

SECTION 305 FINANCE SUB COMMITTEE

MINUTES

JULY 30, 2014

3:00PM EASTERN

CONFERENCE CALL

FACILITATOR	<i>Darrell Smith, Chair of the S305 Finance Subcommittee</i>
ATTENDEES	<i>Darrell Smith, Martha Gebbie, for Brent Thompson, Eric Curtit, Brian Beeler II, Tim Hoeffner, Kevin Kesler, Arun Rao, Sal DeAngelo, Nico Lindenau, Shayne Gill, Steve Hewitt, David Ewing, Allan Rutter, Al Bieber, Brenda Jones, Brian Hong, Jeff Schultz, Kevin Brubaker, Mathew Spiel, Patrick Herlihy, Shelly Winters, Rich Wyatt,</i>
ABSENTEES	<i>Jeff Gordon, Brent Thompson, Vincent Brotski, Ashok Sundararajan, Larry Salci, Sara Sarkhili, Nikki Rudnick</i>

DECISIONS MADE

1. Welcome and Open Meeting –Darrell Smith:

Subcommittee Chair Darrell Smith, Amtrak, opened the web-conference and asked Steve Hewitt to call the roll.

2. Roll Call – Steve Hewitt:

Steve Hewitt called the roll, and confirmed the presence of a quorum.

Darrell welcomed all those from states and industry who had joined this expanded call of the subcommittee. While the call today is the regular Finance subcommittee monthly call it is also a special web conference with our featured presenter- Allan Rutter of Texas A&M Transportation Institute. Allan continues the subcommittee's efforts to provide expert input on potential options for financing passenger rail equipment.

3. Review of Action Items – Steve Hewitt:

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

Action Items Status

Exploring options for financing passenger rail equipment: The Finance subcommittee continued its effort to explore options for financing passenger rail equipment. On the last call presentations were provided by Larry Salci, Salci Consult, and Jennifer Moczygemba, Hatch Mott MacDonald.

David Ewing was to work with Allan Rutter in regard to his availability to participate on the July 30th conference call. Allan is here today as the subcommittee guest presenter.

David will keep Shayne Gill informed as to the description of future presentations. Shayne will then work with FRA to see if they fit the criteria to qualify as a part of the broader RR202 series.

It was agreed that this presentation did fit the RR202 criteria and today's web conference invites went out to the broader group of States beyond just the NGECC, and all NGECC members.

3. Additional agenda topics – Darrell Smith:

Before getting into the listed agenda items, Darrell Smith raised two additional items which were not initially included on today's agenda.

One: Darrell wanted to "plant the seed" with Finance subcommittee members that beginning with the next call,

the subcommittee will need to start addressing funding for the continued operation of the NGEC. The subcommittee will need to develop an action plan for developing a mechanism to “keep this going”. He reminded the members that the current grant agreement ends on June 30, 2015. While that seems a long way away – it is not. The months go by quickly and the process is slow. He added that the Finance subcommittee’s efforts will play into those of the NGEC Future Working Group’s activities as well.

Two: Darrell requested that David Ewing take on the task of developing a summary report (or compendium document) on the presentations that have been given thus far (beginning with last year’s RRIF presentation) in regard to exploring financing options for passenger rail equipment.

David agreed to draft a summary and send it to Darrell and Steve Hewitt – for initial review – and then on to the full Finance subcommittee and ultimately to the Executive Board.

The goal would be to have it in front of the subcommittee on the next call: August 27, 2014.

4.
Approval of minutes from 6-4-14 – Darrell Smith:

On a motion by Kevin Kesler, FRA, and a second by Eric Curtit, Missouri DOT, the minutes from the June 4, 2014 conference call meeting were approved without objection.

Before moving on to the featured presentation by Allan Rutter, Kevin Kesler, FRA, introduced FRA’s newest member of the NGEC team – Sal DeAngelo. Sal recently came on board as a technical advisor to the grants group at FRA and will be an integral part of the NGEC process.

Welcome Sal!

5.
Special Presentation:

Darrell Smith introduce today’s featured speaker – Allan Rutter – who provided the following presentation:

“Send Lawyers, Trains and Money: Passenger Rail Implementation Approaches”

7/30/14 NGEC Finance Subcommittee

Allan Rutter, Texas A&M Transportation Institute

How’d They Do That?

