Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

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July 3, 2013

SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Railroads, Pipelines, and Hazardous Materials
FROM: Staff, Subcommittee on Railroads, Pipelines, and Hazardous Materials
RE: Subcommittee Hearing on "The Role of Innovative Finance in Intercity Passenger Rail"

PURPOSE

The Subcommittee on Railroads, Pipelines, and Hazardous Materials will meet on Tuesday, July 9, 2013 at 10:00 a.m. in 2167 Rayburn House Office Building to receive testimony related to the role of innovative financing tools to advance intercity passenger rail projects. At this hearing, the Subcommittee will hear from the Deputy Secretary of the United States Department of Transportation (USDOT), John Porcari; the President and CEO of the Union Station Redevelopment Corporation, Beverly Swaim-Staley; the Chief Executive Officer of Parallel Infrastructure, Frank Chechile; and the President and CEO of Reconnecting America, John Robert Smith.

BACKGROUND

Innovative financing options have increasingly become an attractive vehicle to advance infrastructure projects in the United States. As federal and state budgets continue to tighten and municipal bonding costs rise, more and more states and localities are turning to federal credit programs, public-private partnerships, and value-capture methods to finance projects. While traditionally the majority of such projects have focused on tolled highways, transit and intercity passenger rail projects are considering innovative approaches to finance railroad infrastructure needs as well. Recent U.S. Treasury estimates show $400 to $500 billion in available uncommitted capital in the U.S. investment community. The investment community has indicated strong interest in participating in intercity and high-speed passenger rail development, especially in the Northeast Corridor.

Successful public-private partnerships share financing between the public and private partners. The private sector is incentivized to participate in financing a project when risk is minimized and there is a reliable federal or state partner. Incentives such as guaranteed loans, tax credits, and possibly deferring loan payments until profits are made may also make private

financing more attractive. Advocates maintain that private sector financing could allow rail projects to be developed and constructed with less reliance on public funds, which in turn could speed up the process and result in lower-cost projects. In these arrangements, the public partner retains some control and management of the overall rail program to ensure that public requirements and government standards are met.

The following are some of the major innovative financing tools available for intercity passenger rail:

Railroad Rehabilitation and Improvement Financing (RRIF) Loans

The RRIF program provides direct, low-interest federal loans and loan guarantees to finance the development of railroad infrastructure. The RRIF program allows up to a total of $35 billion in loan authority, with $7 billion set aside for projects benefiting Class II and III freight railroads, commonly referred to as regional and short line railroads. These are small or mid-sized railroad companies that operate within a region or over a relatively short distance, with annual operating revenue of less than $401.4 million.

Railroads, rail freight shippers, state and local governments, and government-sponsored authorities are eligible to apply for RRIF loans. The program was initially authorized under section 502 of the Railroad Revitalization and Regulatory Reform Act of 1976. It was reauthorized by the Transportation Equity Act for the 21st Century (TEA-21) in 1998, and subsequently amended under the 2005 Safe, Accountable, Flexible and Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU) and the Rail Safety Improvement Act of 2008 (RSIA).

Loans provided under the RRIF program may be used to: (1) acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings and shops; (2) refinance outstanding debt incurred for the purposes listed above; and (3) develop or establish new intermodal or railroad facilities. Direct loans can fund up to 100 percent of a railroad project with repayment periods of up to 35 years at interest rates equal to the cost of borrowing to the government.

Since its inception, the RRIF program has not been used extensively by the railroad industry. This is due to a number of factors, including the fact that many railroads have sufficient access to private credit markets, and the perception that the RRIF loan approval process is bureaucratic and cumbersome. However, recently commuter and intercity passenger rail providers have begun to explore leveraging RRIF for capital projects. In 2011, Amtrak received the largest RRIF loan to-date, a $563 million loan for the procurement of electric locomotives for the Northeast Corridor.

Approved RRIF Loans Since 2010		
Year	Borrower	Loan Amount
2012	Alameda Corridor Transportation Authority	$ 83,710,000
2012	Kansas City Southern Railway Company	$ 54,648,000
2011	North Coast Railroad Authority	$ 3,180,000
2011	Amtrak	$ 562,900,000
2011	C&J Railroad	$ 56,204
2010	Denver Union Station Project Authority	$ 155,000,000
2010	Great Lakes Central Railroad	$ 17,000,000

Transportation Infrastructure Finance and Innovation Act (TIFIA)

The Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides states, localities, or public authorities, as well as private entities undertaking projects sponsored by public authorities, Federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance up to 80 percent of eligible surface transportation projects of national and regional significance. Projects eligible to receive assistance include intercity passenger rail facilities and vehicles, including those owned by Amtrak, and certain freight rail projects that, in turn, could improve passenger rail service.

