AHSRA
AMERICAN HIGH SPEED RAIL ALLIANCE

Testimony of Mr. Tom Loftus
On Behalf of the American High Speed Rail Alliance

Before the
Subcommittee of Railroads, Pipelines, and Hazardous Materials,
U.S. House Transportation & Infrastructure Committee

Hearing on Rehabilitating and Improving our Nation's Rail Infrastructure

February 17, 2011

American High Speed Rail Alliance
2900 K Street, NW
Suite 550
Washington, DC 20007
202.777.0456
www.americanhsra.org

AHSRA
AMERICAN HIGH SPEED RAIL ALLIANCE

Testimony of Mr. Tom Loftus
On Behalf of the American High Speed Rail Alliance
Before the Subcommittee of Railroads, Pipelines, and Hazardous Materials
U.S. House Transportation & Infrastructure Committee
Hearing on Rehabilitating and Improving our Nation's Rail Infrastructure
February 17, 2011

Mr. Chairman and Members of the Committee. I am Tom Loftus and I am here today representing the American High Speed Rail Alliance. I am on the Advisory Board of the American High Speed Rail Alliance and serve as Chairman of its Public Private Partnership and Project Financing Council. The American High Speed Rail Alliance is a 501(c)(6) non-profit association whose membership includes state departments of transportation, passenger rail corridors, financial organizations, the full spectrum of rail design, engineering, construction and supplier companies, rail labor unions, and grassroots advocates. The Alliance's mission is to advocate for the development and implementation of high speed passenger rail in the United States. I am currently a Principal of the Seneca Group, which is a transportation consulting group which has worked extensively on Railroad Rehabilitation & Improvement Financing (RRIF) loans both on behalf of individual applicants and as one of a number of Independent Financial Analysts used by the Federal Railroad Administration to analyze RRIF loan applications.

My purpose this morning is to propose a number of changes to the RRIF program that the American High Speed Rail Alliance believes would allow the program to better support the development of high speed rail and help leverage the private financing that is so badly needed if we are to make high speed rail a reality in this country.

As everyone knows, building world-class high speed rail will require a very significant commitment of resources. Although it is a great deal of money, the fact is that the $8 billion provided in the 2009 stimulus package and even the $53 billion the President has recently proposed is not sufficient to fully complete the job. These funds are going to have to be matched by strong local and state support and by meaningful private investment in these projects. Let me briefly describe three changes that would provide an incentive for this private investment.

Provide TIFIA-Like Subsidies to RRIF

The first proposal is to provide RRIF with a federal subsidy that allows the Secretary of Transportation the ability to modify loan terms so as to defer payments and/or subsidize the interest rate.

Deferring debt repayment allows an applicant to realistically meet the construction and ramp-up timetables of high speed rail projects. This would be comparable to the deferral that is allowed under TIFIA. Under RRIF, the Secretary already has the authority to defer payments for up to six years from the initial loan draw, but no appropriation to support this authority has ever been made, so the repayment program has always been required to begin immediately. This immediate repayment requirement, along with the Credit Risk Premium, is the reason the RRIF program does not currently have a cost to the government. On the other hand, TIFIA provides that repayment may commence up to 5 years after the date of substantial completion of the project. A similar provision for RRIF would provide high speed rail applicants the multi-year timeframe it would take to build the system, and the additional time any such project would need to attract the ridership necessary to repay the loan. Under the federal government's bookkeeping rules there is a cost to this deferral, which must be paid for. Under TIFIA that cost is paid for by an annual appropriation. In SAFETEA-LU that appropriation was set at approximately $122 million per year and that amount was supplemented in 2010 to cover additional TIFIA loan activity.

Under both RRIF and TIFIA the interest rate is set at the rate which a U.S. Treasury security of comparable term would earn, which today is approximately 4.7 percent. We propose that a RRIF subsidy should also be able to be used to lower this interest rate when the Secretary determines that such a reduction could make the difference in making a business plan work. While I am not privy to the scoring techniques of Congress, we believe that at today's interest rate, a $1.1 billion subsidy would support a ten year deferral or a 3% interest rate subsidy for a 35 year loan of approximately $5 billion. Put another way, one federal dollar would leverage nearly five dollars in loans to private entities that must be paid back to the government.

We fully understand and appreciate the need to reduce federal spending and we know that $1.1 billion is not pocket change. However, if the federal government is going to commit to investing in high speed rail, would we not be better off taking a portion of the proposed $53 billion, or whatever amount is going to be made available, and leveraging it at five to one? Given today's financial reality, this might be the only way we will ever find the funds necessary to build a high speed rail project.

