TESTIMONY BEFORE THE

SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS
OF THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

"STATUS OF THE RAILROAD REHABILITATION and IMPROVEMENT FINANCING PROGRAM"

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SUBMITTED BY
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Madam Chairwoman Brown, Ranking member Shuster and members of the Subcommittee, thank you for the opportunity to testify today before the House Railroads Subcommittee on the subject of the Railroad Rehabilitation and Improvement Financing Program.

My name is Dale Zehner. I am the Chief Executive Officer of the Virginia Railway Express (VRE), which is headquartered in Alexandria, Virginia. VRE operates throughout Northern Virginia and the District of Columbia and provides nearly 4 million passenger trips per year; making VRE the ninth largest commuter rail system in America. VRE's ridership is comprised of residents from 37 jurisdictions and 8 cities in Virginia, as well as residents of West Virginia and the District of Columbia. On a daily basis, VRE removes the equivalent of one lane of traffic from I-95 and I-66 during the peak commuting hours. So, on behalf of these passengers and our local jurisdictional owners, I appreciate the opportunity to appear before you today to discuss railroad financing and how it affects the operations and future of VRE.

Growth and the Need for Funding

VRE is a prime example of the success of passenger rail, given that the system was initially designed to carry 10,000 passenger trips a day and it now carries over 17,000 on peak days. Moreover, demand for service reaches as far as Richmond, Charlottesville, and deep into the Shenandoah Valley. As VRE struggled to meet the needs of growing ridership, we turned to less traditional ways of obtaining seating capacity; including leasing cars from Seattle and purchasing 50-year old cars from Metra in Chicago. At one point, VRE was the only commuter rail agency in America operating three types of bi-level railcars.

Despite this approach, our ultimate goal was to modernize and standardize the railcar fleet. Then, in 2005 the VRE Operations Board directed me to procure 61 new railcars, which included a base order of 11 cars with an option for 50 additional railcars.

VRE financed the base order using federal formula funds. After securing $20 million from the Commonwealth of Virginia for the 50-car option, which was projected to cost $92.5 million, VRE began looking at other financing options. We ultimately chose the Railroad Rehabilitation and Improvement Financing Program based on the program's flexibility, timing, and ease of use.

Flexibility

Simply put, the single greatest reason for using the RRIF program was flexibility. Unlike the standard tax-exempt debt issuance, FRA allows for prepayment of any

Timing and Ease of Use

VRE submitted an application in February, 2006. We were initially given assurances that approval could be secured by the end of April, 2006, which was when the 50-car option contract with Sumitomo Corporation was set to expire. Unfortunately, this process dragged on for several months as the FRA sought the services of a consultant to review our application. This required our Operations Board to seek an extension with the Sumitomo Corporation. By June 2006, FRA and the consultant rendered a favorable decision with the Department of Transportation's credit committee. Then, just as we thought we were posed to finalize the loan, the Office of Management and Budget (OMB) began voicing concerns over the application.

In late July 2006, after staff level resolutions failed, we sought the assistance of our Congressional delegation to prompt OMB to make a ruling. OMB subsequently required FRA to use an analysis that resulted in a "credit risk" premium of 1.88% being added to our loan. In an effort to reduce costs, we asked if bond insurance could be used. The FRA staff supported this method for VRE and other future public agency applicants but OMB required VRE to collect bids before making a determination. Unfortunately, by the time OMB did make a decision, rates had increased to the point that VRE was better off taking the original rate and paying the credit risk premium.

After going through this process, VRE would strongly recommend explicitly allowing alternatives to the credit risk premium, such as the use of bond insurance. While OMB ultimately approved this approach, VRE could not use it because of the higher prevailing rates.

Cost

The last variable that I wish to relate to the Subcommittee regarding the RRIF program is cost. Since the RRIF loan is tied to the federal government's taxable borrowing rate, the RRIF rate is always higher than the tax-exempt borrowing rate that is otherwise available to public agencies. In our case, the timing and flexibility issues outweighed this consideration. However, the credit risk premium of 1.88% further increased the cost of the loan.

We locked in our rate at 4.74% on a loan amount of up to $72.5 million, though we actually initially only borrowed $52.5 million for the 50-car option. We subsequently financed an additional 10 railcars and will draw down an additional $16 million for those cars.

One area of note in terms of total cost is that amortization doesn't begin until you initiate the first draw. Had we issued debt in the spring of 2006, we would have been paying principal and net interest on the entire amount from that point. Because of the availability of grant funds, our first draw on the RRIF loan was not until the spring of 2008.

Conclusion

While the hurdles and delays created by OMB caused difficulties and increased costs, the program did serve the needs of VRE and the citizens of the Commonwealth. The FRA staff was knowledgeable and helpful throughout the process and ongoing reporting is not onerous.

In the end, VRE was able to utilize this funding source to standardize and expand the fleet in order to better accommodate the demand for service here in our Nation's Capitol. We would certainly encourage a faster review process and flexibility for public agencies regarding allowing alternatives to the credit risk premium.

Thank you once again for allowing me to speak before you. I would be happy to answer your questions about VRE or our experience using the RRIF Program.