PENNSYLVANIA INTERCITY passenger & freight RAIL PLAN

Appendix 8

Funding and Finance

Appendix 8
Funding and Finance

Introduction

Transportation investment should be guided by policy direction or objectives that serve broad goals such as economic development and improved mobility. The development of the interstate highway system in the United States, for example, supported a broader vision of bolstering national defense. That initial vision for the interstate highway system was expanded to also promote unprecedented personal mobility. As a result, over the course of 50 years the public broadly embraced the investment of billions of dollars in the construction of highways.

A long-term funding strategy for intercity passenger and freight rail must also be guided by significant, long-term strategic goals. This section begins with some of those critical policy goals and related objectives that could drive the ultimate funding strategy for rail freight and intercity rail.

Pennsylvania must plan strategically and in the long term for intercity passenger and freight rail. Good public policy dictates that even in the earliest stages of planning the real funding and financing implications should be considered. The purpose of this Appendix is to establish a baseline of potential funding sources for the state's long-term rail investment plan.

Appendix 8 includes the goals and objectives that will be used to build a funding strategy, the funding implications of the goals, and guiding principles for rail funding. This Appendix also discusses current funding sources and other rail funding sources and tools which may be explored by Pennsylvania in the future.

Goals and Objectives

There are eight goals with corresponding objectives set forth in this Plan. These goals and objectives should guide rail transportation investments on a broad scale. While the goals are broad by design, each has potential implications for rail funding and finance. The identification of these goals is intended to set the stage for rail funding because they describe what the state wishes to achieve with the rail network. Those goals are:

1. Bring the priority rail system to a state of good repair and maintain it.
2. Develop an integrated rail system.
3. Support the future needs of residents and businesses.
4. Enhance the quality of life in Pennsylvania.
5. Assure personal safety and infrastructure security.

6. Support energy efficiency and environmental sustainability.
7. Provide stable and predictable funding.
8. Build public support for rail system services and assets.

Each goal has been developed further through more specific supporting objectives as presented in the discussion below. Specific objectives provide a means for better clarification and specificity of the goal, which, in turn, will help to develop a financial strategy and evaluate its impact and return on investment.

Implications

Each goal has implications that are relevant to the future design of funding strategies and approaches as described in Table 8-1. Moreover, an ultimate rail funding strategy must be built on a clear definition of both public and private benefits as the basis for identifying potential revenue sources and partnerships. The ability to distinguish and quantify the respective public versus private benefits is particularly important to any funding plan.

Table 8-1: Implications of Overall Policy Goals

Goal	Implications
State of Good Repair	- Use of the rail network to its greatest potential - Incorporation of new and emerging technologies - Creation of economic opportunities and jobs
Integrated Rail System	- Use of highway and rail modes most efficiently - Increased usability of rail transportation - Increased ease of transfer between modes - Synergistic integration of transportation and land use - Advancement of multi-state/regional cooperation
Future Needs	- Increased competitive advantages of the state - Creation of stations that serve as community centers - Preservation of corridors as statewide assets - Increased mobility choice - Expanded jobs and tax base
Quality of Life	- Increased mobility choice - Expanded jobs and tax base - Compatibility of land uses
Safety and Security	- Fewer accidents and fatalities - Increased security
Energy and the Environment	- Fuel and energy savings - Air quality improvements - Roadway congestion reduction - Greater land use efficiency
Public Support	- Public recognition of rail benefits - Increased demand for rail service - Increased competition between modes

Guiding Principles for Rail Funding

To meet the policy goals above, rail funding strategies should collectively address eight guiding principles described below. Some of these principles are similar to the overall goals and objectives, but when used here are specific to:

1. **Establish and Fund Operating Needs and Costs:** Ensure the establishment of a stable, long-term operating fund (or funds) for passenger rail as an essential prerequisite for major capital investment. This principle cannot be overstated. Many infrastructure sponsors and proponents fail to adequately consider the real operating and maintenance costs and sources of associated revenue when spending on public projects.

