

# SECTION 305 FINANCE SUB COMM

MINUTES

OCTOBER 26, 2012

2:00PM EST

CONFERENCE CALL

<b>FACILITATOR</b>	<i>Gordon Hutchinson, Treasurer S305 NGEC Committee Executive Board, and Chair of the S305 Finance Subcommittee</i>
<b>ATTENDEES</b>	<i>Gordon Hutchinson, Darrell Smith, Brent Thompson, Chad Edison, Jeff Gordon, Mytrang Le, Vincent Brotski, Nico Lindenau, Ashok Sundararajan, Ryan Swick, Shayne Gill, Steve Hewitt, David Ewing, Leo Penne</i>
<b>ABSENTEES</b>	<i>Jim Donlin, Juli Salvi, Kevin Kesler, Bill Bronte</i>

## DECISIONS MADE

Gordon Hutchinson opened the conference call and welcomed all participants. He then asked Steve Hewitt to call the roll.

Steve called the roll, and the lack of the presence of a quorum was determined due to having only 1 of 3 state members in attendance.

### Review of Action Items – Steve Hewitt:

Steve Hewitt provided a brief status update on all Finance subcommittee action items:

Gordon Hutchinson will be working with the OIG to determine a scope for the audit and will provide a status update on the next Finance subcommittee call. **Status: This is an agenda item today – Item #5**

Gordon Hutchinson and Darrell will be working with Amtrak staff to look at TIFIA and RRIF and put something together for subcommittee members to react to. Gordon will get something out to members in advance of the September 26, 2012 conference call. **Status: A review of RRIF is on the agenda today – Item # 6, TIFIA will be addressed on a subsequent call.**

The AASHTO/Amtrak Support Services agreement was sent to AASHTO, fully executed by Amtrak, just prior to today's call. This will free up AASHTO to "give the green light" to Salci and PB. **Status: AASHTO and Larry Salci are finalizing terms of the contract and have amended it to include additional tasks as directed by the Executive Board on September 20, 2012.**

### A kickoff of the PB contract is anticipated to occur soon – SFTF Chair and PB finalizing contract

Steve Hewitt, Darrell Smith, Chad Edison, Bill Bronte, Leo Penne and Shayne Gill will try to get together in Portland to talk about re-programming the pre-March 31, 2012 balance and finding a way to expeditiously execute upcoming consultant contracts for review panel efforts anticipated to be forthcoming in the near future.

**Status: This was part of the discussion in Portland and led to the approval of the Budget adjustments. (see below)The re-programming pre-March 31, 2012 balance is a part of the Budget discussion under agenda item #7.**

Gordon and Darrell are preparing a Treasurer's report to present to the Board on September 20, 2012. Darrell will get the presentation to Steve Hewitt in advance of the meeting. **Status: Task Complete – Darrell Smith presented the Treasurer's report to the Board on September 20, 2012. Darrell also presented a recommendation for making budget adjustments for transfer of funds from the Executive Board professional services item to AASHTO Support Services for additional Review Panel efforts (\$30,000.). To the ATF for Amtrak Project manager position (\$55,000.); and to the Technical subcommittee for Document control efforts undertaken by Camren Cordell (\$40,000.)**

**The Executive Board approved these adjustments, and Darrell Smith subsequently submitted them to the FRA on September 27, 2012. On October 22, 2012 – Amtrak Grants received the written approval from FRA.**

Within the next several weeks, AASHTO invoice # 9 should be reconciled, and a truer picture of the pre-March 31, 2012 balance will be presented. **Status: This was part of the Treasurer's report and is part of the Budget discussion for today under agenda item #7.**

Steve Hewitt will work with AASHTO to revise the form (with Strat Cavros' approval) to be used for reimbursement of state officials and others, as appropriate, for NGENC travel expenses. The intent is to begin using the revised form for the September 20<sup>th</sup> meeting in Portland. **Status: Task Complete**

**Approval of Minutes from the September 5, 2012 conference call – Gordon Hutchinson:**

As a result of the lack of a quorum, it was agreed that no votes would be taken on this call, and the approval of the Minutes from September 5, 2012 will take place on a subsequent call when a quorum is present.

The Chair, however, asked if anyone on the call had any comments or proposed changes to the minutes of the last call, as submitted. None were raised.

**Update: NGENC Audit – Gordon Hutchinson:**

Darrell Smith reported that the Amtrak OIG has begun work on the NGENC audit. Darrell has provided them with copies of the FRA billings as well as AASHTO's. It is anticipated that the audit will be completed by the NGENC Annual Meeting – February 21, 2013.

David Ewing asked if Gordon or Darrell had an idea of what the audit would have cost if it was done by an outside firm.

