportation Fund (CTF) in the *Rail passenger service* line item in state transportation budget acts. The total appropriation for this line item in the current year budget (PA 561 of 2002) is \$11.3 million - \$8.3 million CTF, and \$3.0 million in federal funds.

¹ The complete service description is as follows: The Pere Marquette service is Grand Rapids, Holland, Bangor, St. Joseph/Benton Harbor, New Buffalo, and Chicago. The International service is Port Huron, Lapeer, Flint, Durand, Lansing/East Lansing, Battle Creek, Kalamazoo, Dowagiac, Niles, and Chicago.

In addition to the operating subsidies noted above, the line item is also used to support AMTRAK capital projects – primarily to develop high-speed rail service along the Detroit to Chicago corridor. Federal funds in the line are used exclusively for capital projects. Since 1992 the state and federal government have spent over \$40.0 million in total on high-speed rail projects – primarily on improvements to track, signals, and train sets.

In April 2000 AMTRAK notified the state of its intention to discontinue service on the International route between Port Huron and Battle Creek. At the time, AMTRAK indicated that it wanted to reroute the International service to the Detroit – Chicago route without state operating assistance. In effect, AMTRAK was proposing additional service for Detroit - Chicago with no subsidy, in place of the subsidized Port Huron to Battle Creek route.

Service was maintained on the both the International (Port Huron - Battle Creek) Pere Marquette routes. However, the state subsidy increased significantly – from \$2.05 million in FY 1999/2000 to \$5.7 million in FY 2000/01. The service did not cost that much more to operate. It is our understanding that AMTRAK required an increase in state subsidies primarily as a result of reductions in federal assistance to AMTRAK. In 1997 Congress passed the AMTRAK Reform Act which eliminated most federal operating assistance to AMTRAK after 2002.

**Table 1
State Operating Subsidy for AMTRAK
FYs 1995/96 – 2002/03**

| Fiscal Year | International Subsidy/Riders | | Pere Marquette Subsidy/Riders | | Total AMTRAK Subsidy |
|--------------------|-------------------------------------|---------|--------------------------------------|--------|-----------------------------|
| 1995/96 | \$1,010,000 | 109,436 | \$687,500 | 52,210 | \$1,897,500 |
| 1996/97 | \$1,162,500 | 121,528 | \$687,500 | 63,386 | \$2,050,000 |
| 1997/98 | \$1,300,000 | 114,732 | \$750,000 | 64,503 | \$2,050,000 |
| 1998/99 | \$1,300,000 | 113,702 | \$750,000 | 68,091 | \$2,050,000 |
| 1999/00 | \$1,300,000 | 107,878 | \$750,000 | 63,002 | \$2,050,000 |
| 2000/01 | \$3,500,537 | 104,674 | \$2,200,020 | 57,995 | \$5,700,557 |
| 2001/02 | \$3,500,000 | 89,739 | \$2,200,000 | 58,889 | \$5,700,000 |
| 2002/03 see below | | | | | |

In FY 1999/2000 an additional \$250,000 was contracted for marketing.
 “Riders” represents each boarding and does not consider the length of each trip.

FY 2002-03

Section 711 of the current year transportation appropriations act, PA 561 of 2002 (HB 5651), sets a \$5.7 million limitation on the amount of state operating subsidy ².

AMTRAK's original proposal for FY 2002-03 included a \$7.9 million state operating subsidy. This amount was reduced to \$7.1 million through cost reductions including the elimination of station staffing at East Lansing, Flint, and Port Huron. The amount was nonetheless in excess of the boilerplate cap.

In November 2002 AMTRAK and the department agreed to a six-month contract for the period October 1, 2002 through March 31, 2003. The contract provided for a subsidy of \$2.85 million – half of the \$5.7 million boilerplate limit. AMTRAK's contract proposal for the next six month period – the period ending September 30, 2003 – would bring the annual subsidy to \$7.1 million. This would exceed the \$5.7 million boilerplate limitation.

There are sufficient funds in the *Rail passenger service* line item, \$8.3 million CTF, to fund AMTRAK's subsidy proposal. The legal impediment to funding the AMTRAK request is the boilerplate limitation of Section 711. House Bill 4343 would amend Section 711 of PA 561 of 2002 to eliminate the phrase which established the spending limitation. Use of additional CTF funds for AMTRAK operating subsidies would reduce the amount available to fund capital projects.

RAIL PASSENGER SERVICE – LINE ITEM

State assistance for rail passenger service is authorized through the Rail Passenger Service line item in annual Transportation appropriations acts. A history of this line item is shown in Table 2, below:

Note that this appropriation supports both annual operating assistance for the Pere Marquette and International routes, and capital improvements on the Detroit-Chicago route. Funding for the operating assistance comes from the state funds; capital programs are funded with both state and federal funds.

| Fiscal Year | State Funds (CTF) | Federal Funds | Total Appropriated |
|--------------------|--------------------------|----------------------|---------------------------|
| 1995-96 | 2,000,000 | 3,000,000 | 5,000,000 |
| 1996-97 | 2,000,000 | 3,000,000 | 5,000,000 |
| 1997-98 | 2,000,000 | 3,000,000 | 5,000,000 |
| 1998-99 | 3,667,300 | 3,000,000 | 6,667,300 |
| 1999-2000 | 5,812,700 | 3,000,000 | 8,812,700 |
| 2000-01 | 6,000,000 | 3,000,000 | 9,000,000 |
| 2001-02 | 6,992,000 | 3,000,000 | 9,992,000 |
| 2002-03 | 8,300,000 | 3,000,000 | 11,300,000 |

² Section 711 is copied in its entirety below.

Boilerplate Section 711 from PA 561 of 2002 (HB 5651)
Showing Strikeout proposed by HB 4343

Sec. 711. (1) From the funds appropriated in part 1 from the comprehensive transportation fund for rail passenger service, the department shall negotiate with a rail carrier to provide rail service between Grand Rapids and Chicago and between Port Huron and Chicago on a 7-day basis, consistent with the other provisions of this section.

(2) The department shall work with the rail carrier, local communities, and the federal government to increase marketing efforts to promote awareness of rail passenger service, to increase ridership, to reduce operating subsidies in conjunction with the federal phaseout of operating subsidies, to maximize the revenue of the rail passenger lines in Michigan, and to improve on-time performance. The department shall submit a report to both the house and senate appropriations committees and the house and senate fiscal agencies by January 1, 2003, that provides a 5-year history on services, ridership, and subsidies.

(3) Future state support for the service between Grand Rapids and Chicago and Port Huron and Chicago is dependent on the department's ability to provide a plan and a contract for services that increase ridership and revenue, reduce operating costs, and improve on-time performance. The department shall include a section in the report required in subsection (2) detailing efforts to reduce the dependence on state operating subsidies and projected operating expenses for the next 2 years, and recommending service alternatives, for the Grand Rapids to Chicago service and the Port Huron to Chicago service.

(4) Any state subsidy shall only provide for the direct operating costs in Michigan ~~and shall not exceed \$5,700,000.00 for the service between Port Huron and Chicago and Grand Rapids and Chicago.~~

(5) The rail carrier shall, as a condition to receiving a state operating subsidy, establish a system to monitor, collect, and resolve customer complaints and shall make the information available to the department, the house and senate appropriations subcommittees on transportation, and to the house and senate fiscal agencies.

(6) If the chosen rail carrier is Amtrak, the department shall require Amtrak to provide information to the department to identify direct and indirect operating costs prior to receiving any state funding. Any state subsidy shall only provide for the direct operating costs in Michigan.

Analyst(s)

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FLOOR ANALYSIS - 3/31/03

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