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SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

HEARING ON REHABILITATING AND IMPROVING OUR NATION'S RAIL INFRASTRUCTURE
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Mr. Chairman and Members of the Subcommittee, thank you for inviting me to testify today. My name is John Fenton. I am Chief Executive Officer of the Southern California Regional Rail Authority, commonly known as Metrolink. I have spent nearly 30 years working both in the freight and passenger rail industries and have witnessed public transit emerge on the national agenda. Public demand for more transportation options to improve mobility and protect our environment is at an all-time high.

My testimony today will focus on the barriers that Metrolink has experienced in our efforts to apply for federal Railroad Rehabilitation and Improvement Financing (RRIF) credit support to meet our capital investment needs. My testimony will also offer proposals to make the RRIF program more effective and meet its intended goals.

METROLINK OVERVIEW

Metrolink is a Southern California commuter rail provider that operates on a 512-mile system and serves five counties, including Los Angeles, Orange, Riverside, San Bernardino and Ventura.

In addition to operating 144 daily trains with nearly one million passenger trips each month, Metrolink provides dispatching services to two freight companies (Burlington Northern Santa Fe and the Union Pacific Railroad) and three passenger rail services (Amtrak, Coaster, Metrolink) over one of the most complex multi-modal rail systems in the United States. This includes select freight traffic coming out of the ports of Long Beach and Los Angeles, two of the busiest ports in the nation.

Since my joining Metrolink in April 2010, the organization has focused on driving excellence in safety, customer service, operational efficiency, transparency and fiscal responsibility. We are on a course to reduce our operating costs and become more self-sufficient.

We have made substantial improvements, including enhancing the safety culture by bringing into the process our key stakeholders such as rail labor, elected officials, federal and state regulators and our contractor co-workers.

This year we launched our new state-of-the-art, collision absorption-equipped passenger rail cars, the safest in the nation. We have improved our equipment utilization and instituted a fuel conservation program that will reduce emissions and fuel usage this year by more than 800,000 gallons, saving taxpayers millions of dollars.

Metrolink has also made great progress with our accelerated strategy to have Positive Train Control (PTC) operational in advance of the 2015 federal deadline.

Innovative safety enhancements and environmental improvements require investment. Keeping our equipment and infrastructure in a state of good repair requires resources.

There has been much discussion about the "promise" of high-speed rail. But Southern California is facing many complex problems that require more than a glimpse into the future; these problems need answers today.

More than 60 percent of Californians reside in Southern California, with close to 20 million people living in the Los Angeles basin alone. We have more than 15 million cars on our gridlocked freeways, and it is estimated that vehicle miles will more than double from the current 22 million miles to 48 million over the next decade. Building one mile of freeway costs approximately $80 million to $100 million, whereas building one mile of rail costs approximately $5 million.

We must continually look for innovative ways to safely operate the railroad, improve the customer experience and seek the financing to build a system that meets the demands of our changing population.

As a low-cost provider, we believe Metrolink is the solution.

Metrolink is about a better quality of life, today. Yet, as an untapped resource, Metrolink is not reaching its potential to help safeguard our environment, reduce gridlock on our freeways and become a catalyst for job growth and economic investment.

RRIF PROGRAM EXPERIENCE

Through a partnership with the federal government and leveraged funding through RRIF, Metrolink can elevate our standing as a leading solutions provider for Southern California.

As an example, Metrolink recently looked into the possibility of applying for a $300 million RRIF loan to purchase Tier 4 (advanced technology) or "green" locomotives.

Metrolink's current locomotive fleet is one of the highest polluting in the nation, averaging less than Tier 1. Today, however, we can do much better.

Metrolink is now evaluating options for new advanced technology locomotives, which would ensure the most efficient and environmentally friendly passenger rail service in the state.

The environmental benefits of advanced technology locomotives would be significant. We expect an 86 percent reduction (11,000 tons) of Nitrous Oxide (NOx) and a 95 percent reduction in Particulate Matter (PM) emissions annually.