2. **Relate Public-Private Benefits to Funding Sources:** Ensure the establishment of stable and predictable funding sources that link with the various public and private benefit streams as reflected in the above goals.
3. **Promote Modal Funding Flexibility to Respond to Dynamic Needs and Opportunities:** Increase transportation funding flexibility over time to respond most effectively to overall transportation systems needs, potentially through the creation of a transportation trust fund or some other means that provide flexibility in how transportation dollars are expended.
4. **Ensure Acceptable Return on Investment:** Maximize public and private return on investment and develop financing strategies in line with such benefits. Understand public and private benefits and prioritize financing.
5. **Act Regionally:** Promote multi-region and multi-state cooperation when advancing rail improvements to expand the funding pool and spread risk among greater numbers of participants.
6. **Improve Financial Analysis Capabilities:** Develop analytical tools to support sound decision making (cost allocation, economic analysis, cost/benefit).
7. **Consider P3 Potential:** Explore public-private partnerships as a tool for rail investment.

Current Funding Sources

A variety of federal and state programs are available for rail projects. The majority of funding programs apply to passenger rail. With private ownership of infrastructure being the dominant model for freight railroads, there are currently fewer public funding sources available for rail freight projects. Pennsylvania, though, is a national leader in rail freight investment. It should be noted that projects to improve infrastructure for passenger rail can have benefits for the freight railroads and shippers using shared rail lines, as in the case of the Keystone Corridor.

The Federal Transit Administration (FTA) and the Federal Railroad Administration (FRA) administer the federal financing programs that directly pertain to passenger and freight rail. The FRA's programs are more specific to intercity passenger rail (IPR), while the FTA programs include IPR along with a variety of transit and commuter rail projects.

At the state level, the Bureau of Rail Freight, Ports, and Waterways administers grant programs for rail freight and the Bureau of Public Transportation administers grant programs pertaining to passenger rail.

Rail projects, and freight rail in particular, will typically be projected to yield economic development benefits, thus potentially qualifying for some of the many economic development grant and loan programs.

The following section provides a brief overview of the relevant public funding programs for passenger and freight rail projects in Pennsylvania. In addition, the principal grant funding programs are contained in Appendix 8-1.

Federal Grant Sources

Federal Transit Administration. The FTA provides funding through a variety of grant programs for transit and passenger rail projects, programs, and planning. FTA grant funding to Pennsylvania (and parts of adjoining states) totaled nearly $474 million in FY 2008. The FTA grant programs which apply to passenger rail are briefly described below.

- **Formula Funding.** The majority of the FTA funding for Pennsylvania is in the form of "formula" funding, which is money allocated to areas on the basis of a legislated formula. Formula funds may be used to support transit capital, planning, or operating expenses (operating expenses excluded for urbanized areas with a population over 200,000). Formula funding is distributed to the local Metropolitan Planning Organizations (MPOs). PennDOT's Keystone Corridor Improvement Program dollars flow from this dedicated funding source. Recipients must be a public entity.

  Match: A minimum 50 percent non-federal match is required, with the following exceptions. The federal share may be 90 percent for the cost of vehicle-related equipment attributable to compliance with the Americans with Disabilities Act (ADA) and the Clean Air Act (CAA). The federal share may not exceed 50 percent of the net project cost of operating assistance.

- **Transit Capital Investment Program.** This program funds Fixed Guideway Modernization, New Fixed Guideways, and Buses and Bus Facilities. Funding recipients must be municipal entities. Fixed Guideway funding may go to the purchase and rehabilitation of rolling stock, track, line equipment, structures, signals and communications, power equipment and substations, passenger stations and terminals, security equipment and systems, maintenance facilities and equipment, operational support equipment including computer hardware and software, system extensions, and preventive maintenance.

- **Fixed Guideway Modernization** funds are allocated under a seven-tier formula. New Fixed Guideway ("New Starts") funding is nominally allocated at the discretion of the Secretary of USDOT, although Congress fully earmarks all available funding. Pennsylvania agencies received over $131 million for the Fixed Guideway programs in FY 2008.

  Match: The minimum non-federal match for Modernization projects is 20 percent despite the statutory declaration of a similar match for New Starts. Congress has instructed that such grants should have no less than a 40 percent non-federal match.

- **Surface Transportation Program (STP) Urban Funds.** STP funds originally allocated to the Federal Highway Administration (FHWA) may be transferred to FTA and subsequently allocated under the Urban Formula Funding (described above). This is an example of "flexible funds." The decision to transfer the funds is made by the MPO in large areas (population over 200,000) and by the MPO in cooperation with the state DOT in smaller urban areas. STP funds are probably the most flexible of any funding source and are always in high demand. In addition to capital projects, STP funds may go toward transportation planning activities, wetland mitigation, transit research and development, and environmental analysis. Other eligible projects under STP include transit safety improvements and most transportation control measures.

