

RAILROAD REHABILITATION AND IMPROVEMENT FINANCING (RRIF) PROGRAM



**Federal Railroad Administration
United States Department of Transportation**



FRA – Office of Railroad Policy and Development

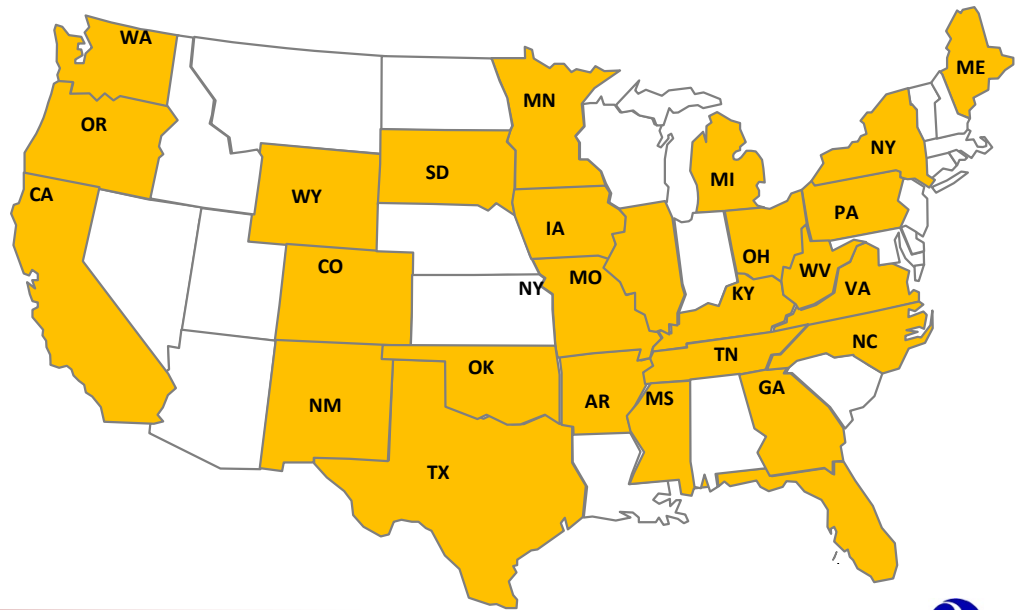
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U.S. Department
of Transportation
**Federal Railroad
Administration**

RRIF Overview

- Program Goal: Provide loans and loan guarantees to finance railroad infrastructure that results in public benefits (safety, environmental improvements, economic development)
- Authorized to loan up to \$35 billion (\$7 billion reserved for freight railroads other than Class I)
- 35 loans (approx. \$2.7b total) executed in 27 states



Program Priorities

1. Enhance public safety
2. Enhance the environment
3. Promote economic development
4. Enable United States companies to be more competitive in international markets
5. Are endorsed by the plans prepared under section 135 of title 23 by the State or States in which they are located
6. Preserve or enhance rail or intermodal service to small communities or rural areas
7. Enhance service and capacity in the national rail system
8. Materially alleviate rail capacity problems which degrade the provision of service to shippers and would fulfill a need in the national transportation system

Eligibility

- Eligible applicants:
 - Railroads
 - State and local governments
 - Government sponsored authorities and corporations
 - Joint ventures that include at least one railroad
 - Solely for the purpose of constructing a rail connection between a plant or facility and a second rail carrier, limited option rail freight shippers that own or operate a plant or other facility that is served by no more than a single railroad
 - Interstate compacts consented to by Congress under section 410(a) of the Amtrak Reform and Accountability Act of 1997 (49 U.S.C. 24101 note)
- Eligible projects:
 - Acquire, improve, or rehabilitate intermodal or rail freight or passenger equipment or facilities, including track, components of track, bridges, yards, buildings, and shops
 - Refinance outstanding debt incurred for the purposes listed above
 - Develop or establish new intermodal or railroad facilities

Basic Terms and Borrower's Costs

- Direct loan can fund up to 100% of eligible project costs
- Maximum repayment period is 35 years from date of execution; repaid no later than end of useful life of the project it is used to fund
- Interest rate is equal to rate on Treasury securities of a similar term on date of execution
- Interest begins accruing on date of first disbursement; principal and interest amortized over life of loan
- Can request to defer repayment up to 6 years, from date of first disbursement; deferral does not affect maturity date

