

**POTOMAC AND RAPPAHANNOCK  
TRANSPORTATION COMMISSION**

**RESOLUTION**

**MOTION:** \_\_\_\_\_

**RESOLUTION NO. 08-07-\_\_\_\_  
OFFICIAL COMMISSION MEETING  
JULY 17, 2008**

**SECOND:** \_\_\_\_\_

**RE: AUTHORIZATION TO SELL THIRTEEN KAWASAKI RAILCARS AND  
TO PURCHASE TEN NEW GALLERY STYLE CARS**

**WHEREAS**, the Northern Virginia Transportation District Commission (“NVTC”) and the Potomac and Rappahannock Transportation District Commission (“PRTC,” and, together with NVTC, the “Commissions”) jointly own and operate the Virginia Railway Express (the “VRE”) commuter rail service in Northern Virginia and the District of Columbia pursuant to the “Master Agreement for Provision of Commuter Rail Services in Northern Virginia – Establishment of the Virginia Railway Express” 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**, the Commissions have been presented with a unique market opportunity to sell the Kawasaki railcar fleet, which 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 railcars to replace the Kawasaki railcars; and

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

**WHEREAS**, the VRE Operations Board makes several recommendations regarding the sale of the Kawasaki railcars, purchase of the Gallery style railcars and method of financing such transactions in that certain Resolution 9J-06-2008 adopted on June 20, 2008, a copy of which is attached hereto; and

**WHEREAS**, the Northern Virginia Transportation District Commission Commuter Rail Revenue Bond, Series 1997 (Virginia Railway Express Project) (the "1997 Bonds"), were issued on June 1, 1997 to finance the acquisition of the Kawasaki railcar fleet; and

**WHEREAS**, NVTC has previously obtained financing for the acquisition of 50 Sumitomo railcars in the form of a Federal Railroad Administration Railroad Rehabilitation and Improvement Financing Program Loan (the "FRA Loan"); and

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

**WHEREAS**, the Commissions have determined that the purchase of the Gallery style railcars can be financed advantageously through the sale of the Kawasaki railcars and certain incurrence of additional debt by NVTC by increasing the FRA Loan 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%.

**WHEREAS**, the VRE Operations Board recommends the following action.

**NOW, THEREFORE, BE IT RESOLVED** that the Potomac and Rappahannock Transportation Commission, as follows:

1. The Commissions hereby authorize VRE's 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 \$22,000,000 and their assumption of the remaining federal interest.
2. The Commissions hereby authorize VRE's Chief Executive Officer to purchase ten new Gallery style railcars from Sumitomo Corporation of America for \$22,000,000 million, plus a contingency of \$660,000, for a total amount not to exceed \$22,660,000.
3. The Commissions hereby authorize an increase to the 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%.

4. The Commissions hereby authorize VRE's Chief Executive Officer to negotiate, complete, execute and deliver documents required to achieve an increase in the FRA Loan and pay any associated financing costs to a related payee.

5. The Chairman, Vice Chairman or Executive Director of PRTC is authorized to consent to the final details of the increase of the FRA Loan, including, without limitation, the aggregate principal amount of the FRA Loan, the interest rates on the FRA Loan, the dates (including payment dates) of the FRA Loan documents and the amounts and prices of any optional or mandatory prepayments, provided, however, that the aggregate principal amount of the FRA Loan shall not exceed \$17,350,000, its term shall not exceed 25 years, its annual rate of interest shall not exceed 4.74%, and its credit risk premium shall not exceed 1.88%. The increase in the FRA Loan may require that the Commissions grant the FRA security interests in the Gallery style railcars and/or the jurisdictional payments under the Master Agreement. The consent of the Chairman, Vice Chairman or Executive Director of PRTC of such details shall be conclusively evidenced by the execution and delivery of certain of the loan documents for the increase of the FRA Loan, which FRA Loan documents shall be prepared or reviewed by VRE's counsel. The increase of the FRA Loan shall be subject to the consent of the Participating and Contributing Jurisdictions as described in the recitals to this Resolution.

6. The Commissions authorize VRE's Chief Executive Officer to negotiate, complete, execute and deliver documents required for redemption and/or defeasance of the 1997 Bonds and pay any associated financing costs to a related payee.