Here’s How: Governance and Finance

- Look at examples of leading states
- Examine how states organize for passenger rail functions
- Detail how states finance capital and operating expenses

How “Leading” States Were Identified

- Look at examples of leading states
- Examine how states organize for passenger rail functions
- Detail how states finance capital and operating expenses

Leading States List

Categories	States
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VDRPT Model, Corridor Support, Track 2	California, Illinois, North Carolina, Ohio, Washington
VDRPT Model, Corridor Support	Michigan, New York, Pennsylvania
Corridor Support, Track 2	Maine, Wisconsin*
VDRPT Model, Track 2	Florida*
Corridor Support	Indiana, Missouri, Oklahoma, Oregon, Texas, Vermont, Virginia

- Original Track 2 recipients

What Do I Mean by “Governance”?

The organizational, institutional, and transactional structures and relationships by which passenger rail services are planned, administered and operated.

Passenger Rail Functions

- Planning/Programming: State Rail Plan, feasibility studies, corridor prioritization, environmental clearance
- Design/Construction: PS&E, ROW, operational modeling, equipment procurement, infrastructure improvements
- Operation/Maintenance: train operations, infrastructure & equipment maintenance, P3 for operations/maintenance
- Financing: federal capital funding, state/local contributions for capital and operating, freight railroad infrastructure cost sharing (if any)

Functional Permutations

Function	Governance Options
Planning/Programming	Local/regional bodies, rail advisory groups, DOT rail divisions, independent rail agencies
Design and Construction	Local/regional bodies, DOT rail divisions, freight railroads, Amtrak, independent rail agencies, private contractors
Operations and Maintenance	Local/regional bodies, DOT rail divisions,

	freight railroads, Amtrak, independent rail agencies, private contractors
Financing	Local/regional bodies, DOT rail divisions, freight railroads, Amtrak, independent agencies, state agencies

NGEC Equipment Committee Scenarios

- Examined equipment procurement, maintenance, ownership and governance
- Four scenarios involving levels of state autonomy, private involvement, regional and national authority
- Scenarios for other functions could be useful

What's in Your Wallet?

- How do leading states fund passenger rail?
- Look at two types of financing mechanisms—revenues (how money is raised) and funds (how revenues are aggregated or leveraged)

Revenue and Funding Options

Revenues	
Sales and Use Taxes	Lottery Proceeds
Sales Tax on Motor Fuels	Tax Increment Financing
Motor Fuels Taxes	Property Taxes
Motor Vehicle Sales Taxes	Public-Private Partnerships
Motor Vehicle Registration Taxes	Freight Railroad Fees
Rental Car Taxes	Rail Passenger Charges
Funds	
General Funds	
General Obligation Bonds	

Revenue Bonds
Flexible Transportation Funds
Dedicated Rail Funding
Local Transportation Funds

Revenue Examples

Revenue	States That Use Revenues for Passenger Rail
Sales and Use Taxes	California, Florida, Indiana, Michigan, New York, North Carolina, Pennsylvania, Texas, Virginia
Sales Tax on Motor Fuels	California, Illinois, Indiana, Michigan, New York, Virginia
Motor Fuels Taxes	California, Florida, Michigan, North Carolina, Oklahoma, Virginia
Motor Vehicle Sales Taxes	Michigan, North Carolina, Washington
Motor Vehicle Registration Taxes	Florida, Michigan, North Carolina
Rental Car Taxes	Florida, Maine, Virginia, Washington

Revenue Examples

Revenue	States That Use Revenues for Passenger Rail
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Lottery Proceeds	Oregon (for freight rail)
Tax Increment Financing	Illinois, North Carolina, Ohio, Texas, Virginia
Property Taxes	Florida
Public-Private Partnerships	Illinois, Vermont, Virginia
Freight Railroad Fees	California (project), Maine, Missouri (project), Oklahoma
Rail Passenger Charges	NA

Note: Passenger Rail use also includes transit

Rail Passenger Charges are additional to fares

Funds Examples

Revenue	States That Use Funds for Passenger Rail
General Funds	California, Illinois, Indiana, Missouri, New York, Oklahoma, Vermont, Wisconsin
General Obligation Bonds	California, Illinois, Maine, New York, Ohio, Wisconsin
Revenue Bonds	Texas, Virginia
Flexible Transportation Funds	California, Florida, Michigan, North Carolina, Oklahoma, Pennsylvania, Vermont, Washington
Dedicated Rail Funding	Florida, Maine, Michigan, Oklahoma, Oregon, Virginia
Local Transportation Funds	California, Florida, North Carolina, Vermont, Virginia

Note: Passenger Rail use also includes transit

Don't Cash That Check Just Yet

- Some revenues and funds are constitutionally off-limits to passenger rail
- Revenue/funds need to be raise enough \$ to make them worth the political effort to create
- Not all funding sources have a good match to passenger rail functions (not a deal-killer)

Possible Lessons for NGEC

- States might have more flexibility in contracting for services/equipment from a non-profit than via compacts/pooled funds
- Cities and transit agencies employ variety of O&M contracting mechanisms worth study
- Consider revenues on a corridor level within states, even if through regional body
- States might consider reallocating state rail property taxes (if any)

Thanks for the invitation and for paying attention

Discussion: Q&A

At the conclusion of the presentation a discussion ensued.

Some of the items discussed:

Tax Incremental Financing: - Are states using this?

This tool has been mostly used in transit oriented efforts – mostly at the station level or for certain kinds of equipment. Allan will provide (through Steve Hewitt) individual examples of the use of this tool. Although primarily used for transit – Alan believes it could be used for passenger rail as well.

What are the prospects of restoring the strategy of using safe harbor leasing for passenger rail equipment?

Allan noted that some form of structure for equipment leasing makes sense for public sector entities since they are being used in the private sector (freight and airlines). He added – “if it works for carrying grain, it should work for carrying people.”

Allan suggested that this should be considered in Reauthorization and recommended that the FRA talk about it with Treasury.

Transportation (or toll) Development Credits (TDC) – Thoughts?

Allan noted that TDC's are more flexible than other funding uses and could make sense in a more global sense. He recommended that this be an item for consideration in Reauthorization – especially if there is a Rail Title. And/or in PRIIA Reauthorization. The key would be to expand eligibility.

Allan added that there are two hurdles to overcome – People need to get used to tolling something new or an existing facility – and they need to get used to having the revenues used beyond the toll road or facility where the revenue is being generated.

Michigan has used toll credits on transit projects with FTA match. Has anyone done it for FRA or TIGER?

David Ewing responded “you are not able to do it”.

Tim Hoeffner mentioned New Market Tax Credits as a possibility. The US Treasury gives credits for investment in economically stressed areas. The money must go for infrastructure. Michigan is using this. However, it is not traditionally used for transportation projects – usually housing or other public infrastructure.

Are there topics that have not yet been explored by us (NGEC) or that could be considered?

Allan Rutter responded: As other committees are considering approval of 3rd party's - across state lines – the NGEN should look into financial consideration of such approaches. IE: A pooled approach to train operations. States, however, would need to see if they can legally use funds for these kinds of things. He cautioned that “you should be aware of the financial implications of these kinds of considerations.”

For Passenger Rail – how about the use of Joint Powers Authority – such as that being used in California?

A consideration must be made of the overall cost of administering – organizationally. The structure makes sense – but it needs to be very clear about how the relationships happen. Personalities and the capabilities of the people who are running these things is critical. David Kutrosky in California is a prime positive example.

Allan also noted that a joint power authority with money is a lot easier than one without money.

Do you see a funding mechanism that we (NGEC) should stay away from? Is it worth it?

Allan commented – It is important that you develop good relationships with your comptroller. That body will know how the money will come about. As you think about things make sure you create those internal relationships to get an outside perspective on assessing a potential revenue stream. Is it stable enough to bond against – is it enough for what I want to do?

He added that in considering bonding – you must factor in the transactional costs.

Eric Curtit, Missouri DOT, noted that they have a program by which 2% of the growth in general revenue is put into a fund dedicated to transportation.

Allan Rutter commented that local tax increments can work – such as a local sales tax – beginning with a baseline. Statewide Texas created a state “rainy day fund”. The first few years there was little revenue acquired, but in the last five years or so there are tens of millions of dollars generated (mostly due to fracking). The legislature is now looking to reallocate \$1.5 billion annually to transportation – multi-modal. The trick to this sort of program in perpetuity is either it grows beyond expectations or it is not steady enough to plan for it.

Use of Passenger Facility Charges for passenger rail – is this doable?

Allan was unsure if a supplemental charge could be applied in this manner for passenger rail.

Eric Curtit noted that Missouri is doing it now. It's \$5 a head – and is similar to what airlines do – the passengers never see it. It's almost like telling Amtrak to raise the fare \$5.

Allan asked – what are the applications of this surcharge?

Eric responded – “state revenue”.

Allan commented The advantage of such a PFC type charge is that you could finance against it.

Darrell Smith noted that the Amtrak pricing revenue management group would be good to hear from on this topic.

Eric Curtit agreed to get more information on the particulars of Missouri's program and get it out through Steve Hewitt. (It will go to Kevin Brubaker as well as the Finance subcommittee and Allan Rutter)

**6.
Future Presentations – David Ewing:**

David Ewing suggested that in addition to developing a compendium of the presentations heard thus far, the subcommittee should have one more presentation to “round out the material”. He suggested David Kutrosky Capital Corridors as the next presenter.

