

Chapter 5

Future Funding Opportunities and Needs for Rail Projects

Virginia has an ambitious rail agenda of alleviating congestion and creating a rail system appropriate for future passenger and freight growth. The challenge is finding the resources to get it all done. Factors influencing the funding picture for Virginia’s rail projects are:

- ❑ Demand for passenger service is growing statewide, as gasoline prices and less attractive aviation options drive up demand for VRE and Amtrak service, both of which travel on rail tracks owned by freight railroads.
- ❑ Freight railroads, too, are seeing greater demand on their systems. Capacity expansion and other capital investments will be necessary before accepting additional passenger service.
- ❑ Freight rail operates at a profit and CSX and Norfolk Southern have a responsibility to their shareholders to remain so. Passenger rail in the United States requires a subsidy.

- ❑ Virginia has several potential funding options for passenger and freight rail. These options vary according to their source, uses and availability.
- ❑ The Commonwealth is fortunate to have created a dedicated funding source for freight and passenger rail investment — the Rail Enhancement Fund (using a portion of the dedicated rental car tax), the Rail Preservation Program for shortline railroads and Rail Capital Bonds. Virginia carefully manages its funding programs, setting minimum partner contributions and requiring that public benefits produced by rail projects exceed the Commonwealth’s investment.
- ❑ New federal funding may become available in the form of capital grants for passenger rail projects. Virginia will have to prepare by developing a financing plan in order to compete for federal funds.

With many worthwhile projects, Virginia faces a dilemma: the expansion of rail in Virginia faces both operational and financial constraints. Demand for passenger service is growing across the state. VRE is approaching capacity and ridership is expected to double in the next 20 years. Improved passenger rail service is desired along the major corridors within the Commonwealth. At the same time, the state’s freight rail partners are carrying increased volumes of freight traffic and will require capacity expansion and other capital investment before accepting additional passenger service. This increase in rail freight traffic is beneficial to the state transportation system as trucks — which create greater congestion and emissions — are removed from the roadways.

Meanwhile, Amtrak is shifting its strategic focus to passenger rail corridors, with states becoming “purchasers” of service and bearing increased financial responsibility. Supporting this shift is a new movement in Congress that proposes to authorize significantly increased funding for Amtrak and capital grants to states for passenger rail projects.

Two bills have recently passed (S. 294 and H.R. 6003) that would facilitate grants to states to fund improvements to intercity rail. The Virginia Statewide Rail Plan, when finalized, will meet the requirements established by federal legislation to secure future federal funding that may become available.

Sources of Funds

Virginia has many potential funding options for passenger and freight rail. These options vary according to their source (private/railroad or public state, local and federal funds, as well as fares), their uses (stations, rolling stock such as railcars, locomotives, etc., right-of-way, operations and maintenance) and their availability (currently in use versus potentially available in the future).

1. Railroads

The railroads that operate in Virginia have willingly participated in the Commonwealth's programs in numerous public private partnership projects. These projects have included initiatives focused on reducing truck traffic leaving the Port of Virginia as well as projects that benefit both freight and passenger rail in the I-95 and I-81 corridors. The Commonwealth's rail programs generally require a 30 percent match from sources other than the Commonwealth or the federal government.

To date, the minimum 30 percent match has not been an issue with respect to the projects that are currently under contract. The expectation is that the railroads would continue to contribute to rail projects at a similar or higher share in the future. A key emphasis moving forward is the development

and execution of agreements that provide dual benefits for passenger and freight rail projects.

2. Commonwealth of Virginia

Four programs provide the bulk of rail funding. These are the Rail Enhancement Fund, the Rail Preservation Fund, Transportation Capital Project Revenue Bonds and the Rail Industrial Access Fund. Based on existing funding levels, the rail program revenue outlook derived from these funds is shown in *Figure 5-1* for the Fiscal Years 2009 through 2035.

The Rail Enhancement Fund was established in 2005. The fund provides dedicated state funding for acquiring, leasing and/or improving railways or railroad equipment, rolling stock, rights of way or facilities for freight and/or passenger rail transportation purposes whenever the Commonwealth Transportation Board determines that it is for the good of a region of the Commonwealth or the Commonwealth as a whole. The source of revenues for the Rail Enhancement Fund is a portion of the three percent vehicle rental tax and the interest earned on cash balances — a total of approximately \$23.5 million in FY2008.

The Rail Preservation Fund was established in 1991. The fund provides state financial support to preserve, continue and increase the productivity, safety and efficiency of shortline railway transportation logistics in Virginia. Through projects funded by the Rail Preservation Program, a freight rail transportation alternative is provided to businesses and industries in areas of the

Commonwealth that otherwise would not have these options. This program has become a key component of the Commonwealth's efforts to attract and maintain business in Virginia. This fund receives a \$3 million annual allocation of highway construction funds and the interest earned on cash balances to fund shortline rail improvement projects.

