

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 19, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *y*

SUBJECT: CONSIDERATION OF RESOLUTION ON THE FINANCING PLAN FOR
DISPOSING OF OLD RAIL CARS AND FINANCING NEW RAIL CARS FOR
THE VIRGINIA RAILWAY EXPRESS (VRE)

ISSUE: Sale, purchase, and financing of Virginia Railway Express rail cars.

RECOMMENDATION: That Council approve the attached resolution to authorize the sale, purchase, and financing of Virginia Railway Express rail cars.

BACKGROUND: In March of 2008, the Operations Board authorized the VRE Chief Executive Officer to pursue the sale of thirteen Kawasaki railcars and to issue an RFP for the purchase of ten new Gallery cars to potentially replace the Kawasaki cars. The two transactions were linked because the Kawasaki railcars could not be sold unless sufficient funds were available to purchase replacement cars.

In response to the RFP for new cars, VRE received one proposal from the Sumitomo Corporation of America. VRE and Sumitomo Corporation of America negotiated a purchase price of \$22,000,000 for ten Gallery style railcars. The total cost of the new cars, with construction oversight and contingency is estimated at \$24,980,000. VRE recommends the purchase contingent upon the sale of thirteen Kawasaki railcars under the terms described below. While the total project cost to purchase cars is estimated at \$24,980,000, authorization is only being sought by the jurisdictions to award a contract for \$22,660,000 (\$22 million plus contingency). The other project costs will be brought to the Operations Board for independent approval at a later date.

The funding for the ten new railcars would come from two sources: (1) the net cash generated by the sale of the Kawasaki cars; and (2) the remaining available loan funds previously authorized and included in the Federal Railroad Administration (FRA) financing that was used for the purchase of the 50 railcar option. The increased payments for the FRA loan would then, in turn, be paid for using funding originally allocated for the repayment of the Kawasaki bonds.

The FRA approved a loan to VRE for \$72.5 million in 2005. However, only \$57.5 million of the total loan amount was needed for the 50 railcar option order and subsequently approved by the Commissions. Additional grant funds were provided by the State prior to completing the purchase which further reduced the loan amount to \$55 million, leaving an available FRA loan balance of over \$17 million. FRA has approved the addition of ten cars to the current loan in principle.

With respect to the sale of the thirteen Kawasaki railcars, VRE publicly posted and initiated discussions with four commuter rail agencies to stimulate interest in the sale and received one written offer from the Maryland Transit Administration (MTA) for \$22 million, inclusion of associated spare parts, and their assumption of the remaining federal interest. After reviewing the terms of that offer, VRE staff recommended acceptance. PFM, VRE's financial advisor, estimates that \$14.3 million is needed to defease (put funds aside to service the remaining debt) the outstanding Series 1997 bonds used to finance the Kawasaki railcars. The MTA offer provides sufficient funds to defease the bonds and pay for a portion of the purchase price of the replacement cars. The remainder of the purchase price will be funded using the FRA loan. Loan payments will be made via federal formula funds currently used for the debt service on the Series 1997 Kawasaki bonds.

Total funding for the ten new railcars will be provided for as follows:

Sale of Kawasaki rail cars	\$22,000,000
Less Defeasance set aside for Kawasaki railcars	(14,300,000)
Cash remaining from sale of Kawasaki railcars	7,700,000
Plus FRA loan	<u>17,280,000</u>
 Total Need to Purchase Sumitomo Railcars	 \$24,980,000

The financial details of both transactions are provided in the attached chart. The FRA loan capacity is already in place and can be accessed immediately, providing the Commissions and jurisdictions have approved the assumption of this debt. The loan carries a 4.74% interest rate and allows prepayment at any time without penalty. While the projected loan amount is \$17,280,000, as shown above, authorization is being sought for \$17,350,000 to allow for a contingency.

Benefits of Kawasaki Sale

- a. Standardizes VRE's fleet to all Gallery style railcars. If the sale and purchase is approved, VRE will have 71 new Gallery style railcars and 30 older Gallery style railcars in the fleet. The fleet would provide sufficient railcars for up to 14 consists (a consist is a group of train cars pulled by a locomotive) and 36 trains. Today VRE operates 11 consists and 30 trains. Replacing 13 Kawasaki railcars with 10 new Gallery style railcars does not impede VRE's ability to expand the service to 36 trains as outlined in VRE's fleet plan through FY 2016 as more of the Pullman gallery fleet is being retained.

- b. Reduces railcar maintenance costs. The 13 Kawasaki railcars are more mechanically complex than the Gallery railcars. Historically, these cars have had an average of 11% higher maintenance costs than VRE's Gallery railcars. They are designed for 125 mph service and have dual braking systems compared to the Gallery coaches which are rated at 79 mph and have a single brake system. Currently, both CSX and NS limit VRE's operating speed in the corridor at 79 mph.
- c. Increases fleet flexibility. Currently, the Kawasaki railcars have limited compatibility with the Gallery railcars and are functionally, a stand-alone fleet. Thus, VRE is limited to using the Kawasaki railcars in unique consists and can only achieve two six-car consists or one eight-car and one four-car consist. In either configuration, VRE only has a one car contingency for maintenance – which is considered too low for VRE's level of service reliability.
- d. Provides exceptional sales price for the Kawasaki railcars. The total sales price for the Kawasaki railcars is nearly what VRE paid for the railcars nine years ago. VRE staff does not believe a higher price will be achieved in the future.