Gordon responded that he did not know the exact cost, but that it would be at least double what has been budgeted for the audit (\$50,000.00). Both Darrell and Gordon also noted that Amtrak may not charge the NGENC the entire budgeted amount for conducting this audit.

**Status: Amtrak Review of potential use of RRIF as a funding source – Gordon/Darrell:**

Gordon Hutchinson reviewed the following DRAFT fact sheet on RRIF loans prepared by Amtrak:

NGEC Finance Sub-Committee Fact Sheet

**DRAFT**

**Railroad Rehabilitation and Improvement Financing (RRIF)**

**DRAFT**

**Background** (from FRA website, <http://www.fra.dot.gov/rpd/freight/1770.shtml>)

RRIF established by the Transportation Equity Act for the 21st Century (TEA-21) and amended by the Safe Accountable, Flexible and Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU). Under this program the FRA Administrator is authorized to provide direct loans and loan guarantees up to \$35.0 billion. Up to \$7.0 billion is reserved for projects benefiting freight railroads other than Class I carriers.

The funding may be used to:

- Acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings and shops;
- Refinance outstanding debt incurred for the purposes listed above; and
- Develop or establish new intermodal or railroad facilities

Direct loans can fund up to 100% of a railroad project with repayment periods of up to 35 years and interest rates equal to the cost of borrowing to the government.

Eligible borrowers include:

- Railroads
- State and local governments
- Government-sponsored authorities and corporations
- Joint ventures that include at least one railroad
- Limited option freight shippers who intend to construct a new rail connection

**Project Priority**

(*Federal Register*, Vol. 75, No. 188, September 29, 2010, Notices, pp 60165 - 60168)

FRA gives priority to projects that:

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 23 U.S.C. 135 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.

### **Recent Amtrak Experience**

RRIF loan to fund 70 electric locomotives, spares and improvements:

- Arranged in June 2011
- \$563 million
- Credit risk premium of 4.424% paid on each drawdown
- Interest rate of 4.04%
- 4 year drawdown and 25 year repayment

Excellent result:

- Construction period – flexible
- Repayment period – flexible (long)
- Cost - competitive

### **Points to Consider Based on Amtrak's Experience**

- Borrower must clearly demonstrate ability to repay
- Terms and conditions are different than the financial marketplace
- Interest rate of Treasuries set higher than financial market
  - RRIF Loan interest rate – based on the time to final maturity (about 29 years)
  - Financial market interest rate – based on how long the full amount is effectively borrowed (about 20 years)
  - Penalty to borrow varies – perhaps 0.5% in this case

Gordon noted here that with the TIFIA loan program, if you meet all of the criteria, you will get the loan, whereas with the RRIF program, you must demonstrate the ability to pay, and they still do not have to grant the loan.

Discussion:

Following his presentation of the RRIF fact sheet, and his explanation of the positive features as well as some of the less positive aspects, Gordon offered to arrange for more in depth discussions with Amtrak's Treasurer, Neil Stein, who was unavailable today, for any of the states that wanted to hear more.

David Ewing asked if Amtrak had used outside consultants when applying for its RRIF loan. Gordon responded that they did use outside consultants, and explained that Amtrak had not purchased a large quantity of new equipment in a long time, so it did not have recent experience for this type of purchase. Therefore, there was great benefit to using outside consultants.

Vincent Brotski, Amtrak Legal, noted that Amtrak and FRA/DOT both used outside legal counsel as well.

Chad Edison, FRA, commented that he thought Gordon had provided a very good summary and explanation of RRIF and Amtrak's experience with it. He also noted that FRA had not only retained outside legal counsel, but also outside financial advisors as well.

David Ewing also raised the point that in MAP 21 changes to RRIF were proposed in both the House and the Senate, but did not end up in the enacted legislation. He asked if Amtrak had reviewed any of those proposed

changes, and, if so, would they have strengthened the RRIF program? Gordon responded that Amtrak had reviewed the proposals, but that he would have to get back to the subcommittee with what Amtrak's ultimate view was.

David commented that it would be helpful to know of useful ideas to strengthen RRIF as the reauthorization of PRIIA approaches, and asked if Gordon could provide the Amtrak view to Steve Hewitt to add as an attachment to the Minutes of this call or a future call.

Gordon agreed to provide, through Steve Hewitt, a separate distribution of what Amtrak's review of the proposed changes found.

**Developing the steps for re-programming the initial grant balance and developing the budget for 4-1-13 thru 3-31-14 – Darrell Smith:**

Darrell Smith provided a power point presentation on the status of the current budget and suggestions for re-programming the contingency fund balance from the initial grant.