Capital Project Bonds for transit and rail improvements were established by the General Assembly in 2007. The bond package includes a minimum of 4.3 percent of available bond funds specifically for rail transportation. This equates to approximately \$4.3 million in FY2008 and then about \$12.9 million each year afterward until the total of \$3 billion of authorized bonds are fully allocated in FY2018. If these bonds were to be extended or a new source of revenue was added to replace bonds after 2018 through FY2035, approximately \$220 million in additional revenue would be available for projects. The projects funded with capital bond proceeds are administered through the Rail Enhancement Fund or the Rail Preservation Program for rail capital projects.

The Rail Industrial Access Fund was established in 1986. The fund provides financial support for projects that produce freight rail access to businesses in Virginia in conjunction with the Virginia Economic Development Partnership, County and Municipal Economic Development Departments, railroads and private industry. In 1995, the Commonwealth Transportation Board passed a resolution for the use of Industrial Access Railroad Tracks Program to serve as an incentive to

Figure 5-1

RAIL PROGRAM REVENUE OUTLOOK

Fiscal Year	Rail Enhancement Estimated Revenue (\$ Million)	Rail Preservation Estimated Revenue (\$ Million)	Capital Project Bonds Estimated Revenue (\$ Million)	Rail Industrial Access Estimated Revenue (\$ Million)	Total (\$ Million)
2009	24.2	3.3	12.9	1.5	41.9
2010	25.0	3.3	12.9	1.5	42.7
2011	25.8	3.3	8.6	1.5	43.5
2012	26.7	3.3	12.9	1.5	44.4
2013	27.6	3.3	12.9	1.5	45.3
2014	28.6	3.3	12.9	1.5	46.3
2015	29.6	3.3	12.9	1.5	47.3
2016	30.6	3.3	12.9	1.5	48.3
2017	31.6	3.3	12.9	1.5	49.3
2018	32.7	3.3	12.9	1.5	46.1
2019	33.8	3.3	0	1.5	38.6
2020	35.0	3.3	0	1.5	39.8
2021	36.1	3.3	0	1.5	40.9
2022	37.4	3.3	0	1.5	42.2
2023	38.6	3.3	0	1.5	43.4
2024	40.0	3.3	0	1.5	44.8
2025	41.3	3.3	0	1.5	46.1
2026	42.7	3.3	0	1.5	47.5
2027	44.2	3.3	0	1.5	49.0
2028	45.7	3.3	0	1.5	50.5
2029	47.2	3.3	0	1.5	52.0
2030	48.8	3.3	0	1.5	53.6
2031	50.5	3.3	0	1.5	55.3
2032	52.2	3.3	0	1.5	57.0
2033	54.0	3.3	0	1.5	58.8
2034	55.8	3.3	0	1.5	60.6
2035	57.7	3.3	0	1.5	62.5
Total	\$1,043.4	\$89.1	\$124.7	\$40.5	\$1,297.7

encourage industrial or commercial development in the Commonwealth of Virginia. Successful candidate projects will produce significant positive economic impacts. Funding for this program is expected to average \$1.5 million per year for future years.

Other Commonwealth Sources. Virginia also provides financial support for public transportation systems in the Commonwealth. State funds are provided to support capital and operating expenses for transit systems and often are used to help provide matching funds for federal grants from the Federal Transit Administration. Two rail projects in Virginia currently receive both federal and state public transportation grants. VRE commuter rail service and the Main Street Station multimodal facility in Richmond both meet the federal and state requirements for public transportation grants. Commuter rail service and multimodal transportation projects with a bus transit component qualify under these programs. In 2007, the Commonwealth significantly increased investments to support transit capital and operating expenses through the use of bond funds for capital and recordation taxes to boost operating assistance. The overall funding for these transit programs increased by 45 percent as a result of 2007 action by the Governor and General Assembly. However, increases in fuel prices and greater demand for public transportation have all but consumed these gains in state financial support for public transportation.

3. Local Jurisdictions

Local jurisdictions usually prefer to see clear local public benefit and equitable cost sharing before they are willing to invest local revenues in transportation projects. For this reason, passenger rail/multimodal stations represent the best opportunity for utilization of local funding in developing a capital plan for passenger rail expansion. Local funds can be used for the initial purchase or lease of a pre-existing station or land, for station construction and renovation, for construction of parking and for ongoing station expenses (cleaning and maintenance, security, etc.). Station investment is often acceptable to localities, since the investment stays within the immediate community. Further, through the application of transit-oriented development principles, local investment can spur creative multi-use destinations and additional economic development, and as well as offer the potential for the creation of intermodal links (such as airport stations or the relocation of intercity bus terminals).