7. The Chairman, Vice Chairman or Executive Director of PRTC is authorized to approve, execute and deliver on behalf of PRTC, and, if required, the Secretary or any Assistant Secretary of PRTC is authorized to affix and attest the seal of PRTC to, the FRA Loan documents described above, documents required for redemption and/or defeasance of the 1997 Bonds, documents required to sell the Kawasaki railcars and purchase the Gallery style railcars, and such other documents, instruments or certificates as they deem necessary or appropriate, in consultation with VRE's bond counsel and general counsel, to consent to and facilitate the increase of the FRA Loan, redemption and/or defeasance of the 1997 Bonds, sale of the Kawasaki railcars and purchase of the Gallery style railcars as authorized by this resolution. The consent of the Chairman, Vice Chairman or Executive Director of PRTC shall be conclusively evidenced by the execution and delivery of such documents, instruments or certificates. Such officers of PRTC and the Executive Director are further authorized to do and perform such other things and acts as they deem necessary or appropriate, in consultation with VRE's bond counsel and general counsel, to consent to and facilitate the increase in the FRA Loan, redemption and/or defeasance of the 1997 Bonds, sale of the Kawasaki railcars and purchase of the Gallery style railcars as authorized by this resolution. All of the foregoing previously consented to, approved, executed, delivered, done or performed by such officers of PRTC or the Executive Director are in all respects hereby consented to, approved, ratified and confirmed.



# Virginia Railway Express Operations Board

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## AGENDA ITEM 9-J ACTION ITEM

**TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD**

**FROM: DALE ZEHNER**

**DATE: JUNE 20, 2008**

**RE: AUTHORIZATION TO SELL THIRTEEN KAWASAKI RAILCARS  
AND TO PURCHASE TEN NEW GALLERY STYLE CARS**

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### RECOMMENDATION:

The VRE Operations Board is being asked to recommend that the Commissions authorize 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.

### BACKGROUND:

In March of 2008, the Operations Board authorized the Chief Executive Officer to pursue the sale of thirteen Kawasaki railcars and 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.

Following that authorization, VRE posted both the Intent to Sell and RFP on the VRE web site. 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. A separate

action item for construction oversight of the manufacture will be brought before the Operations Board at an upcoming meeting.

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 by the Commissions 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 loan balance of over \$17 million. FRA has approved the addition of ten cars to the current loan in principle and the paperwork is forthcoming.

With respect to the sale of the thirteen Kawasaki railcars, VRE publically 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 recommends 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:

Cash remaining from sale of Kawasaki railcars	\$ 7,700,000
FRA loan	<u>17,280,000</u>
Total	\$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.

## **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 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 our 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 we paid for the railcars nine years ago. VRE staff does not believe a higher price will be achieved in the future. Thus, the time to sell the railcars is now.

## **NEXT STEPS**

The Notice to Proceed (NTP) for the Gallery railcar purchase must be granted no later than September 26, 2008, with VRE's best effort made to issue a Notice by August 31, 2008, under the terms of Sumitomo's response to the RFP. In addition, the Amended Offer from MTA for the purchase of the Kawasaki cars is only valid until early October. As a result, the required Commission and jurisdiction approvals must be secured as rapidly as possible.

The requests for authorization to sell the Kawasaki cars, defease the associated debt, purchase the Gallery cars and increase the loan amount for this purpose will be presented to the Commissions at their July meetings. In order to expedite the process, the Operations Board is being asked to authorize the Chief Executive Officer to approach each jurisdiction following Operations Board approval to attempt to gain jurisdictional approval for the purchase of the Gallery cars and the issuance of additional debt prior to August 31, 2008.

Finally, prior to the sale of the Kawasaki railcars, FTA must approve the transfer of remaining federal interest in these railcars to MTA. Preliminary discussions with FTA have occurred and formal approval for the transfer will be sought. These discussions would resume with urgency following Operations Board approval.

**FISCAL IMPACT:**

The financial impact of the sale of thirteen Kawasaki railcars and purchase of ten new Gallery railcars is projected as follows:

Decrease in outstanding debt	\$13,535,000
Increase in new debt	<u>17,280,000</u>
Net increase in total debt	\$3,745,000
Decrease in annual debt service costs	\$712,151

An analysis was done which compared the costs of debt repayment and maintenance for the 15 year period from FY 2009 to FY 2023 for the purchase of the new railcars and the retention of the existing railcars. The decrease in gross costs for the period, as a result of the requested purchase, is estimated at approximately \$4.0 million. The decrease in costs on a net present value basis for the same period 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.