**NGEC Budget:**

- Current grant budget is for April 1, 2012 – March 31, 2014
- Re-program funding carried over from prior period (ended March 31, 2012)
- Program contingency funds from current budget

**Estimated Total Remaining Funds from First \$2 Million Grant:**

\$766,012

**Budget, 4/1/2012 – 3/31/2014 Contingency fund balance:**

\$539,338

**2013-2014 Available Funds:**

\$766,000	From Period Ending 3/31/2011
<u>539,300</u>	From Contingency
<b>\$1,305,300</b>	Available for 4/1/2013 - 3/31/2014

**Estimate of Continuing Activity:**

- Staff to Technical Sub-Committee
- Project management staff in Administrative Task Force
- AASHTO Support Services
  - Meetings & Travel
  - AASHTO Staff
  - AASHTO "base level" Consultants (Hewitt, Ewing)

**Estimate of Continuing Activity:**

\$729,662

**Available to Budget:**

\$1,305,300	Available for 4/1/2013 - 3/31/2014
<u>- 729,700</u>	Continuing Activity
<b>\$575,600</b>	<b>Available to define for the last year of approved funding</b>

**Next Steps:**

- Remaining NGEC work plan for grant period
- Call for Sub-Committee and Task Force requests
- Executive Board adopts at annual meeting on February 21, 2013
- Amtrak submits supplemental budget and statement of work to FRA

Discussion:

At the conclusion of Darrell's presentation, Chad Edison, FRA, recommended that the staff and ongoing support (or continuing activity) portion should be advanced first, before work on the scope for programming the remaining \$575,000. Chad elaborated that this would prevent the problem of facing "a cliff" like occurred last year.

As the continuing activities are all expected to be retained going forward through March 31, 2014, the members of the subcommittee on the call agreed that taking this step first makes good sense.

Darrell Smith asked Steve Hewitt what he thought the next steps should be. Steve responded that this presentation should be given to the Executive Board during its call next Tuesday (October 30, 2012). There is already an agenda item for a report on the Finance subcommittee's re-programming and budgeting for the 4-1-13 thru 3-31-14 period, so this presentation would fit that discussion very well. Steve also noted that Darrell should be sure to raise the suggestion that Chad has made in regards to moving the continuing activities portion of the budget forward first, and get the Board's concurrence on that, and on the next steps defined for the \$575,000.

Members of the subcommittee with the approval of the chair agreed that this was the right approach to take, and Darrell will plan to make this presentation to the executive Board.

Following the call, Steve Hewitt will provide Board members with the power point presentation.

**Other issues/questions? – All:**

With no other business to be brought before the subcommittee today, the call was adjourned.

**Next Finance subcommittee conference call – November 21, 2012  
866 209 1307 access code: 1618163#**

**Decisions and Action Items**

NGEC Audit: The Amtrak OIG is expected to have completed its audit of the NGEC by the February 21, 2013 NGEC Annual Meeting.

RRIF and TIFIA Program overview: Today, Gordon Hutchinson provided an overview of the RRIF program. Members who would like to have an in-depth discussion with Gordon and the Amtrak Treasurer should contact Gordon directly or notify Steve Hewitt, and Gordon will make the arrangements. The TIFIA overview will be presented on a future subcommittee call.

Darrell Smith will give the budget presentation to the Executive Board on its call on Tuesday, October 30, 2012, and will alert the Board to the recommendation that the continuing activities portion (\$729,700) of the budget be advanced first before a scope is developed for programming the remaining \$575,000.

Steve Hewitt will distribute the budget presentation power point to the Executive Board members following this call.

Gordon Hutchinson will provide Steve Hewitt with Amtrak's view in regards to strengthening the RRIF program, and Steve will make a distribution to subcommittee members. The intent is to provide the members with some useful information that may help as PRIIA reauthorization discussions get underway in Congress.

**ATTACHMENTS**

**SECTION 305 Finance Subcommittee Conference Call**

**October 26, 2012  
2:00pm. Eastern Time  
866 209 1307 pass code 1618163#**

**AGENDA**

- |  |                   |
|--|-------------------|
| 1. Welcome   | Gordon Hutchinson |
| 2. Roll Call   | Steve Hewitt      |
| 3. Review of Action Items  | Steve Hewitt      |
| 4. Approval of minutes from – 9-5-12   | Gordon Hutchinson |
| 5. Update/Status: NGEC Audit   | Gordon Hutchinson |
| 6. Status: Amtrak review of potential use of RRIF potential funding sources  | Gordon/Darrell    |
| 7. Developing the steps for re-programming the initial grant balance and developing the budget for 4-1-13 through 3-31-14. | Darrell Smith     |
| 8. Other issues/questions?   | All               |

**Call in # 866 209 1307 passcode 1618163#**