Local jurisdictions often will need to consider alternatives to city or county general funds, which can be used on many projects, but which are often consumed by competing needs (public safety, health, schools, etc.). Some jurisdictions in Northern Virginia use local general funds to assist in the implementation and ongoing operations of VRE service. The investment of local funds into passenger rail programs is critical as it creates a greater sense of ownership, helping the service find successful solutions to land use and operational issues related to service frequency and expansion. Alternative funding vehicles available include private sector

partnerships, either through an economic development district or through the joint development of parking or retail, a special assessment district or the issuance of debt against the increased tax revenues resulting from the increased real property values and stimulated economic investment, which creates more taxable property. Tax Increment Financing, as this latter method is commonly labeled, dedicates the future increased tax revenues to finance debt issued to pay for the project.

Additionally, in Virginia, jurisdictions may elect to program a portion of their allotments of state highway funds under the Urban or Secondary Roads program to support passenger rail projects. These programs currently are severely financially constrained and in most cases are not a likely source for rail project funding. In Virginia's largest urbanized areas, local jurisdictions also play a role in the possible use of certain federal funds that are programmed at the regional level through Metropolitan Planning Organizations (MPOs). The MPOs may program certain Federal Highway allocations to help fund rail capital improvements such as station improvements.

4. Federal Funding

On the federal side, the nature of the passenger rail service determines its eligibility for federal funding. The U.S. DOT classifies passenger rail services as either commuter rail service (handled by the Federal Transit Administration [FTA]) or intercity passenger rail service (handled by the Federal Railroad Administration [FRA]). In Virginia, only the passenger

services operated by VRE meet the FTA definition of commuter rail service. The VRE services generate and are eligible for FTA funds under both the Section 5307 (urbanized area) and Section 5309 (fixed guideway modernization) federal formula programs that are used for capital projects in the two service corridors.

Until recently, there was no federal funding program to assist states with intercity passenger rail projects. However, in January, 2008 the FRA announced a new Capital Assistance to States - Intercity Passenger Rail Service Program. The program made a modest \$30 million in Federal matching funds available directly to states through grants to fund up to 50 percent of the cost of capital investments and planning activities necessary to achieve tangible improvements to or institute new, intercity passenger rail service. The program focuses on projects that lead to an on-time performance of 80 percent or greater, reduce travel times, increase service frequency or enhance service quality for intercity rail passengers. Virginia has submitted two grant applications under this program that will support 50 percent of project costs to support planned improvements between Fredericksburg and Washington, DC

Far more promising are the two Amtrak reauthorization bills (S. 294 and H.R. 6003) that cleared their respective houses with veto-proof majorities. Both S. 294: Passenger Rail and Investment Improvement Act of 2007 and H.R. 6003: Passenger Rail Investment and Improvement Act of 2008 contain a provision that authorizes the

U.S. DOT to make grants to states to fund improvements to intercity rail. *Figure 5-2* depicts the level of funding that could potentially be available under the provisions of these two bills. The actual estimated outlays are significantly lower than the authorized amount in the bills.

There are other limited federal funding sources that can support some capital expenses for passenger rail transportation. For example, limited federal funds may be available to support station expenses through historic preservation funds and Department of Homeland Security funding for security upgrades (e.g., CCTVs). These funding sources generally require a federal earmark. Improvements to grade crossings may also be eligible for federal funding through the FHWA grade crossing program or the FRA Sealed Corridor program.

Finally, both Congestion Mitigation Air Quality (CMAQ) and Surface Transportation Funding (STP) programs have specific application to both capital project elements of passenger rail service expansion (CMAQ and STP) and the start-up costs associated with operations in the first three years (CMAQ). These funds are allocated to the Northern Virginia, Richmond, Hampton Roads and Fredericksburg urbanized areas and are programmed by the regional MPOs. The Commonwealth provides the 20 percent match that is generally required by these federal programs from the Priority Transportation Fund.

Regardless of the source or program, Virginia is preparing to capture future federal funding. If either

Figure 5-2

S. 294 AND H.R. 6003 GRANTS TO STATES FOR RAIL AND CONGESTION REDUCTION PROJECTS

S. 294 By Fiscal year, in Millions of Dollars							
	FY 2008	FY 2009	FY2010	FY2011	FY2012	FY2013	FY 2008-2013
Grants to States for Rail Projects							
Authorization Level	\$100	\$246	\$274	\$369	\$406	\$ -	\$1,395
Estimated Outlays	\$22	\$72	\$139	\$205	\$277	\$ -	\$715
H.R. 6003 By Fiscal year, in Millions of Dollars							
	FY 2008	FY 2009	FY2010	FY2011	FY2012	FY2013	FY 2009-2013
Grants to States for Rail Projects							
Authorization Level	\$ -	\$850	\$852	\$852	\$849	\$849	\$4,252
Estimated Outlays	\$ -	\$85	\$255	\$511	\$681	\$808	\$2,340
H.R. 6003 By Fiscal year, in Millions of Dollars							
	FY 2008	FY 2009	FY2010	FY2011	FY2012	FY2013	FY 2009-2013
Grants to Reduce Rail Congestion							
Authorization Level	\$ -	\$100	\$102	\$104	\$106	\$106	\$520
Estimated Outlays	\$ -	\$75	\$97	\$103	\$105	\$107	\$487

