

MOTION:

**July 22, 2008
Regular Meeting
Res. No. 08-**

SECOND:

**RE: APPROVING THE ISSUANCE OF ADDITIONAL DEBT TO
PURCHASE 10 NEW BI-LEVEL GALLERY RAILCARS**

ACTION:

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 County of Prince William, Virginia, is a Participating Jurisdiction under the terms of the Master Agreement; 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,

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Regular Meeting
Res. No. 08-
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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 Prince William County, Virginia consents that the VRE Chief Executive Officer negotiate, complete, execute and deliver documents required to defease the 1997 Kawasaki bonds and pay any associated financing costs to a related payee; and,

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

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

Votes:

Ayes:

Nays:

Absent from Vote:

Absent from Meeting:

For Information:

Budget Director

PRTC Executive Director

Chief Executive Officer Virginia Railway Express

CERTIFIED COPY _____

Clerk to the Board



Craig S. Gerhart
County Executive

COUNTY OF PRINCE WILLIAM


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June 30, 2008

TO: Board of County Supervisors

FROM: David L. Tyeryar
Budget Director 

Dale Zehner
Chief Executive Officer VRE 

THRU: Craig S. Gerhart
County Executive

RE: Approval of the Issuance of Additional Debt to Purchase of 10 New Bi-Level Gallery Railcars

I. Background on the subject in chronological order is:

- A. Kawasaki Bi-Level Railcars – Virginia Railway Express purchased 13 Kawasaki bi-level railcars (4 cabs and 9 trailers) in 1997 for \$23 million as an option to an existing Maryland Mass Transit Administration contract utilizing 20 year bonds maturing in 2018 issued by the Northern Virginia Transportation Commission. These cars have been in service for eight years.
- B. Virginia Railway Express Operations Board Authorization – In March 2008 the Virginia Railway Express Operations Board authorized the Chief Executive Officer to pursue the sale of 13 Kawasaki railcars and at the same time issue a Request for Proposal for the purchase of 10 new Gallery cars to replace the Kawasaki's. The two transactions are linked because the Kawasaki railcars cannot be sold unless sufficient funds are available to purchase replacement cars. Both the intent to sell and request for proposal were posted on the Virginia Railway Express Web site.
- C. Response to Request for Proposal – In response to the request for proposal Virginia Railway Express received one proposal from the Sumitomo

Corporation of America. Both VRE and Sumitomo negotiated a purchase price of \$24,980,000 for ten Gallery style railcars including construction oversight and contingency. The railcars are rated for 79 mph service. This is the maximum speed allowed by CSX on the Fredericksburg line and Norfolk Southern on the Manassas line.

- D. Response to Intent to Sell – In response to the intent to sell, four commuter rail agencies initiated discussions with Virginia Railway Express with one written offer received from the Maryland Mass Transit Administration for \$22 million including associated spare parts and assumption of the remaining federal interest. Approval of the sale is required by October 4, 2008 with delivery of the cars by October 31, 2008. The sale is subject to final approval by the Maryland Board of Public Works.

II. The Current Situation is as follows:

- A. Sale of the Kawasaki Bi-Level Railcars – Details of the sale together with the cost of defeasance of the remaining debt on the 13 Kawasaki railcars are shown below:

Series 1997 Bond Issue	
Amount of issue - 7/1/1997	\$23,000,000
Remaining Debt	\$13,535,000
Cost of Defeasance	\$14,300,000
Proceeds from Sale	
MTA Sales Price	\$22,000,000
Cost of Defeasance	\$14,300,000

- B. Purchase of 10 Bi-Level Gallery Style Railcars – Details of the purchase of 10 Gallery style railcars are shown below:

Number of cars needed	10
Base Price per Railcar	\$2,200,000
Total Cost for Railcars	\$22,000,000
Oversight of Construction	\$2,320,000
Contingency/Fees	\$660,000
Total Purchase Cost	\$24,980,000

- C. Available Federal Railroad Administration Financing – The Federal Railroad Administration Rail Rehabilitation and Improvement Financing Program approved a loan to Virginia Railway Express for 72.5 million in 2005 for the purchase of 50 bi-level railcars. However, only \$57.5 million of the total loan amount was needed for the 50 railcar option order and subsequently approved by the Commissions and the jurisdictions. Additional grant funds were provided by the Commonwealth prior to completing the 50 railcar purchase which further reduced the loan amount to \$55 million leaving an available loan balance of slightly over \$17 million. The use of the available loan balance together with the cash remaining after defeasance of the remaining debt from the sale of the Kawasaki railcars provides sufficient funding to purchase 10 new gallery railcars as shown below:

Total Purchase Cost of Railcars	\$24,980,000
Proceeds from Sale of Kawasakis	\$7,700,000
Amount of FRA financing	\$17,280,000
Annual debt service, FRA loan	\$1,237,849
Number of years	23

- D. Transportation Commission Action – The request for authorization to sell the 13 Kawasaki cars, defease the associated debt, purchase 10 gallery cars and increase the loan amount with the Federal Railroad Administration Railroad Rehabilitation and Improvement Financing program by \$17,350,000 were approved by the Northern Virginia Transportation Commission on July 3, 2008 and the Potomac and Rappahannock Transportation Commission on July 17, 2008. It should be noted that bond counsel recommended including the maximum terms (i.e. a loan amount of \$17,350,000 and a 25 year term) even though the project estimate identified above is less.
- E. Adoption of Resolutions Authorizing the Issuance of Additional Debt for 10 Virginia Railway Express Gallery Style Bi-Level Railcars in Participating and Contributing Jurisdictions – At the present time, the Cities of Alexandria, Fredericksburg and Manassas Park as well as Arlington and Stafford Counties have adopted resolutions approving the purchase of 10 gallery style railcars and authorizing the issuance of additional debt. The City of Manassas will consider this matter on July 28, 2008 and Fairfax County will consider this matter on August 4, 2008.