  Match: A minimum 20 percent non-federal match is required.

- **The National Research and Technology Program** [49 U.S.C. 5314(b)] This program funds research and various types of innovation in transit. Funds are allocated on a discretionary basis.

- **New Freedom Program** funds are available for capital and operating expenses that support new public transportation services beyond those required by the Americans with Disabilities Act of 1990 to assist individuals with disabilities with accessing transportation services.
- **The Alternatives Analysis Program** (49 U.S.C. 5339) assists in financing the evaluation of all reasonable modal and multimodal alternatives and general alignment options for identified transportation needs in a particular, broadly-defined travel corridor. Funds may be used to assist state and local governmental authorities in conducting alternatives analyses when at least one of the alternatives is a new fixed guideway system or an extension to an existing fixed guideway system. Funds are allocated by legislation or on a discretionary basis.

  Match: A minimum 20 percent non-federal match is required.

Congestion Mitigation and Air Quality (CMAQ) program. CMAQ money supports transportation projects that reduce mobile source emissions in areas designated by the U.S. Environmental Protection Agency (EPA) as in "nonattainment" or "maintenance" of national ambient air quality standards. Eligible activities include those related to rail intermodal freight transportation improvements and passenger rail improvements. To be eligible for funding the project must be demonstrated to result in a reduction of emissions of a criteria pollutant for which the area is in non-attainment. CMAQ funding is administered jointly by the FHWA and FTA and is allocated among the states on the basis of the severity of their air quality status. In Pennsylvania the funding is programmed through the MPOs, and to be eligible the project must be in the MPO's Transportation Improvement Program (TIP).

Match: A minimum 20 percent non-federal match is typically required.

Capital Assistance to States. The major shift in Congressional direction for intercity passenger rail development began in 2008 with the establishment of a new pilot program for joint federal-state IPR capital investment ("State Grant Program"). Under this program, $30 million in federal funding was made available to states on a competitive basis. The law established basic eligibility and evaluation criteria, and allowed up to 10 percent of the funding to be used for rail corridor planning grants. An appropriation was made in FY 2008 and 2009 for this state grant program. The only eligible recipient is a state. The program is administered by the FRA.

Match: There is a 50 percent minimum non-federal match required.

Federal Railroad Administration's Passenger Rail Investment and Improvement Act of 2008 (PRIIA). This Act was enacted under the same House Bill that created the Federal Rail Safety Improvement Act. In addition to reauthorizing Amtrak, PRIIA builds upon the experience of the FY 2008 State Grant Program (described above) by establishing the following three new competitive grant programs for funding high-speed and intercity passenger rail capital improvements. All programs under the Act are administered by the FRA:

- **Intercity Passenger Rail Service Corridor Capital Assistance (Section 301).** Under this section, the broadest of the three new grant programs established under PRIIA, states, groups of states, interstate compacts, and public IPR agencies established by one or more states may apply for grants to fund up to 80 percent of the cost of capital improvements to benefit all types of IPR service. In order to be eligible for funding under this program, proposed projects must be included in a State Rail Plan.

- **High-Speed Rail Corridor Development (Section 501).** Although similar in structure, criteria, matching requirements, and conditions to Section 301, eligibility for this program is restricted to projects intended to develop high-speed rail (HSR) corridors. Such projects must be located on a federally-designated HSR corridor, and be intended to benefit IPR services reasonably expected to reach speeds of at least 110 miles per hour. Participant eligibility for this program is also broadened from Section 301 to include Amtrak. The Keystone Corridor is a recognized national HSR corridor.
- **Congestion Grants (Section 302).** This program authorizes grants to states or to Amtrak (in cooperation with states) for financing up to 80 percent of the capital costs of facilities, infrastructure, and equipment for high-priority rail corridor projects necessary to reduce congestion or facilitate ridership growth in IPR transportation. The program incorporates the same grant conditions as those applicable under Sections 301 and 501.

  Match: A minimum 20 percent non-federal match is required for all three programs.