Expand the Definition of Collateral

Typically with a RRIF loan the government requires that it has a first lien on hard assets equal to at least 100 percent of the loan value. Unlike established railroads, which have substantial track, equipment and real estate assets that have already been fully or partially paid for through years of operation, new high speed rail projects will not be able to meet this requirement. What these projects may have instead is a dedicated stream of voter approved tax or fee revenue that can be dedicated to repaying the loan. We propose requiring the FRA to estimate the projected level of income of a future stream of taxes that are pledged to repay the RRIF loan and to then accept the value of that estimated stream as collateral. In the case of a default, the government is guaranteed that stream of income to repay the loan and is thereby just as protected as it would be if the project had hard assets that could be taken up and sold for their net liquidation value.

Provide RRIF Eligibility for Development Phase Activities

High speed rail projects require substantial funding for development phase activities including planning, feasibility analysis, environmental review, permitting, and preliminary engineering and design work. It is unclear whether development phase activities are eligible costs under the current RRIF statute. Because the outcome of this work is uncertain they are the often the hardest projects to fund. Knowing that a successful RRIF loan could reach back and pay for these costs would make it more feasible for a private entity or local unit of government to make the initial outlay of funds.

High speed rail holds great promise for the American people. It will reduce congestion on our highways and at our airports. It will contribute to energy conservation and cleaner air. It will foster more interconnected communities and serve as the foundation of increased commerce. Building the underlying infrastructure will create tens if not hundreds of thousands of jobs. Procuring the rolling stock equipment, installing the systems to run these systems, and maintaining the infrastructure will renew critical domestic manufacturing and supply industries - industries we have sadly ceded to foreign countries.

High speed rail advocates are rightly passionate in promoting these substantial advantages. But money, not passion, is what is needed to actually build a high speed rail system. We know that not all of the money needed to build a successful high speed railroad can come from the federal government. I think we also know that without some level of federal capital support, high speed rail is not going to generate the kind of returns that will attract significant private investment. It doesn't do so where it exists in other countries and there is no evidence it will do so in this country.

Therefore, to really move forward, we need to start thinking about alternative ways to realistically fund high speed rail projects. The proposals I have outlined today are not the total answer to funding high speed rail, but they are a realistic and cost effective way to begin the actual construction of high speed railroad systems.

Let me conclude by briefly summarizing the advantages of the American High Speed Rail Alliance proposal.

- The proposed subsidy allows a dollar of federal spending to leverage almost five dollars in non federal debt financing.

- Allowing for payment deferrals and interest rate subsidies allows RRIF loans to conform to the real life financial needs of the applicants.

- RRIF loans must be repaid in full, which means the diligent review process by FRA will naturally eliminate projects that are not economically realistic.

- Recognizing a future stream of local or state revenues as collateral aligns the RRIF statute with a more realistic source of repayment and modifies a collateral requirement that cannot be met by the majority of high speed rail projects

- Allowing RRIF loans to reach back and pay for developmental costs would make it more realistic for a private entity or local unit of government to make the necessary initial outlay of funds.

I appreciate the opportunity to appear before you today on behalf of the American High Speed Rail Alliance and am happy to answer any questions you might have.

Thomas P. Loftus, Jr.

Mr. Loftus is a senior expert in the railway and rail project finance. He currently serves as volunteer Chairman of the Public Private Investment and Project Financing Council of the American High Speed Rail Alliance.

Mr. Loftus is a principal with the transportation consulting firm Seneca Group. His primary focuses are the firm's work in financial and investment analysis, due diligence, and business and strategic planning. He leads the firm's practice working on behalf of the US Federal Railroad Administration and private sector clients dealing with the $35 billion Railroad Rehabilitation Improvement Financing (RRIF) program. During his career, Mr. Loftus has worked on numerous domestic and international railroad acquisitions and debt and equity financings. He has managed annual budget processes, financial analysis and forecasting and financial risk management programs. Through September 2009, he was Chief Financial Officer of Vectora Transportation a third-party logistics company serving the wind energy industry. He was with Genesee & Wyoming Inc. from 1996 to 2005 most recently as Senior Vice President Finance & Treasurer. Prior to joining Genesee & Wyoming Mr. Loftus was employed by RailTex, Inc. from 1993 to 1996. Mr. Loftus has an MBA in finance from the University of Pittsburgh and a B.A. from the University of Virginia.

Committee on Transportation and Infrastructure

Truth in Testimony Disclosure

Pursuant to clause 2(g)(5) of House Rule XI, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name:

Thomas P. Loftus, Jr.

(2) Other than yourself, name of entity you are representing:

American High Speed Rail Association (AHSRA)

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

X **YES** — **If yes, please provide the information requested below and attach your curriculum vitae.**

NO

(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:

AHSRA has not been a recipient of monies from any federal grants/subgrants or contracts/subcontracts within the current or two previous fiscal years.

Thomas P. Loftus, Jr.

Signature

2/13/14

Date