Basic Terms and Borrower's Costs

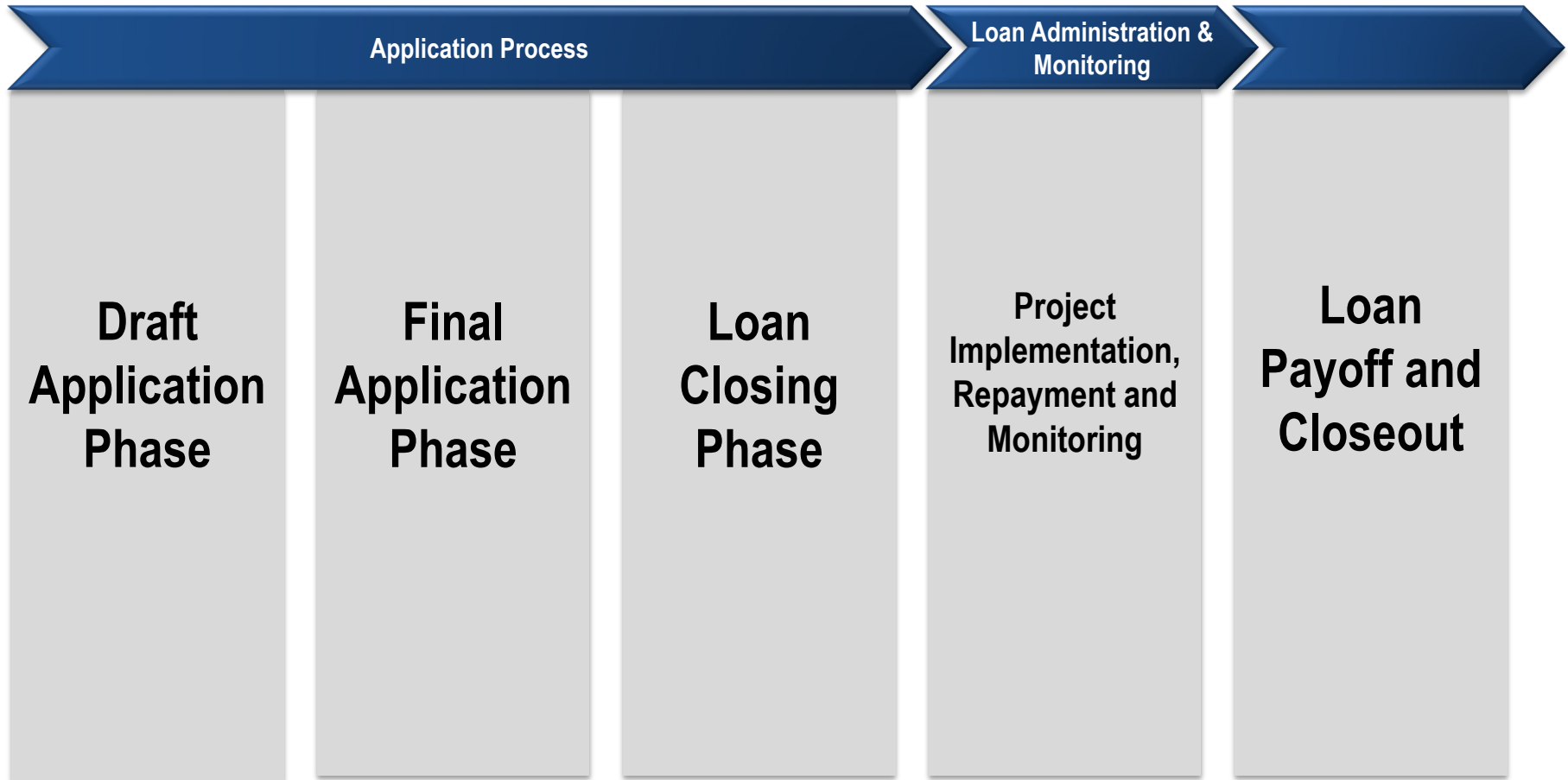
- Investigation Fees
 - Must pay Independent Financial Advisor (IFA) fee regardless of whether loan is ultimately approved
 - May also be required to pay external counsel fee(s) for certain transactions (in addition to IFA fee)
 - Total investigation fees charged may not exceed one half of 1% of requested loan amount
- Credit Risk Premium (CRP)
 - Assessed as a percentage of total loan amount and varies based on overall risk of each transaction
 - Can be reduced by pledging collateral or other credit enhancements, although pledging collateral is not a requirement
 - CRP may be paid upfront or on a pro rata basis prior to each disbursement