American Recovery and Reinvestment Act of 2009 (ARRA). The $8 billion HSR/IPR funding contained in ARRA represents the first appropriations for Sections 301, 302, and 501 of PRIIA, and a major "jump-start" for the widespread development of improved intercity passenger rail service. In keeping with the urgent nature and underlying purposes of ARRA, the Act waives the non-federal matching requirement. PennDOT submitted applications in August 2009 for $28.2 million in ARRA dollars for high-speed rail projects in FRA's initial funding round. The proceeds would help fund preliminary engineering work for four projects associated with the Keystone Corridor East between Harrisburg and Philadelphia, as well as a corridor study for passenger service between Harrisburg and Pittsburgh.

Federal Rail Safety Improvement Act of 2008. This Act primarily addresses rail safety through regulations, but does authorize a rail safety technology grant program in the amount of $50 million per year, subject to annual appropriations. The first appropriation has recently been made, but details on the program have not yet been published nor is funding available yet. Provisions under the Act are to be administered by the FRA.

Rail Line Relocation and Improvement Capital Grant Program. Under this program, a state is eligible for a grant from FRA for any construction project that improves the route or structure of a rail line and (1) involves a lateral or vertical relocation of any portion of the rail line, or (2) is carried out for the purpose of mitigating the adverse effects of rail traffic on safety, motor vehicle traffic flow, community quality of life, or economic development. For FY 2009, Congress appropriated $25,000,000 in federal funds for the Rail Line Relocation and Improvement Program, with $17,100,000 directed to 23 non-competitive projects. The program had been authorized under SAFETEA-LU for fiscal years 2006 through 2009, but no appropriations were made until FY 2008.
Match: Minimum 10 percent non-federal match is required.

National Clean Diesel Campaign. The U.S. EPA established the National Clean Diesel Campaign (NCDC) to promote diesel emission reduction strategies. NCDC includes regulatory programs to address new diesel engines and funding and other programs to address the diesel engines already in use. In 2009, the Campaign is distributing funding for clean diesel activities through two separate funding sources: (1) the American Recovery and Reinvestment Act of 2009 ($300 million), and (2) EPA's FY 2009 Appropriations ($60 million). Thirty percent of this funding goes to the State Clean Diesel Programs (Pennsylvania's is limited, aviation-related diesel) and the remainder goes to three EPA-administered programs, described below.

- **The National Clean Diesel Funding Assistance Program** provides funding to reduce emissions from existing diesel engines through a variety of strategies, including but not limited to: add-on emission control retrofit technologies; idle reduction technologies; cleaner fuel use; engine repowers; engine upgrades; and/or vehicle or equipment replacement; and the creation of innovative finance programs to fund diesel emissions reduction projects. Locomotives are among the many types of fleets that qualify for funding. Recipients must be a public or nonprofit entity. Only technologies that are verified and certified by EPA and the California Air Resources Board (CARB) qualify for funding under this program.
- **The Clean Diesel Emerging Technologies Program** is an opportunity to advance new, cutting edge technologies that reduce diesel emissions from existing fleets. Under this program, EPA provides funding assistance to eligible entities for the deployment of diesel emission reduction technologies which have not yet been verified or certified by EPA or the California Air Resources Board.
- **The SmartWay Clean Diesel Finance Program**, a program of the U.S. EPA National Clean Diesel Campaign, uses cooperative agreements to establish innovative finance programs for buyers of eligible diesel vehicles and equipment. Innovative finance projects include those where the loan recipient receives a unique financial incentive (i.e., greater than regular market rates or conditions) for the purchase of eligible vehicles or equipment. Funding is available to public and nonprofit entities, which can in turn use it to implement innovative finance programs for private or public entities.

Federal Economic Development Programs, Non-Transportation Specific

The Appalachian Regional Commission and the Economic Development Administration. These agencies occasionally contribute funding to rail-related projects that support economic development. The U.S. Department of Agriculture's Rural Development Administration is another potential source of funding or financing assistance in support of rail projects that result in rural economic development.

Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) Program. Municipalities meeting the income criteria may qualify for a block grant for rail-related development.