S.294 or H.R. 6003 passes in its current form, capital grants to states would likely become available beginning in 2010 or 2011. SAFETEA-LU, the current national transportation authorization program, expires after FY2009, and reauthorization may offer additional funding sources, including possible expansion of existing programs that have not been fully appropriated as authorized (such as the grade crossing program and the high speed rail corridor development program), as well as the potential for a significant FRA investment program. Even in the absence of special federal matching funds related to Amtrak service, some funding may be available to Virginia from Amtrak’s general capital budget. Amtrak has mandatory station upgrades required under the Americans with

Disability Act that may contribute to some of the desired station upgrades. In addition, if Amtrak’s general capital budget were increased, Virginia will be prepared to make the case for investments and improvements within the state and help encourage federal funding with the availability of state resources.

5. Passenger Fares

Fare revenues are generally used to defray a portion of the operating costs. As with transit service everywhere else in the country, both commuter and intercity rail require a subsidy to support capital and ongoing operating costs. The subsidy required ranges based on the type of service desired. VRE has established policy that generally requires that 50

Figure 5-3
HEARTLAND CORRIDOR TUNNEL CLEARANCE
FUNDING SOURCES
(\$160 MILLION PROJECT COST)

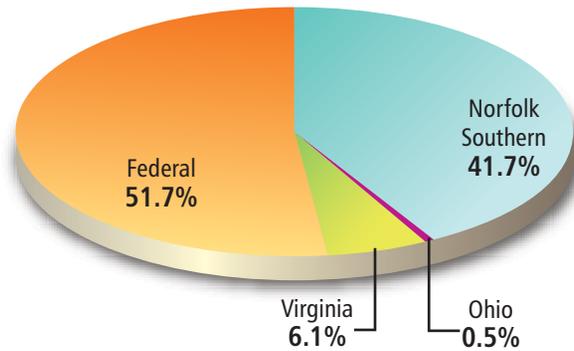
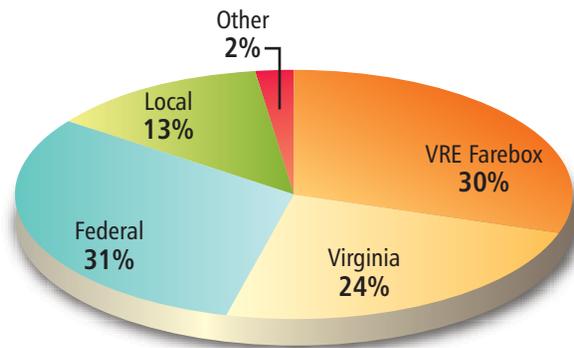


Figure 5-4
VIRGINIA RAILWAY EXPRESS REVENUE
FUNDING SOURCES
(\$58.5 MILLION/YEAR
AVERAGE TOTAL REVENUE 02-07)



percent of its operating costs are recovered from passenger fares. This requirement is sound public policy that must be balanced and take into consideration other factors that support the implementation of passenger rail, such as improved mobility, particularly in smaller urban areas.

Summary

Virginia is fortunate to have established several dedicated funding sources for its rail program. Any successful rail projects in Virginia will need to bring together multiple funding sources and partners to support various project elements. The Heartland Corridor project and VRE services provide successful templates for sharing costs and benefits. *Figure 5-3* depicts the multiple funding source percentages for the \$160 million tunnel clearance project as part of the multi-state Heartland Corridor Initiative. *Figure 5-4* is a summary of a six-year (2002 to 2007) average of the multiple revenue funding sources for VRE.

Implementation of intercity rail provides benefits all along the corridors that VRE serves. However, intercity rail, like VRE, will face challenges in securing funding from all of the beneficiaries. Given the length in terms of route miles that intercity rail service may operate from Newport News to Washington, DC or Bristol to Washington DC, Virginia will have to assume a leadership role by providing a business model that collects revenues from various sources, negotiates with railroads for operating slots and improvements and, ultimately, executes an agreement to fully reimburse Amtrak for its costs of operating service in the Commonwealth.

From a policy perspective, it is clear that the Commonwealth is not choosing between freight or passenger rail along its well-traveled and congested corridors. DRPT is focused on crafting multimodal solutions that will support both, given our desire to reduce congestion, support economic prosperity and enhance the quality of life for citizens. Given the costs of the projects and limited public funding, partnerships and collaboration are key ingredients to moving projects from dreams to operation.