

**Testimony of**  
**P. Michael Reininger**  
**Executive Director**  
**Florida East Coast Industries, LLC**  
**Before the**  
**U.S. House Transportation and Infrastructure**  
**Subcommittee on Railroads, Pipelines and Hazardous Materials**  
**On**  
**“Building a 21<sup>st</sup> Century Infrastructure for America:  
Challenges and Opportunities for  
Intercity Passenger Rail Service”**

**Submitted by**



**FLORIDA EAST COAST  
INDUSTRIES**



2855 Le Jeune Road  
4<sup>th</sup> Floor  
Coral Gables, FL  
T 305-520-2300

June 22, 2017

## **Introduction**

Chairman Denham, Ranking Member Capuano and members of the subcommittee, thank you for the invitation to participate in this hearing. My name is Mike Reininger, and I am the Executive Director of Florida East Coast Industries. We are an infrastructure and real-estate development company based at our signature central station in Miami where we are represented by your Committee colleague, and our distinguished Congresswoman Frederica Wilson. Further along the remainder of our passenger rail corridor we are also represented by distinguished members Dan Webster, Lois Frankel, and Brian Mast.

I am pleased to share a private industry perspective on the opportunities to introduce intercity passenger rail as an important example of the kind of transportation solutions needed for cities across the country where increased mobility options are essential to support prosperity.

## **Background**

FECI is the parent company of All Aboard Florida which was established in 2012 to pursue passenger rail opportunities on a private, for-profit basis. FECI traces its roots to the late 1890's and the company founded by Henry Flagler who first introduced an integrated rail network into Florida. That railroad gave rise to the growth of most of what is now the country's third largest state. Originally the system was built as a railroad that carried passengers from points north to new development projects along the Florida coastline, and also carried the freight to support the needs of those people and of those building the communities emerging along the new infrastructure backbone. In the late 1960's the passenger service ceased operations, (as was commonplace with many US passenger rail routes) but the freight service continued to support the growth of the state. After some 120 years of continuous operations, the original railroad remains a profitable private enterprise.

In 2007, Fortress Investment Group (a \$70 billion alternative investment manager) acquired Florida East Coast Industries; which was at the time a publicly traded company, and converted the assets into two distinct private companies with interests divided between freight and passenger railroad operations. Florida East Coast Railway is the freight operation and FECI is the passenger and real-estate operation.

### A Vision for Passenger Rail in America

Leveraging the legacy of the original company and its historic assets which, include a century of previous investment into railroad infrastructure, All Aboard Florida has invested \$2 billion of private capital over the last 5 years toward a reintroduction of passenger rail service to major Florida cities. This express, intercity passenger train will operate under the brand name Brightline, which is a newly created, consumer- oriented brand built to support an optimistic vision for what it means to travel by train in America. Brightline will be introduced in two phases, with service to the downtown cores of Miami, Ft Lauderdale and West Palm Beach initiating in about 90 days. This initial phase is an all-important first step toward a vision to fully connect the Southeast and Central Florida markets - two driving forces of the overall economy of the third largest state in the country.



Today, 400 million trips are taken annually in this market, relying on roads and airways that are among the most congested in the nation. With nearly half of the State's 20 million residents living within close proximity to the railroad corridor, and many of the more than 100 million visitors to Florida attracted by the complementary attributes of Central Florida attractions and South Florida's beaches and culture, enhanced mobility between these markets is vital to meeting the growth trajectories event in this region.

These trips, which we see as "too long to drive and too short to fly" represent the opportunity for the next generation of American train service. Today's market sensibilities are vastly different than those of 1969 when traveling by train in Florida effectively stopped. The demand for alternatives to private cars on crowded roads has never been clearer. Demand driven by growth, dysfunction generated by congestion and the social priorities of a modern demography all support the future prospects for passenger rail as a key component of transportation networks.

Only five years since it was conceived, Brightline will begin carrying customers in a fleet of new and innovative, 100% Buy America trains, to three new stations, across 70 miles of modernized railroad infrastructure that includes Positive Train Control.



In addition to the new train operations, we are building what will soon become new multi-modal transit hubs in the heart of the existing downtown cores of three of Florida’s most important cities. With over 1.5 million square feet of mixed-used development under construction in and around our stations, an important second component of the project will welcome new occupants concurrent with the Brightline trains. These new urban environments benefit from added transit activity and also contribute to the use, and therefore viability of the new train system by increasing the density and proximity of many new customers.



A major component of Brightline’s intermodal advantage is its direct connection to the adjacent Metrorail and Metromover systems and the cross-utilization of commuter and intercity rail on our MiamiCentral station platforms. As a result of a successful collaboration between All Aboard Florida and the South Florida Regional Transportation Authority (SFRTA), regional commuters can now get to downtown Miami with a one-seat ride on the Tri-Rail system, the first downtown connection for this public system since it began in 1985.

Brightline offers an efficient and sustainable transportation system that will connect communities, bringing a much needed and often overlooked component of successful urban redevelopment efforts. In Miami in particular, our station and new corporate headquarters is located in a long-neglected and economically disadvantaged area known as Overtown. This once bustling African-American community was effectively marginalized when the new interstate system split Miami's downtown neighborhoods in the 1960's.

With our commitment to the Overtown community, which includes hiring preferences for local residents, we hope to be the catalyst that will encourage others to re-invest in this historic part of downtown and bridge a decades long divide in Miami's city center.

With the second phase of Brightline, the service will stretch north from West Palm Beach and ultimately connect into a new multi-modal station that is being built as a center piece of the expansion of the Orlando International Airport. With this leg the connection to Central Florida will be accomplished; and as a result, the linking of a major international air gateway to an intercity passenger rail network will put this facility among a small group of American airports that have achieved this level of connectivity.