Environmental Protection Agency (EPA) Brownfield Assessment and Cleanup Grants and Loans. EPA has several programs that provide funding and technical assistance to local communities that wish to use a brownfield site for a rail project. EPA offers both brownfield assessment and clean-up grants. The Direct Cleanup Grants provide up to $200,000 per site. EPA also offers up to $1 million to establish a revolving loan program where developers may apply for no-interest or low-interest clean-up funding on public- or nonprofit-owned property.

Match: A non-federal match of 20 percent is required.

Federal Lending Assistance

Transportation Infrastructure Finance and Innovation Act (TIFIA). The goal of TIFIA financing is to leverage limited federal resources and stimulate private capital investment in transportation infrastructure by providing credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to projects of national or regional significance. TIFIA financing is available to public or private transportation projects, including rail and transit. The program is aimed at large projects (minimum of approximately $50 million). The maximum TIFIA-financed portion is 33 percent. The program is administered by the USDOT's TIFIA Joint Program Office. Application, transaction, and service fees are substantial, with a non-refundable application fee of $30,000, an annual service fee of $11,000, and a transaction fee that typically ranges between $200,000 and $300,000.

The Railroad Rehabilitation and Improvement Financing Program. Under this program established in 1998, the Federal Railroad Administration provides up to $35 billion in direct loans at interest rates roughly equal to the 30-year Treasury rate, as well as loan guarantees. The loans can be used to refinance outstanding debt that results from infrastructure projects, which the program also helps to finance at up to the total cost. State and local governments, government-sponsored authorities, and corporations, railroads, and others can participate in the program. The program is underutilized; since 2002, only $787 million of loans have been extended to 19 railroads.

Federal Tax Credits

Section 45G Track Rehabilitation Tax Credit. Section 45G of the Internal Revenue Code creates an incentive for short line railroads to invest in track rehabilitation by providing a tax credit of 50 cents for every dollar the railroad spends on track improvements. This tax credit is sometimes referred to as the "October 2004 Tax Credit," for the date in which it was enacted. Scheduled to sunset in 2009, legislation is being proposed which would extend the tax credit through 2012, increase the credit limitation from $3,500 to $4,500 per mile, and allow the participation of railroads formed between 2005 and 2009, which are excluded under the current legislation.

State Grants

Rail Freight Assistance Program and Rail Transportation Assistance Program ("Capital Budget"). These two separate but related programs provide financial assistance for investment in rail freight infrastructure. The objectives of these programs are (1) to preserve essential rail freight service where economically feasible, and (2) to preserve or stimulate economic development through the generation of new or expanded rail freight service. Rail Freight Assistance Program (RFAP) grants are awarded on a competitive basis. The Rail Transportation Assistance Program (Rail TAP), otherwise known as "Capital Budget," is available to those railroads having a line item in the current Capital Budget Bill. Even with a line item, such projects must apply and be selected in a competitive process. The maximum state funding for a RFAP or Rail TAP project is 70 percent of the total project costs. RFAP project funding is not to exceed $700,000. The funding for the construction portion of any project cannot exceed a maximum $250,000 for new construction. The funding limit for a Capital Budget project is the amount of the line item in the legislation.

The programs are administered by the PennDOT Bureau of Rail Freight, Ports, and Waterways. Eligible recipients include railroad owners, railroad operators, railroad operators/lessees, railroad users/shippers, and municipalities/governmental entities. A wide variety of new construction and maintenance expenditures are eligible for funding. Acquisition costs of land, buildings, or materials to construct a new building are excluded as part o f the Rail Freight Assistance Program (RFAP) grants. Rail Transportation Assistance Program (Rail TAP) funds can be used for a broad variety of construction and rehabilitation projects, including land acquisition for rail projects. Buildings are excluded. Eligible recipients include railroad owners, railroad operators, railroad operators/lessees, railroad users/shippers, and municipalities/governmental entities. The RFAP appropriation for 2010 is $9.5 million. The typical annual Transportation Assistance Program appropriation has been approximately $30 million.

Match: The programs fund up to 70 percent of total project costs. There is a required 30 percent match on the grantee's part.

Rail Passenger Capital Program. This program administers both state and federal funds for capital costs in support of intercity passenger rail service. Capital projects that are currently administered under this Program include the Keystone Corridor Improvement Project (KCIP) and the Lackawanna Cut-Off Restoration Project (Scranton to New York City). Both federal and state funding sources are utilized.