Locomotive manufacturers have indicated that the new technology could reduce fuel usage by up to 10 percent over our present equipment. In addition, if Metrolink would qualify to acquire these new locomotives under RRIF, it would protect our passengers' pocketbooks from rising gas prices.

Investment in new locomotives would allow us to increase horsepower per unit over 50 percent from 3000HP to approximately 4700 HP. Therefore, more efficient and cleaner locomotives will allow us to increase capacity (add more rail cars to the trains) and move more people. Advanced technology locomotives would reduce PM equivalent to the removal of 137,000 automobiles, and the reduction in NOx emissions would equate to the removal of 175,400 automobiles annually.

After careful investigation, Metrolink has found that we are ineligible to participate in the existing RRIF program. Some reasons might be unique to Metrolink and passenger railroads, but other major reasons involve larger issues in the RRIF program, which are shared by other rail industry witnesses today.

Prior to joining Metrolink, I served as President of one of the country's larger short line holding companies. We applied for two RRIF loans and in both cases the process took over a year and a half. In the case of the second loan the delay was so long that the rehabilitation needs changed and we had to rewrite the application to accommodate the facts on the ground. It is very difficult to run a business, be it private or public, with these kinds of delay.

From my perspective and experience in both the private and public sectors, I would like to discuss the most significant barriers with the RRIF program. I will also provide some recommendations to address some of the challenges that I believe undermine the potential of the RRIF program.

RRIF PROGRAM RECOMMENDATIONS

- <u>Coordination with FTA Programs</u>

For state and local public passenger authorities like Metrolink, most of our hard assets were acquired with assistance of FTA capital funds, or state or local capital funds.

Property acquired with assistance of FTA funds has a condition giving FTA rights to the property if the property is no longer used for public transportation purposes. Often state transportation capital funds have similar requirements.

For RRIF loans, the FRA requires a first lien on hard assets. The challenge arises when SCRRA cannot use an asset as collateral because the FTA has prior rights. The collateral

requirement prevents state and local rail authorities like Metrolink from utilizing the RRIF loan program.

The RRIF program is one example that highlights the disconnect between federal agencies. In practice, these barriers undermine the success of the RRIF program. Metrolink wishes to work with the committee to further address these issues. Greater flexibility by FRA in considering collateral and repayment conditions, especially for state and local government rail authorities, would make a significant difference.

- Credit Risk Premiums

Another significant challenge with the RRIF program results from the requirement for credit risk premiums.

Unlike the Transportation Innovative Financing & Improvement, or "TIFIA" loan program, the RRIF program does not provide any subsidy to cover the risk of default.

Currently, the cost of the default risk 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.

These extra costs can make the loan cost-prohibitive for government entities with limited resources. The credit risk premium is a unique feature of the RRIF statute. Providing funds for RRIF loan credit risk premiums, similar to TIFIA loans, would be helpful and certainly make the program more financially practical.

- Loan Term Flexibility

The topic of RRIF loan terms flexibility is well-addressed by my colleague on the panel, Mr. Loftus for the American High Speed Rail Alliance, who is also addressing issues from a perspective of public passenger rail. We support and endorse Mr. Loftus' comments and recommendations for the RRIF program on loan flexibility.

- Innovative Financing

Finally, I also support efforts that create opportunities for private investment. The federal government is facing unprecedented budget constraints. The traditional model for federal funding and grants is incapable of meeting the nation's deteriorating transportation infrastructure needs.

The RRIF program is a great opportunity to leverage private investment. We would like to work with the Subcommittee to identify incentives that will encourage greater private investment.

CONCLUSION

In closing, I would like to emphasize that Metrolink is more than passenger trains moving people from place to place.

We are the solution for some of the major issues facing Southern California by reducing gridlock, safeguarding our environment and providing economic investment, jobs and growth.

We provide a better quality of life.

Equally as important, Metrolink has an opportunity to set an example for commuter rail throughout America.

I want to thank you for the opportunity to appear before you today, and I am happy to answer any questions you might have.