Tim Hoeffner agreed, but thought we should also hear from WMATA – as it is a multi-state organization.

Darrell Smith added that he subcommittee would also benefit from hearing from the Amtrak staff in regard to PFC’s.

David Ewing will follow up with David Kutrosky and Darrell Smith will contact Amtrak’s Cheryl Richards about PFCs and will also contact WMATA.

David will capture these next step items in the summary report.

David and Darrell will coordinate the sequence of presentations going forward.

Adjourn:

With no other business to come before the Finance subcommittee today, the call was adjourned at approximately 3:58 Eastern.

**Next Finance subcommittee conference call –August 27, 2014
866 209 1307 access code: 9786620#**

Decisions and Action Items

The Finance subcommittee will begin looking at next steps to fund the NGEC beyond the end of the current grant agreement (6-30-15)

David Ewing will prepare a draft summary of the presentations given thus far as a part of the effort to explore financing options. David will include in the summary a description of some next step presentations such as PFCs, WMATA and Joint Power Authorities.

Eric Curtit will provide the subcommittee with particulars on the Missouri passenger rail surcharge.

Darrell Smith will reach out to Amtrak’s revenue management group in regard to PFCs.

Darrell Smith will also reach out to WMATA about a possible presentation from a multi-state organizational perspective.

David Ewing will reach out to David Kutrosky in regard to a possible presentation on the California Joint Power Authority experience.

ATTACHMENTS



The NGEC will provide national leadership in standardization,
acquisition, financing and management of passenger rail equipment.

SECTION 305 Finance Subcommittee Web Conference Call

July 30, 2014

3:00pm. Eastern

866 209 1307 pass code 9786620#

To connect to the Web Conference:

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Click here: <https://connect17.uc.att.com/amtrak/meet/?ExEventID=89786620>

And then select "CALL ME" and AT&T will call you into the conference.

TO CONNECT WITH YOUR *TELEPHONE ONLY* (no computer):

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1. Choose one of the following numbers to dial:
 - * Caller-Paid number: 816-423-4262
 - * Toll-Free Number (in USA): 866-209-1307.
 - * Blackberry (Caller-Paid): 8164234262x9786620#
2. When prompted, enter the Meeting Access Code: 9786620#

**Special Presentation by Allan Rutter:
Research Scientist, Texas A&M Transportation Institute**

"Send Lawyers, Trains and Money: Passenger Rail Implementation Approaches"

MEETING AGENDA

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|--|---------------|
| 1. Welcome/Open | Darrell Smith |
| 2. Roll Call | Steve Hewitt |
| 3. Review of Action Items | Steve Hewitt |
| 4. Approval of minutes from 6-4-2014 | Darrell Smith |
| 5. Future Presentations – summary report schedule | David Ewing |
| 6. Special presentation:
"Send Lawyers, Trains and Money: Passenger Rail Implementation Approaches" | Allan Rutter |
| 7. Other issues/questions? | All |

Next Finance subcommittee call: August 27, 2014 – 3:00PM Eastern

Call in # 866 209 1307 passcode 9786620#

Finance Subcommittee Presentation Schedule

Purpose: to hold a series of presentations from various subject matter experts in an effort to explore funding and financing options for intercity passenger rail equipment

Finance Subcommittee Review of Equipment Finance Strategies

Date/Complete	Topic	Expert
Complete	RRIF	Darrell Smith, Amtrak (completed)
6/4	Federal Tax Code	Larry Salci, Salci Consult (completed)
6/4	Transportation Development Credits	Jennifer Moczygemba, Hatch Mott, McDonald (completed)
7/30	Research	Allan Rutter, TTI (completed)
8/27 (tentative)	Capital Formation	David Kutrosky
8/?	Presentation of Draft product	Eric Curtit/David Ewing
9/?	Consideration and Action on Draft product	The Finance subcommittee

15 minute presentation, 10 minutes for questions, possible read ahead material.

Product: compilation of meeting notes, augmented by presenters material, an introduction and a summary/“finding” prepared by staff; reviewed and considered by Finance Committee, one possible outcome, sent to the Executive Board for its information and possible actions. Possible actions could include (but not limited too) hiring a consultant to explore a specific topic(s). Additionally, the product could be sent to the restructured “Futures” committee for its consideration where and how they saw fit. Finally, the summary of “finding” could be presented somewhat more formally to the full Executive Committee as part of the Finance Committee presentation at the next in-person meeting.