

# **FREIGHT RAIL FINANCING: GROWTH VS. REHABILITATION**

Michael Sussman  
President  
Strategic Rail Finance  
[www.strategicrail.com](http://www.strategicrail.com)

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# TODAY'S DISCUSSION POINTS

- NEW MINDSET: Think Growth to Fund Rehab
- The continent needs system-wide “growth”
- The railroad industry can grow
- This growth calls for unprecedented coordination and collaboration
- Capital will flow to a growing rail industry

# NEW MINDSET:

## Think Growth to Fund Rehab

- Growth pays for track upgrades
  - Business demand should drive the upgrade investment
  - Applies to project level, state level and system level
  - Example: Iowa Northern Railway/IDOT

# IOWA NORTHERN RAILWAY

## FUNDING FOR GROWTH

- Cooperation of multiple funding sources
  - Local bank funding source for \$1,750,000
  - IDOT low-interest loan for \$600,000
  - National bank financing for \$2,000,000
  - FRA Railroad Rehabilitation and Improvement Financing (RRIF) loan for \$25,520,000
- Result: \$30mm in growth financing for Class III railroad
- Growth orientation creates win-win for public and private sector

# CONSOLIDATION WORKED, BUT NOW WHAT?

- Freight demand is increasing
- Yet rail market share has been decreasing:
  - Industry has left many geographic markets
  - Rail lines have been abandoned
  - Urban rail service has declined
  - Rural rail service has declined
  - Smaller shippers have been underserved
  - Many freight commodities have been ignored
  - Shorter haul, hi-density lanes have gone to trucks



# OBSTACLES TO GROWTH

- Rationalizing for decades, now lacking a growth orientation
- Lack of a central organizing industry plan
- Industry communicates dire needs and impending crisis, rather than opportunity
- Industry appeals to government to either:
  - avoid new legislation, or
  - establish unconditional tax credits, or
  - win “turf-battles” with other industry stakeholders

# OBSTACLES TO GROWTH, p.2

- Shortline railroads and smaller shippers are under supported
- Paper barriers and pricing protocols limit market reach of rail users
- Rail-related businesses are misunderstood in the lending community
- Rail industry does not have a coherent strategy for expanding access to capital

# CONTINENT NEEDS SYSTEM WIDE RAIL GROWTH AND WILL SUPPORT IT

- There are opportunities to increase market share and serve the continent:
  - Reemphasize branch line and local, as well as long-haul rail service
  - More service for smaller shippers as well as large
  - Redeveloping rural and inner city service
  - Address underserved freight commodities
  - New approaches for hi-density, short-haul movements
  - Serve the customer with flexibility and dependability



# THE TIME IS RIGHT FOR GROWTH

- Ongoing freight market demand projected for 30+ years
- Operates on a broad base of existing physical infrastructure
- Inherent competitive advantage of fuel efficiency
- No technological replacement on the horizon
- Rail assets are numerous, stable, and appreciating in value
- Railroads rarely go out of business
- Contribute to state economy by serving other businesses
- Outstanding repayment history on state loans

# STATE RAIL LOAN PROGRAM REPAYMENT HISTORY

STATE OR AGENCY	NUMBER OF LOANS	DOLLARS LENT	DEFAULTS
Wisconsin 2004	70	\$70,000,000	0
Michigan 2004	26	\$11,700,000	0
Iowa 2005	57	\$46,370,000	0
Minnesota 1999	120	\$74,000,000	0
Kansas 2007	41	\$12,903,380	0
Mississippi 2007	35	\$12,000,000	0
Ohio 2007	40	\$30,000,000	0
SBA 1999	15	\$6,400,000	0
<b>TOTALS</b>	<b>404</b>	<b>\$263,370,000</b>	<b>0</b>

# GROWING THE PRIVATE SECTOR RAIL SYSTEM WITH PUBLIC SECTOR SUPPORT

- Expand communication of best practices
- Develop or expand state rail loan programs
- Thoughtful collateral positions on government loans
- Stimulate coordination between public and private sector funding sources
- Extend due diligence of rail line candidates to include growth capital

# GROWING THE PRIVATE SECTOR RAIL SYSTEM WITH PUBLIC SECTOR SUPPORT, p.2

- Transform state rail plans from inventory and assessment to growth plans
- Insist on system wide (state, regional and national) performance goals
- Stabilize regulatory environment to attract more investment in rail growth
- Gather stakeholders in unprecedented consensus process for determining what we want from rail system

# GROWTH SOLVES FUNDING CHALLENGES

- Capital will flow to a growing rail industry
  - There is evidence of that already
  - Individual projects will be much easier to finance
  - Many more projects will be developed and financed

Thank you for all of your good work!