Urban Capital Assistance Program. The PennDOT Bureau of Public Transportation administers several transit capital assistance programs which provide grants to local operators of public transportation systems for the purchase/construction/renovation/overhaul of public transportation facilities and vehicles. Examples of transit capital items include buses, rail passenger vehicles, administrative and maintenance facilities, fixed guideways and stations, shop tools and equipment, two-way communication systems, transfer centers, bus shelters, etc. Both urban and rural transit systems are eligible grantees under these programs. Generally a local match of 3.33 percent for discretionary funding is required.

Rail Passenger Operating Program. This program administers state funds for intercity passenger rail service, and it involves reimbursement for operating expenses. The Amtrak Keystone Passenger Rail Service is the only project which receives funding from this program. There is no formal application required for this program. The process is initiated by "A Request for Funding" which consists of a letter that is sent by Amtrak in June to PennDOT with back-up information to substantiate the amount of funds being requested.

Urban Transit Operating Assistance Program. State funding is provided to help cover the costs incurred in the daily operation of local public transportation services in the state's 17 urbanized areas. The annual amount of funding is determined by legislative formula based on historical funding, and local matching funds must be provided to qualify for available state funds. While this program presently focuses on local transit systems it could conceivably be expanded in the future to have a broader focus inclusive of intercity rail.

State Lending Assistance

Pennsylvania Infrastructure Bank. The Pennsylvania Infrastructure Bank (PIB) is a revolving loan fund administered by PennDOT. The PIB offers flexible financing opportunities for eligible transportation improvement projects throughout the Commonwealth. The PIB provides direct, low-interest loans currently at half prime of the current rate with a period of up to 10 years for repayment. The PIB was capitalized with federal and state funds in 1998, in accordance with 1997 enabling legislation and a Cooperative Agreement between PennDOT and the USDOT. The PIB encompasses four separate accounts: highway/bridge, transit, aviation, and rail freight. Loans to eligible projects are made from one of these four accounts. Rail projects might fall under the transit or rail freight accounts, or, if they involve grade crossing safety or intermodal facilities, under the highway/bridge account. Among the objectives of the PIB are to spur economic development and to facilitate non-traditional projects, including intermodal facilities.

State Economic Development Assistance

A rail project that can be demonstrated to have an economic development impact may be eligible for a variety of funding and financing programs available through the Department of Community and Economic Development. The "Funding Tracker" on the DCED website (www.NewPA.com) is a comprehensive source of information on economic development funding programs available at the state level.

Future Funding Sources and Tools

Significant funding streams and tools for funding rail improvements currently exist and are being used in Pennsylvania. Funding needs, however, exceed resources. To meet those needs and to continue to improve the state of rail transportation in the Commonwealth, new funding and tools must continually be explored and tested.

Listed below is a wide range of potential funding sources and tools. These are presented not as recommendations for implementation in Pennsylvania, but as a range of possibilities for future consideration. A thorough analysis and screening of any new funding source or tool is required prior to being implemented. The screening process should employ a series of criteria with which to evaluate the funding sources and tools. The use of consistent criteria will ensure that an accurate comparison can be made between these financial approaches.

The following ideas for funding sources and tools are divided into three categories: funding sources, tools which allow the better use and leverage of existing funding, and local methods of funding.

Funding Sources

Funding for any governmental undertaking is provided by taxes and/or fees. RFAP funding comes from the General Fund and is not dedicated to rail investments. Rail TAP funds are provided through the Capital Budget. A stable and dependable funding source allows for the implementation of a planning program for the operation, maintenance, and improvement of a quality railroad service.

Sale and Lease of Land Holdings. Railroad assets include extensive land and right-of-way holdings that can be tapped for additional revenue generating possibilities. While this potential income source will never produce enough revenue necessary to fund all needed improvements, in certain situations for certain railroads it could prove to be a significant revenue stream.

Recently, discussions regarding energy and environmental issues have led to an identification of the need to create a “Smart Grid” for the transmission of renewably-generated electricity. A Smart Grid would likely be larger and more national than the existing power grid. This program would enable the broad sharing of electricity generated by wind, solar, and other renewable sources, which have a much more variable output than the existing fossil fueled generating capacity. The railroad’s rights-of-way could serve as a transmission corridor for new electrical lines that are part of the Smart Grid.