Compliance with Federal Laws

- **National Environmental Policy Act (NEPA)**
 - Requires federal agencies to consider potential environmental impacts of their proposed actions
 - Complete environmental analysis depends on concept and design of proposed project or action
 - Regardless of any NEPA clearance by other Federal agencies, FRA must issue its own decision for RRIF loans
- **Buy America**
 - Furthers two of the eight program priorities:
 - Promote economic development
 - Enable U.S. companies to be more competitive in international markets
 - Steel, iron, and manufactured goods used in projects funded by RRIF must be produced in the U.S.; includes the purchase of new or existing goods, or the refinance of assets, including rolling stock and railroad infrastructure
 - If project includes financing or refinancing of assets not produced in the U.S., then applicant can submit a waiver request

Loan Lifecycle: Overview

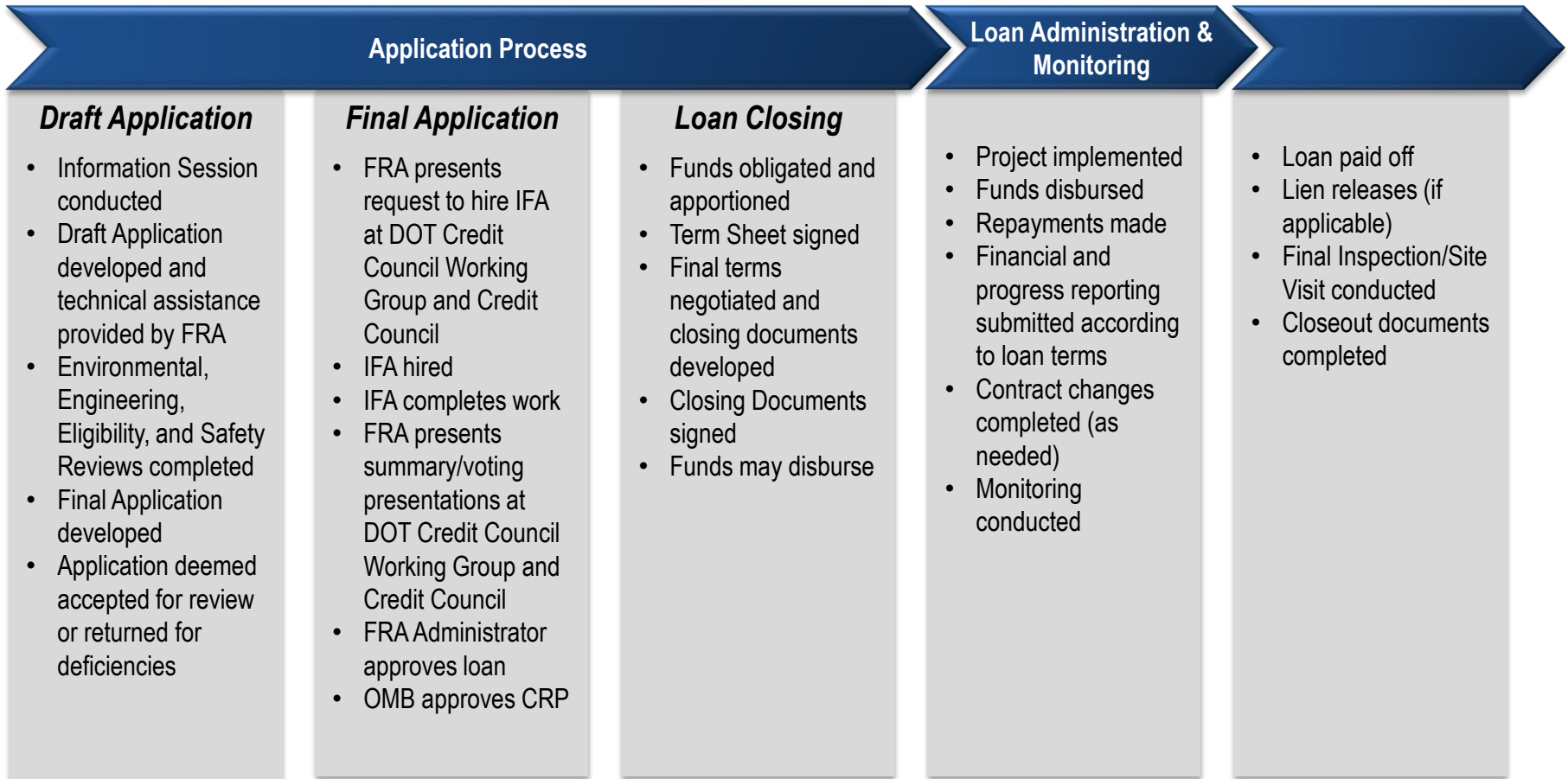
The basic loan lifecycle consists of the following phases:



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Loan Lifecycle: Breakdown

The loan lifecycle consists of the following phases & specific activities:



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Draft Application: Key Components

- **Application Form:** show how intend to spend and repay RRIF funds
- **Financial Documentation:** provide 5-year historical financial statements (Balance Sheet, Income Statement and Statement of Cash Flows, if available) and 5-year pro-forma financials (capital plans for the entity and future revenue projections) to provide a clear picture of the financial health of the entity applying for RRIF funds
- **Environmental Documentation:** provide environmental analysis that complies with NEPA (note: FRA will determine level of analysis needed)
- **Engineering Documentation:** provide engineering drawings sufficient to determine the scope, schedule and cost of the project(s) proposed to be financed (in whole or in part) with RRIF funds

RRIF Application Must-Haves

The following items are required prior to application finalization:

- Borrower is an authorized party
- Project has an eligible purpose
- Project meets one or multiple priority considerations
- Borrower satisfies creditworthiness standards
- Project adheres to Buy America standards
- Project completes NEPA process
- Borrower can demonstrate ownership of proposed (unencumbered) collateral and control of project site
- Project is ready to proceed
- Attendance at mandatory pre-application meeting

Questions to Ask

Following are general questions we ask about potential financing:

- Brief description of project or item(s) to finance (including anticipated project start and completion dates)
- Area of project to be supported by RRIF
- Amount of total project and estimated RRIF portion
- Who will be the applicant(s) and borrower/obligor
- Amount of equity versus proposed debt for each project/initiative or item financed
- Source of repayment of loans (borrower or project's cash flows, city, assignment of revenue or tax stream)
- New (greenfield) or expansion/redevelopment (brownfield) for environmental determination
- Status of project (engineering, procurement, construction) and status of environmental work (i.e. EIS, etc.) or equipment sale
- Anticipated sources of goods and services for project (Buy America for FRA is 100%)
- Where would RRIF debt sit vis-à-vis other existing company debt, i.e. pari passu, subordinate, etc.?

Recently Closed Loans

- Metropolitan Transportation Authority (MTA)
 - \$967 million direct loan to support PTC project
 - More information to be provided in Case Study

- Arkansas & Missouri Railroad (A&M)
 - A&M is a Class III railroad established in 1986 that provides both freight and passenger service
 - In May 2015, A&M received a \$6.8 million RRIF loan used for a locomotive purchase to enhance operations
 - Public benefits of this project include improved rail operations, safety enhancements, and environmental improvements through reduction in carbon emissions

Considerations/Benefits to Borrowers

- 100% financing available
- Low cost of funds to make important infrastructure investment
- Favorable repayment period
- RRIF financing is a portion of funding sources for overall capital spending plan
- Others

Additional Resources

- Federal Register *Notice Regarding Consideration and Processing of Applications for Financial Assistance Under the Railroad Rehabilitation and Improvement Financing (RRIF Program)*, 75 Fed. Reg. 60165 (September 29, 2010) (<https://www.fra.dot.gov/eLib/details/L02706>)
- Program Guide (<https://www.fra.dot.gov/Page/P0128>)
- Application Form (<https://www.fra.dot.gov/eLib/Details/L02705>)
- Draft Application Checklist, Final Application Checklist and Application Process Quick Guide (www.fra.dot.gov)
- Buy America Information (<http://www.fra.dot.gov/Page/P0185>)

Contact Information

If you have questions about the program, or if you wish to discuss the possibility of funding your project with a loan or a loan guarantee under the RRIF Program, please contact:

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