On June 20, 2008, the Virginia Railway Express (VRE) Operations Board agreed to recommend to the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission the authorization of the VRE Chief Executive Officer to sell thirteen Kawasaki railcars to the Maryland Transit Administration and to concurrently purchase ten new Gallery style cars from the Sumitomo Corporation of America. The Operations Board also approved the Chief Executive Officer approaching each VRE member jurisdiction immediately in an effort to gain jurisdictional approval of debt prior to August 31, 2008. VRE must obtain the consent of all VRE member jurisdictions, including the City of Alexandria, in order to issue debt to finance the rail cars. VRE needs approval before August 31, 2008, when it must issue a notice to proceed to Sumitomo. In addition, the Amended Offer from MTA for the purchase of the Kawasaki cars is only valid until October.

FISCAL IMPACT: The new VRE debt issuance would have no fiscal impact on the City. Under the terms of the VRE Master Agreement, the City has a fixed annual contribution to VRE that would not increase as a result of the new debt. Under this agreement, the jurisdictions which originate the trips (Fairfax, Prince William, and Stafford counties and the cities of Fredericksburg, Manassas, and Manassas Park) are categorized as "Participating Jurisdictions". They each contribute a proportionate share of the VRE subsidy based on their ridership and population, although a current phasing plan is moving this proportion to all ridership. Their subsidies will not increase due to this purchase of as the new railcar annual debt payments will not exceed the current annual debt payment for the Kawasaki railcars. The City of Alexandria and Arlington County originate a relatively small percentage of trips, and under the VRE Master Agreement, provide fixed annual contributions that would not be affected by this purchase. Alexandria's estimated contribution for FY2009 is \$118,797. Alexandria and Arlington and considered "Contributing Jurisdictions".

The estimated cost for VRE to purchase the new Gallery style cars is \$24,980,000 which will be funded with \$7,700,000 cash remaining from the sale of the Kawasaki railcars and \$17,280,000 from a Federal Railway Administration (FRA) loan. No increase in subsidies will be required from the Contributing Jurisdictions. The Contributing Jurisdictions also are not liable in the case that one or all of the Participating Jurisdictions default on any required debt service payment on any loan that VRE has undertaken.

ATTACHMENT: Resolution approving issuance of debt for VRE equipment.

STAFF:

Mark Jinks, Deputy City Manager

Rich Baier, Director, Transportation and Environmental Services

Bruce Johnson, Director, OMB

Morgan Routt, Budget/Management Analyst/OMB

Jim Maslanka, Chief of Transit Services/T&ES

RESOLUTION NO. _____

WHEREAS, the Northern Virginia Transportation District Commission (“NVTC”) and the Potomac and Rappahannock Transportation District Commission (“PRTC”), and together with NVTC, the “Commissions”, jointly operate the Virginia Railway Express (the “VRE”) commuter rail service in Northern Virginia pursuant to the Master Agreement dated as of October 3, 1989 as amended (the “Master Agreement”) among the Commissions and the participating and Contributing Jurisdictions described in such Master Agreement; and,

WHEREAS, VRE has been presented with a unique market opportunity to sell the Kawasaki fleet; and,

WHEREAS, such a sale could standardize VRE’s railcar fleet and reduce overall railcar maintenance costs; and,

WHEREAS, the requirements for VRE’s fleet size can be sustained through the acquisition of ten more Gallery style cars to replace the Kawasaki cars; and,

WHEREAS, through competitive advertising and solicitation, buyers and sellers have been identified and two separate, but linked transactions are being recommended by VRE staff; and,

WHEREAS, the City of Alexandria, Virginia, is a Contributing Jurisdiction under the terms of the Master Agreement and has a fixed annual contribution to the VRE and therefore the proposed new debt issuance by VRE would have no fiscal impact on the City; and,

WHEREAS, the Master Agreement provides that VRE shall utilize reasonable debt financing to the extent that such financing is advantageous and is in the interest of the parties to the Master Agreement, but requires that VRE not assume debt without the consent of all Participating and Contributing Jurisdictions; and,

WHEREAS, the VRE Operations Board recommended that the Commissions authorize the VRE Chief Executive Officer to execute a sales agreement for the sale of thirteen Kawasaki railcars and associated spare parts to the Maryland Department of Transportation for \$22 million and their assumption of the remaining federal interest; and

WHEREAS the VRE Operations Board recommended that the Commissions authorize the VRE Chief Executive Officer to purchase ten new Gallery railcars from Sumitomo Corporation of America for \$22 million, plus a contingency of \$660,000, for a total amount not to exceed \$22,660,000; and,

WHEREAS, the VRE Operations Board recommended that subject to approval by all VRE Master Agreement signatory member jurisdictions, the Commissions authorize an increase to the Federal Railway Administration (FRA) loan in an amount not to exceed \$17,350,000, with a term not to exceed 25 years, an interest rate of 4.74%, and a credit risk premium of 1.88%.

NOW, THEREFORE BE IT RESOLVED THAT, The City of Alexandria, Virginia, consents that the VRE Chief Executive Office negotiate, complete, execute and deliver documents required to defease the 1997 Kawasaki bonds and pay any associated financing cost to a related payee; and,

BE IT FURTHER RESOLVED THAT, the City of Alexandria, Virginia consents, in accordance with the terms of the Master Agreement, in the incurrence of the FRA loan by NVTC, to finance the costs associated with the purchase of ten "Gallery" style cars; and,

BE IT FURTHER RESOLVED THAT, if required by the FRA as a condition to the making of the FRA loan, the City further consents to the Commissions' granting to the FRA of security interests in the railcars and/or the Commissions rights to payment under the master Agreement; and

BE IT FURTHER RESOLVED THAT, the appropriate officers of the City are authorized to execute and deliver such agreements, instruments, and certificates as may be necessary to accomplish this foregoing.

ADOPTED: June 24, 2008

William D. Euille

Mayor

ATTEST:

Jacqueline M. Henderson, CMC City Clerk

RESOLUTION NO. 2290

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WILLIAM D. EUILLE MAYOR

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