There is also the long-term potential for combining the transmission of electricity along rights-of-way with the electrification of rail lines, allowing the switch away from diesel locomotives.

Railroad rights-of-way may also prove to be a valuable land holding in urban areas, where developable land is in limited supply. As an example of the possibilities, in Frankfurt, Germany, the air rights over the high-speed line to the airport were sold to allow for the construction of a horizontal office building that is about as long as the Empire State Building is tall.

Tools to Accomplish Projects and Leverage Funding

There are many financial tools and concepts that while not providing a new, dedicated, source of funding, do provide ways to leverage existing funding to implement projects or provide tax credits as an inducement to use rail. A number of these concepts are discussed below.

Public-Private Partnerships (PPP). Public-private partnerships involve the contractual collaboration of a government agency and one or more private companies to construct, and sometimes operate, a portion of rail infrastructure or a rail service. PPPs have been used in the past in rail projects. Notable projects include the Alameda Corridor in California and the Shellpot Bridge in Delaware. In both projects, government funds were used to finance portions of critical rail infrastructure that were privately-owned, with the public debt repaid through tolls and user charges. PPPs can be formed for a variety of different types of projects and their arrangement and functions can be infinitely variable to best address the situation they were formed to remedy.

New Transportation Authorities. Several states have authorized the creation of new governmental authorities that can be used to finance, construct, operate, and expand transportation facilities. One example is a Regional Mobility Authority, which is authorized within Texas to be formed by one or more counties. These authorities have vast powers for implementing transportation projects, including the condemnation of property, the setting of tolls, and the sale of bonds. Similarly, a Joint Powers Authority is an arrangement authorized by some states which entails two or more public governments or authorities to operate collectively by creating a new, distinct entity. Joint Powers Authorities may be used for activities that cross the boundaries of the individual participating agencies but fall within the combined boundaries of both. The advantages of these arrangements are that decision making for transportation projects is charged to an independent agency that will be less affected by political changes. Additionally, these entities may span agencies and geographically-limited governmental bodies to tackle transportation issues at a regional or corridor level.

Tax Credits. Tax credits are not a new concept and have been successfully used to induce rail usage or the upgrade of rail infrastructure in the past. Some companies, however, have a limited tax liability and may not be able to use tax credits. In these situations, providing flexibility to allow the sale of tax credits to other railroads would prove beneficial.

A tax credit that has not been implemented in the past is one in which shippers, which have the option of shipping by either truck or rail, are provided with a tax credit when they use rail.

Rail Freight Opportunity Zone. Modeled after the successful Keystone Opportunity Zones, a rail freight opportunity zones program could feature limited or no property tax burden on new businesses that locate on a site with rail access and agree to ship and receive a specified amount of raw materials and finished products by rail.

Local Methods for Increasing Funding and Implementing Projects

Local governments have the opportunity to raise local funds for specific projects through their existing taxing authority. Successful use of these local tax options would require a clear connection to be drawn between the taxes and the significant local benefits that will result. Some possible taxes that could be used for rail projects include:

- Poured drink tax – Tax levied on alcoholic drinks served at a bar or restaurant.
- Local fuel tax – Tax on motor vehicle fuels levied by a local municipality, that is in addition to the state and federal tax.
- Parking tax – Tax levied on parking fees at garages and surface lots in a local municipality.
- Hotel room tax – Tax levied on hotel fees within a municipality.