# Sale of Kawasaki Railcars and Purchase of New Gallery Railcars

## Sale of Kawasaki Railcars

*Comments*

### Series 1997 Bond Issue

Amount of issue - 7/1/1997	23,000,000
Amount outstanding after 7/1/2008	13,535,000
<b>Cost of defeasance</b>	<b>14,300,000</b>

### Proceeds from Sale

Estimated sale price	22,000,000
Cost of defeasance	14,300,000
<b>Cash remaining after defeasance</b>	<b>7,700,000</b>

## Current Loan Costs for Kawasaki Railcars

Current annual debt service costs	1,950,000	Varies each year; \$1.95 is aver. Last payment on 7/1/2017
Number of years remaining	9	
Amount outstanding after 7/1/2008	13,535,000	

## Purchase of New Gallery Railcars

Number of cars needed	10	
Base Price per car	<u>2,200,000</u>	
Total cost for railcars	22,000,000	
Oversight of construction	2,100,000	
Contingency	<u>880,000</u>	
Total cost for new railcars	24,980,000	
Amount to be financed	17,280,000	Provided by FRA RRIF Loan
Annual debt service, RRIF loan	1,237,849	
Number of years based on existing loan origination date	23	Last payment on 3/19/2033

## Cost Comparison - Result of Sale of Kawasaki Cars and Purchase of Gallery Cars

(Decrease) to annual debt service costs	(712,151)	
Increase to total debt	3,745,000	
For 15 year period - FY 2009 to FY 2023:		
(Decrease) to gross costs	(4,038,234)	NPV limited to 15 years as projections beyond this term are extremely uncertain. VRE's financial advisor concurred.
(Decrease) to costs - net present value	(5,277,472)	



**Sale of Kawasaki Railcars  
Purchase of New Gallery Railcars**

**Dale Zehner  
June 20, 2008**

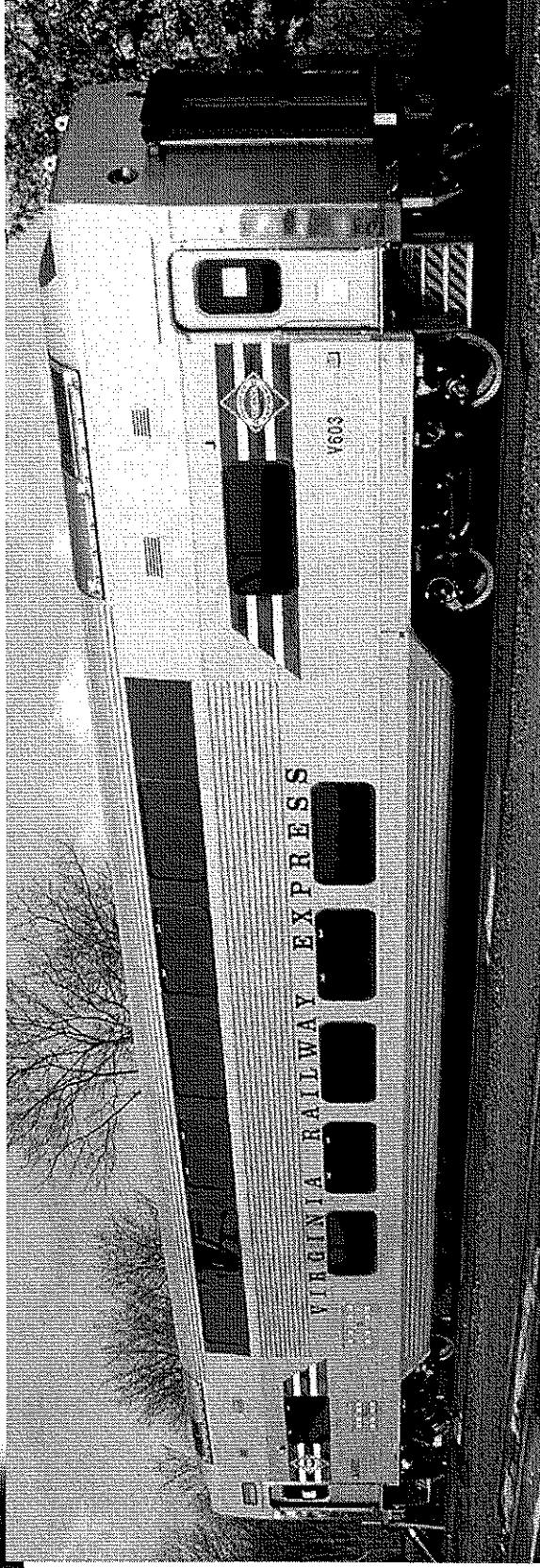


# Recommendation

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- Asking the Operations Board to authorize two concurrent transactions:
  1. Sale of 13 Kawasaki railcars to Maryland Transit Administration (MTA)
  2. Purchase of 10 new Gallery railcars from Sumitomo