- F. Action Requested – Virginia Railway Express is requesting approval from the participating and contributing jurisdictions for incurrence of a loan by the Northern Virginia Transportation Commission from the Federal Railroad Administration Railroad Rehabilitation and Improvement Financing Program in an amount not to exceed \$17,350,000, for a term not to exceed 25 years, at an annual rate of interest not to exceed 4.74% and a credit risk premium of 1.88% to finance the purchase of 10 Gallery style bi-level railcars.

III. Issues in order of importance are:

- A. Timing – When does the Notice to Proceed for the 10 bi-level railcars purchase have to be issued? When does the offer from the Maryland Mass Transit Administration to purchase the 13 Kawasaki railcars expire?
- B. Service Level/Policy Issues – Does the selling of 13 Kawasaki railcars and the purchase of 10 replacement gallery style bi-level railcars support the County's strategic plan transportation strategies and objectives?
- C. Fiscal Impact – What is the fiscal impact of Virginia Railway Express's request to sell 13 Kawasaki railcars and purchase 10 gallery style railcars utilizing the net cash proceeds from the sale of the Kawasaki's and a loan from the Federal Railroad Administration Railroad Rail Rehabilitation and Improvement Financing Program?
- D. Legal – What are the legal impacts?

IV. Alternatives in order of feasibility are:

- A. Adopt the attached resolution approving the purchase of 10 new bi-level railcars and the issuance of additional debt.
1. Timing – Under the terms of Sumitomo's response to the request for proposal Virginia Railway Express must issue a notice to proceed no later than August 31, 2008 for the Gallery railcars. The Maryland Mass Transit Administration's offer to purchase the 13 Kawasaki railcars is valid until October 4, 2008.
 2. Service Level/Policy Issues – The selling of 13 Kawasaki railcars and the purchase of the 10 gallery style bi-level railcars supports the County's 2004 - 2008 Strategic Plan Transportation Strategy 2; increase total passenger trips on Virginia Railway Express by 20% from 3.2 million. Other benefits of the Kawasaki sale include the following:

- a. Standardization of Virginia Railway Express Fleet – With the sale, the fleet would consist of 71 new galleries and 30 older galleries.
 - b. Increases Fleet Flexibility – The Kawasaki railcars have limited compatibility with the existing Gallery railcars functionally making them a stand alone fleet.
 - c. 6 Car Consists – The Kawasaki railcars limit Virginia Railway Express’s ability to sustain 6 car consists.
 - d. Exceptional Sales Price – As noted above Virginia Railway Express paid \$23 million for the railcars in 1997 and the Maryland Mass Transit Administration offer is \$22 million including associated spare parts. It is unlikely that a higher price will be obtained in the future.
3. Fiscal Impact – Approval of the \$17,350,000 loan from the Federal Railroad Administration Railroad Rehabilitation and Financing program for 25 years will have the following fiscal impact:

- a. Increase in Overall Debt – Virginia Railway Express overall outstanding debt will increase as follows:

Decrease in Debt from Kawasaki Sale	\$13,535,000
Increase in Debt for Gallery railcar purchase	\$17,280,000
Net Increase in Overall Debt	\$3,745,000

- b. Debt Service – Debt service expenses will be reduced by approximately \$1.3 million in FY 09 due to only 4 months of debt service on the Kawasaki railcars. In addition, Virginia Railway Express will have an average savings of \$758,000 per year from FY 10 through FY 18 compared to the Kawasaki debt service. It should be noted, however, that VRE will continue to pay \$1,237,850 in debt service per year for an additional 15 years from FY 19 through FY 33 due to the longer term of the loan.
- c. Net Present Value Analysis – Virginia Railway Express performed a net present value analysis which compared the costs of debt repayment and maintenance for a 15 year period from FY 09 through FY 23 for the purchase of the new railcars and the retention of the existing railcars. The

decrease in costs on a net present value basis is approximately \$5.3 million as both the maintenance and financing costs are lower in the near term if the new Gallery railcars are purchased. Virginia Railway Express financial advisor recommended utilizing a 15 year time frame as the maximum period for fiscal analysis.

- d. Reduced Railcar Maintenance Costs – The Kawasaki railcars are more complex (e.g. dual braking systems) and are rated for 125 mph service. This higher level of complexity results in maintenance costs which are approximately 11% higher than the gallery cars on average.

4. Legal – The County will be required to fund its share of the debt service as determined through the Master Agreement's subsidy allocation formula on the \$17,350,000 million Federal Railroad Administration loan for 25 years.

B. Take No Action.

1. Timing – Sumitomo's proposal to build 10 gallery cars for \$24,980,000 and the Maryland Mass Transit Administration offer to purchase 13 Kawasaki railcars for \$22,000,000 including associated spare parts will expire.
2. Service Level/Policy Issues – It will more difficult to achieve the County's 2004 - 2008 Strategic Plan Transportation Strategy 2; increase total passenger trips on Virginia Railway Express by 40% from 3.2 million.
3. Fiscal Impact – The debt service savings identified above over the next ten years will not occur.
4. Legal – Not Applicable

- V. Recommendation is that the Board of County Supervisors concur with Alternative A and approve the attached Resolution.

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