PENNSYLVANIA INTERCITY passenger & freight RAIL PLAN

Appendix 8-1

Summary of Federal and State Grant Programs

Summary of Federal and State Grant Programs

Federal Programs

Program	Terms	Project Types	Funding Recipients	Administering Authority	Program Amount
Passenger and Freight Rail					
Rail Safety Technology Grants	Not yet determined	Deployment of "train control technologies"	Appears aimed at Class I and Intercity Passenger and Commuter Railroads	FRA	$50 million per year authorized for 2009 through 2013
Rail Line Relocation and Improvement	10% non-federal match	Construction to improve the route or structure of a line and involving a relocation or with the purpose to mitigate adverse effects of rail traffic	States	FRA	$25 million appropriated for FY 2009. $17 million of it for 23 non-competitive projects.
National Clean Diesel Campaign	NA	Expenditures to reduce emissions from existing diesel engines, such as retrofits, engine replacement	Public or nonprofit entities	U.S. EPA	$360 in 2009 ($300 of the total from ARRA)
Passenger Rail					
PRIIA Section 301 IPR Corridor Capital Assistance	20% non-federal match, waived for ARRA 2009 finds	Capital improvement costs for any type of intercity passenger rail (IPR), provided the project is in the State Rail Plan	States, groups of states, IPR agencies	USDOT Federal Railroad Administration (FRA)	ARRA (Stimulus Bill) provided $8 billion funding for 2009 for the PRIIA section 301, 302, and 501 programs
PRIIA Section 501 HSR Corridor Development	20% non-federal match, waived for ARRA 2009 funds	Capital improvement costs for a part of a federally-designated high-speed rail corridor (i.e., Keystone Corridor)	States, groups of states, IPR agencies, and Amtrak	FRA	Administration is seeking $1 billion per year for next five years for High-Speed IPR
PRIIA Section 302 Congestion Grants	20% non-federal match	For "high priority rail corridor projects to reduce congestion or promote ridership growth"	States and Amtrak	FRA	

Federal Programs (cont'd.)

Program	Terms	Project Types	Funding Recipients	Administering Authority	Program Amount
Capital Assistance to States, IPR Program	50% non-federal match. Five years to complete the project.	High-Speed IPR Planning and Capital improvement costs	States	FRA	$9.5 million from 2009 appropriations. Future years would be under the proposed $1 billion noted above.
FTA Formula Funding	Minimum 20% non-federal match. 50% for operating expenses.	Capital, planning, or operating expenses of public transportation services	Public entities	FTA to MPOs Awards made by MPO	$212 to Pennsylvania MPOs in FY 2008
Transit Capital Investment Program	Minimum 40% non-federal match	Fixed guideway modernization and new fixed guideways, including rolling stock, equipment, and maintenance expenditures	Public entities	FTA	PA agencies received over $131 for the fixed guideway components of the program in FY 2008
Surface Transportation Program (STP) Urban Funds	Minimum 20% non-federal match	Broad variety of projects including capital, planning, wetland mitigation, research, and environmental analysis	Not specified	FHWA/FTA Distributed by MPO	NA
National Research Technology Program	Not specified	Research and various types of innovation in transit	Public and private research organizations, transit providers, and industry	FTA	$28.6 million allocated, all by earmark, in FY 2009
New Freedom Program	Minimum 20% match required, 50% for net operating costs.	Capital and operating expenses for new public transportation services and alternatives that go beyond the ADA requirements in assisting persons with disabilities	Public entities	FTA	Over $4.6 apportioned to PA in FY 2009

State Programs

Program	Terms	Project Types	Funding Recipients	Administering Authority	Program Amount
Freight Rail					
Rail Freight Assistance Program (RFAP)	Up to 70% of project cost. Maximum grant $700,000.	Broad variety of new construction and maintenance projects. Excludes buildings and acquisition of land.	Public and private entities. (Class I RRs are not eligible.)	PennDOT Bureau of Rail Freight, Ports, and Waterways	Recent typical annual appropriation is approximately $8.5 million
Transportation Assistance Program ("Capital Budget)	Up to 70% of project cost	Broad variety of new construction and maintenance projects, including land acquisition for rail projects. Excludes buildings.	Public and private entities	PennDOT Bureau of Rail Freight, Ports, and Waterways	Annual appropriations of $30 million
Passenger Rail					
Rail Passenger Capital Program	NA	Capital costs in support of IPR	Not specified, although passenger rail entities are public or semi-public (Amtrak)	PennDOT Bureau of Public Transportation	Not published. Uses a mix of federal and state funding sources
Passenger Rail					
Urban Capital Assistance Program	3.33% local match for discretionary funding	Purchase/construction/renovation/ overhaul of public transportation facilities and vehicles	Local operators of public transportation systems	PennDOT Bureau of Public Transportation	Not published
Rail Passenger Operating Program	NA	Operating expenses for the AMTRAK Keystone Passenger Rail Service	Amtrak	PennDOT Bureau of Public Transportation	Not published
Urban Transit Operating Assistance Program	Local match required	Operating expenses of public transportation services	Public transportation agencies in the state's 17 urbanized areas.	PennDOT Bureau of Public Transportation	Not published

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