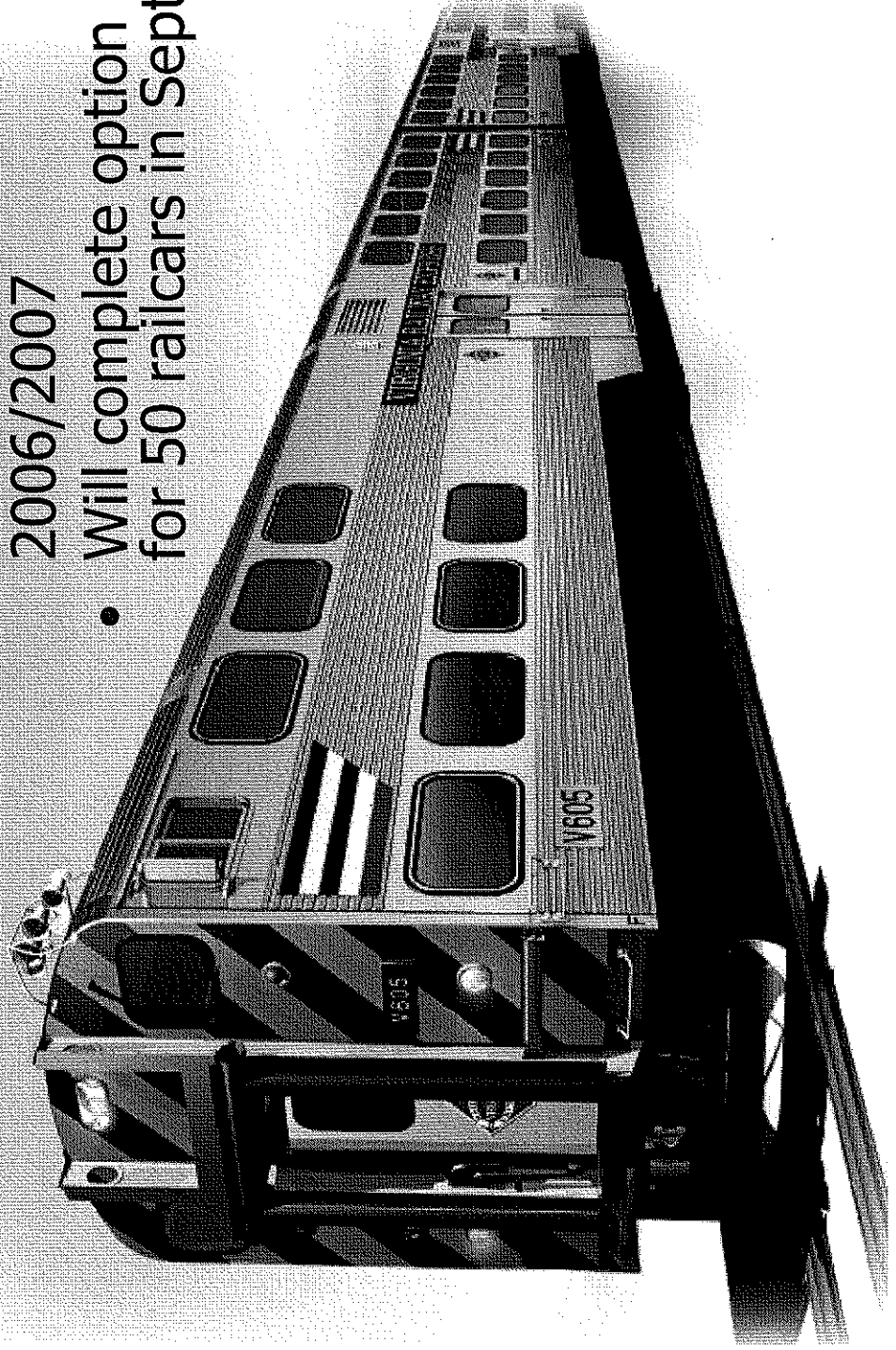
# Kawasaki Railcar



- Purchased 13 railcars in 1997 for \$23 million
- In service for eight years
- Originally purchased as option under MTA contract

# Gallery Railcar

- Received 11 railcars in 2006/2007
- Will complete option order for 50 railcars in Sept 2008



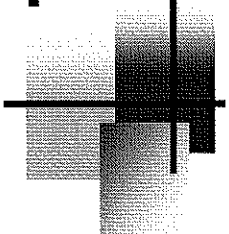
# The Sale

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- Received written offer from MTA to:
  - Purchase the 13 Kawasaki railcars for \$22M
  - Include any remaining spare parts
  - Assumes all remaining federal interest
  - Requires approval by October 4, 2008 with delivery by October 31, 2008
  - