



The Railroad Rehabilitation & Improvement Financing (RRIF) Program

Soy Transportation Coalition Briefing Paper

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The Railroad Rehabilitation & Improvement Financing (RRIF) Program was established in 1998 by the Transportation Equity Act for the 21st Century (TEA-21) and amended by the 2005 "Highway Bill," called "Safe, Accountable, Flexible and Efficient Transportation Equity Act: a Legacy for Users" (SAFETEA-LU). Under the RRIF program the Administrator of the Federal Railroad Administration (FRA) of the U.S. Department of Transportation (DOT) is authorized to provide direct loans and loan guarantees up to \$35.0 billion, of which up to \$7.0 billion is reserved for projects benefiting freight railroads other than Class I railroads, in other words, "Short Line" railroads. Direct loans may fund up to 100 percent of a railroad project with repayment periods of up to 25 years and interest rates equal to the cost of borrowing to the government.

RRIF funding may be used to:

1. Acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, building and shops;
2. Refinance outstanding debt incurred for these same purposes; or
3. Develop or establish new intermodal or railroad facilities.

Eligible borrowers include railroads, state and local governments, government-sponsored authorities and corporations, joint ventures that include at least one railroad, and "captive" shippers who intend to construct a new rail connection. Such shippers may seek funding for improvements in existing railroads only as part of a joint venture with a railroad.

Since its enactment the RRIF has concluded 17 loan agreements all but two of which have been to Class II or III "short line" freight railroads.

Through July, 2007 two loan agreements have been concluded:

- \$59 million to the R .J. Corman Railway, based in Kentucky, and
- \$48 million to the Dakota, Minnesota Eastern (DME) Railroad, which also received a \$233 million loan in 2003.

In 2006 three loan agreements were concluded:

- \$25.5 million to Iowa Northern railroad
- \$14 million to Wheeling & Lake Erie railroad, and
- \$9.35 million to Iowa Interstate Railroad, which also received a \$32.7 million loan in 2005

The two loans totaling \$42.05 million to the Iowa Interstate Railroad (IIR) were to improve service to rural areas that rely on trains to ship corn, soybeans, steel and other products. Specifically the funds are to be used for track improvements (replacement of cross-ties, lay new ballast, upgrade highway-rail grade crossings) between Council Bluffs, Iowa and Bureau, Illinois. The improvements are designed to enhance the ability of tracks to handle heavier rail cars and ensure that products arrive quickly and safely at key shipping points. The loan will also enable the IIR to purchase lines it is currently leasing.

The \$25.5 million loan to the Iowa Northern Railroad (IANR), a short line freight carrier whose cargo is largely agricultural products, is for improvements that will allow IANR to accommodate heavier railcars and move freight more quickly, safely, and efficiently. Specifically the loan will be used to upgrade the mainline track between Linn and Waterloo and between Cedar Falls and Manly and to rehabilitate rail yards in Waterloo and Manly.

The \$59 million loan to the R.J. Corman Railroad Group, which operates 8 short lines in Kentucky, West Virginia, Pennsylvania, Ohio and Tennessee, was to rehabilitate 25 locomotives and purchase 200 new flat cars and 100 new hopper cars.

The most recent \$48 million loan to the Dakota, Minnesota Eastern Railroad (DME) was to improve safety and speed on 134 miles of track between Wall, South Dakota and Colony, Wyoming to enable it to accommodate heavier freight cars that haul grains, ethanol and minerals.

While DME has received two RRIF loans, in February 2007 it was denied a loan for construction of a new 280 mile rail line to Wyoming's Powder River Basin coal mine and to reconstruct existing track in South Dakota and Minnesota. The loan application was denied because it was deemed to pose an unacceptably high risk to US taxpayers. The project, which would have increased competition in the Powder River Basin, has also been very controversial. Plans were recently announced for the DME to be acquired by the Canadian Pacific Railroad.

For soybean producers, the RRIF Program is of interest as a potential resource to help in addressing transportation challenges. Although the program was approved almost a decade ago, most of its loan activity is relatively recent. Future STC analysis could include interviews with companies who have used the program to find out how it compared to other options, and if there are ways that the program might be improved to be more useful.

Application Process

Applicants for loans or loan guarantees must provide the FRA with the following information: A description of the project and whether it is included in the State's transportation plan; an environmental impact statement; the amount of the loan or loan guarantee requested; a description of the collateral being offered as security; financial statements for the past 5

years; projected revenue for the next 5 years; a discussion of whether the project will enhance safety, the environment, US competitiveness, and rail service to rural areas and small communities. Additional information may be required by the FRA on a case-by-case basis.

Because the RRIF Program does not have a separate appropriation, the cost to the government of providing the loan or loan guarantee- essentially the risk of default- is borne by the applicant through the payment of what is called the “Credit Risk Premium”. The amount of the premium is calculated as a percentage of the amount of the loan and is based on the risk of non-payment of the particular loan. In addition each applicant must pay an Investigation fee calculated to cover the cost to the FRA of evaluating the loan application. This fee must be paid whether or not the loan is ultimately approved.



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