The further integration of the various other transportation systems that convene at the airport, in particular Central Florida's SunRail commuter system, will be facilitated with direct connections and immediate proximity.



In fact, each of our station facilities have been planned and constructed to optimize connections and ease of cross-utilization between all existing and planned future transit systems.



**Job Creation, Labor and STEM**

When completed, All Aboard Florida’s investment in the Brightline will exceed \$3 billion. In addition to creating up to 10,000 jobs during the design and construction phases of the rail system and thousands more associated with train operations and ancillary development, Brightline is an investment in STEM related education and employment opportunities. From our advanced technology train equipment with fuel efficient, environmentally friendly EPA Tier 4 compliant engines, to modern signaling and communications systems designed to enhance safety and produce a high quality customer experience, Brightline is making a commitment to a workforce training regime that includes skill-based apprenticeship education.

Brightline is perhaps a prototype of what a future private passenger rail workforce may look like. As a new company operating alongside an existing, long-established freight company we have found that through relationships in the form of joint-use agreements and joint-ventures, such as with our dispatch and infrastructure maintenance operations, we can create a working partnership that includes union and non-union personnel working collaboratively.

Through equity in pay and benefits, such arrangements can contribute to healthy working conditions, healthy companies and efficient joint operations. In addition we maintain a strong commitment to building a diverse workplace. We voluntarily adapted Florida Department of Transportation standards for public infrastructure projects, and our minority workforce routinely exceeds those minimum thresholds.



## Investment Thesis

Our business plan is quite simple. We believe that markets comprised of city pairs that are 250-350 miles apart present opportunities for trains to provide a more efficient, comfortable, and reliable alternative to cars and planes. The addition of integrated real-estate development aligns two economic engines that directly support one another, creating a unified business that has more than one way to pay the bills.

The lack of analogous precedent for operating systems within the United States meant that lessons needed to be learned from a comprehensive study of the global markets where profitable rail services can be found. In addition to transportation analogs, we gleaned knowledge from the perspective drawn from other hospitality service offerings as a benchmark for a new transportation service. Combining these with best-practice observations from examples of Transit-Oriented Development (TOD), we developed a balanced approach to breaking the inertia that has beset many initiatives similar to ours being considered elsewhere in America.

The advantages of a private-sector model, which exacts efficiency from all parts of a process and focuses on the time value of money as a central tenet of achieving profitability, is also a key aspect of the overall business thesis.



And lastly, the leverage provided by augmenting existing assets and resources allow investment requirements to be manageable. A point of view that forces rational judgement on each discrete decision and the effect on profit, longevity and market acceptance of each aspect of the overall equation combine to form the framework for an approach that has moved the thesis from conversation to reality in a fraction of the time typically seen with project's such as Brightline.

### **Opportunities for Government and Industry Cooperation**

Our experiences have sharpened our perspective on several key factors where enhanced interaction between government and industry will contribute to more and faster results. The objective should be to encourage the billions of dollars of capital earmarked for infrastructure to be deployed against creating *new* systems that will generate growth, and contribute new capacity into our transportation infrastructure networks.

There is ample equity capital available in the current markets targeting the prospects for infrastructure and transportation as long-dated assets worthy of investment. The challenge is that the majority of this capital will move toward existing and established projects and therefore will not generate incremental assistance to the core challenge of capacity.

Broadly speaking, the most critical areas for improvement that will help pioneering efforts such as ours are a streamlining of complicated regulatory processes, and enhancements to the debt markets that must accompany equity investments to produce new projects.

The uncertainty of time relative to complex governmental approval processes discourages capital investment, as it represents an unmeasurable risk. The lack of precedent for new systems to serve as examples, coupled with the risks resulting from uncertain and extended permitting processes have limited the availability of appropriate debt needed to complete the total capital equation. Both issues can benefit from re-tooling of already existing structures.

Our own experiences with expanding our business into its second phase, which represents an incremental investment of \$2 billion, clearly demonstrate these points.

The NEPA process associated with an original RRIF loan application we submitted in March 2013 gave rise to a comprehensive study process led by the FRA that engaged some nine different entities and fully followed all prescriptive guidelines. That 2 ½ year process resulted

in the publishing of a Final EIS in August 2015. We believe a two-year goal, from initiation to record of decision for NEPA reviews is not only achievable, but a necessary regulatory requirement in order to attract private investment. The challenge we are experiencing is some 22 months *after* the FEIS went "final", the process has still not produced the definitive actions to allow complete permitting under NEPA. In the face of so many regulatory hurdles, combined with the ease by which narrow interests can delay worthy projects through legal and administrative challenges, rationalization of this reality will dramatically improve the interest and motivations of private investment capital.

Financial incentives also factor heavily in these decisions. As the demand for services such as Brightline continue to emerge, the opportunity to activate the direction of private capital against new infrastructure can be catalyzed through more efficient utilization of already existing programs such as TIFIA, Tax-Exempt Bonds, and the RRIF program. These programs suffer from opaque and complex rules which discourage pursuit of these options and render them underutilized. Yet, these existing programs could easily be changed to remove ambiguity and provide exactly the kind of efficient debt needed to incent investment and progress. This effort coupled with political will, can move projects from ideas to construction very quickly.

Reforms such as those being considered by this committee and the current administration will save taxpayers billions of dollars, while accelerating the task of rebuilding our nation's infrastructure.

With near-term results shown to be possible, the added ingenuity these new examples will inspire will help motivate attention to still further models and adaptations of the strengths of the private sector and government when aligned toward common goals.

As we work toward our launch date, and continue work on the expansion of our system, we welcome the opportunity to contribute to enhanced solutions to these issues.

Thank You for the opportunity to share these thoughts with you today. I would be happy to answer any questions or comments you may have.