To receive TIFIA assistance, an eligible project must be included in the applicable State Transportation Improvement Program. Major requirements include a capital cost of at least $50 million (or $25 million for rural projects and $15 million for intelligent transportation system projects); credit assistance is limited to a maximum of 33 percent of the total eligible project costs for lines of credit and 49 percent for loans, or loans and lines of credit combined; and senior debt must be rated investment grade. The project also must be supported in whole or in part from user charges or other non-federal dedicated funding sources, such as tolls, other user fees, or payments received under a public-private partnership agreement. Repayment must begin by five years after the substantial completion of the project, and the loan must be fully repaid within 35 years after loan disbursal.

A major difference between the RRIF and TIFIA programs highlighted by past witnesses is that TIFIA credit risk premiums may be funded with credit subsidy budget authority of the Highway Trust Fund, rather than the loan applicant. Under RRIF there is no subsidy budget authority for credit risk premiums, which are paid by the borrower based upon the level of risk associated with the loan. Some have cited this distinction between the programs as a reason for the comparative popularity of the TIFIA program.

Station Development

The benefits of public-private partnerships can be realized in a number of ways. New and redesigned stations can create economic development opportunities in urban centers along the line, while the use of value capture strategies in relation to those stations can produce new revenue streams that, in turn, can be used to improve the corridor or support operating expenses.

Rail stations can leverage their accessibility to transform urban centers and catalyze transit-friendly development around them. Increasing accessibility by adding or improving intercity passenger rail service is not enough to achieve these goals, as economic incentives and public-private partnerships are necessary for a comprehensive development strategy. Well-planned and well-designed stations can then become destinations unto themselves.

For example, even with the existing capacity constraints, Washington's Union Station has become the capital's most-visited tourist destination, with its 130 restaurants and shops and connection to commuter trains and local transit modes. In 2012, Amtrak and private developers released a Union Station Master Plan vision to significantly expand the capacity of Union Station, and construct a significant amount of commercial, residential, and retail buildings. With a price tag of $8 billion, public-private partnerships may be essential to move the project.

The value of these new or redesigned stations apply outside the station walls, and can be captured through a number of different strategies. The phrase "value capture" refers to strategies that allow governments or agencies to dedicate to a particular project a portion of the increased revenue generated through assessments or fees based on the value expected to accrue as a result of the project. Some examples of value capture strategies include joint development, special assessment districts, tax increment financing, and development impact fees.

- Joint development: Generally, real estate development projects involve a cooperative arrangement between public and private sector partners. Joint developments can take a variety of forms including lease of land, air rights, or space to a developer; sale of land for a particular type of development; and joint construction of a rail facility and private development. Depending upon the arrangement, the public and private partners can share costs, revenues, and the financial risks involved in the development.

- Special assessment districts: These are formal districts where special taxes or fees are assessed because the properties are expected to see a projected benefit based on geographic proximity to the station development. The revenues collected from the districts are then used to fund the facility.

- Tax increment financing: This is a public financing technique used by governmental entities to encourage economic development. Typically, the public-sector entity issues a special bond to help finance the development and related costs. The incremental increase in property values within the financing district from the development is then used to fund repayment of the bonds.

- Development impact fees: These are one-time charges collected by local governments from developers. The fees are used to defray the costs of new and/or expanded infrastructure and services associated with the development.

Denver Union Station is an example of a redevelopment project that took advantage of several innovative financing tools to advance a major transportation improvement in the heart of Denver. The roughly half a billion dollar project includes the development of a commuter and intercity rail terminal, a regional bus facility, new light rail platforms, and improved public

spaces. To finance the project, the Denver Union Station Project Authority combined federal and state grants with a $155 million RRIF loan, a $145 million TIFIA loan, and real estate sale proceeds. The loan repayment sources include regional tax revenue and revenue generated from a tax increment financing arrangement.

Leveraging Right of Way

Another potential opportunity for successful public-private partnerships to support intercity passenger rail is leveraging railroad right-of-way to generate revenue. Railroad right-of-way can be used to place telecommunication and other non-transportation infrastructure. Under such an arrangement, the railroad would be compensated annually for the utilization of its right-of-way, which would provide a new annual source of revenue that could be leveraged for loans or bonding. In 2012, Amtrak generated $94 million in real estate-related revenue, of which the largest component ($26 million) utilized right-of-way in some fashion.

Amtrak Real Estate Development Revenue
Fiscal Year 2012 - $ in thousands

Description	NEC	Other	Total
Retail	16,484	5,249	21,733
Parking	11,103	5,920	17,023
Right-of-Way	28,186	1,483	29,669
Other	25,546	543	26,089
Total	**81,319**	**13,195**	**94,514**

INVITED WITNESSES

The Honorable John Porcari
Deputy Secretary
United States Department of Transportation

Ms. Beverley K. Swaim-Staley
President and CEO
Union Station Redevelopment Corporation

Mr. Frank Chechile
Chief Executive Officer
Parallel Infrastructure

Mr. John Robert Smith
Former Mayor of Meridian, Mississippi
President and CEO, Reconnecting America