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Development of Ownership, Organization and Financing Structures

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Section 305 Next Generation Equipment Committee

Contents

Presentation Objectives

- Respond to federal funding opportunity authorized in the Passenger Rail Investment and Improvement Act of 2008 (“PRIIA”)
- Identify principal issues relating to organization and funding of a multi-State/Amtrak equipment procurement as provided in PRIIA Section 305
- Set out work plan for development and implementation of recommendations to the Section 305 Next Generation Equipment Committee’s Finance Subcommittee and Board

Program Goals

- Achieve a coordinated multi-State procurement
- Benefit from purchase price scale efficiencies
- Create a new multi-State financial structure (the “Program”) that:
  - ✓ Provides certainty to equipment vendors that funding is in place to pay for an equipment purchase
  - ✓ Allows each State to pay its share of the equipment cost either:
    - – Through the new Program *or*
    - – With its own funding source
  - ✓ Provides the flexibility for the Program to use the most cost-effective financing mechanism/funding source at any given time
- Potentially include long-term maintenance, use of private sector skills and efficiencies, and appropriate risk allocation
- Optimize Program structure with new legislation, if needed

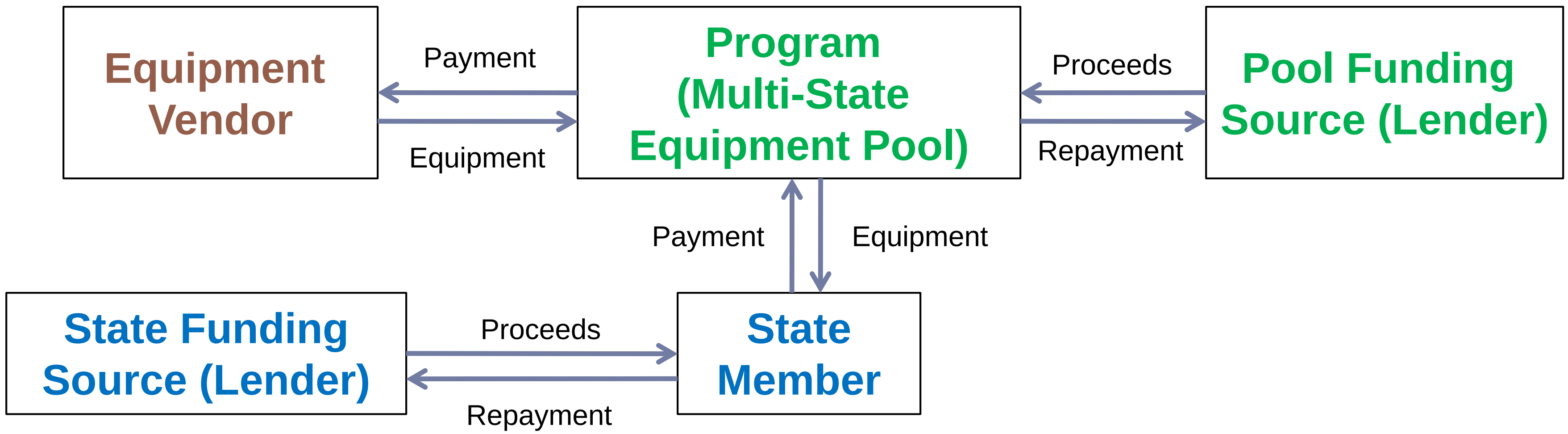
Threshold Factors Affecting Program Financial Structure

- Share of cost to be funded by federal grant(s)
- Responsibility for non-federal cost share
  - ✓ States funding either directly or through the Program
  - ✓ Vendor funding with repayment through the Program
- Each participating State's legal authority to enter into multi-year payment obligations
- Responsibility for equipment maintenance and mid-life rehabilitation
- IRS requirements relating to
  - ✓ Tax exempt and Build America Bond financing
  - ✓ Private sector tax benefits (*e.g.,* interest deduction, depreciation)
  - ✓ Length and terms of management contract(s) with private entity

Potential Organizational Structures

- Interstate Compact
- Non-Profit Membership Organization
  - ✓ 63-20 corporation
  - ✓ Other association or entity
- Single- or Multi-State Conduit
- Lead State (for procurement)
- Private Corporation
- Potentially a combination of the above
- Organizational structure for procurement may be distinct from that for funding

Financial Structure – Overall Features



- States are structuring a joint procurement but each State will only pay for the equipment it orders
- Each State needs the legal authority to commit to the acquisition of and payment for the equipment
- Each State could have the option to fund its acquisition payments through the Multi-State Equipment Pool financing mechanism or on its own

Financial Structure – Overall Features *(continued)*

- In order to facilitate its funding commitment, a State may need to use a lease model that is unique to that State
  - ✓ Objective: a State could commit to the lowest possible periodic payments spread over the useful life of the equipment
  - ✓ Payments could cover acquisition and financing costs, periodic maintenance, and mid-life overhaul
- Private funding is a possibility
  - ✓ Also would be repaid by payments from the States
  - ✓ Can involve risk transfer to private parties and address PRIIA's focus on maintenance of equipment and facilities
- Determining the path to the most favorable life-cycle costs will depend on available financing options and then-current credit market conditions
- A State could opt out of financing if a State has an independent source of funding, but the State presumably still would benefit from a lower acquisition cost than it could have negotiated on its own

Potential Funding Sources for Non-Federal Costs

- Tax exempt financing and Build America Bonds (direct subsidy)
  - ✓ Capital markets
- Taxable financing
  - ✓ Capital markets
  - ✓ Project finance (commercial) banks
  - ✓ Institutional direct purchasers
    - Public and private pension funds
    - Life insurance companies
    - Hedge funds
- Federal loan programs
  - ✓ TIFIA
  - ✓ RRIF
- Each funding source involves tradeoffs involving maturity, terms, interest rates, tax benefits, borrower's negotiating leverage, and transaction costs

Principal Issues to be Addressed

- State procurement laws and practices
- Procedural and substantive requirements to be met by federal grantees
- Each participating State's authority to enter into a financing contract with a multi-State entity
- Current and likely benefits and costs associated with alternative organizational structures
- Current and likely benefits and costs associated with alternative financing structures and funding sources
- Compatibility of different organizational structures with different financing structures and funding sources
- Need for any federal or State legislative changes
- Governance and staffing alternatives, if requested

Next Steps

- Reach consensus on the issues to be addressed and the methodology for the research
- Evaluate principal issues from each participating State's point of view
- Create a matrix of compatibility and tradeoffs among organizational structures, financing mechanisms and funding sources
- Present findings and recommendations to Section 305 Committee's Finance Subcommittee and Board
- Assist with any legislative changes and the implementation plan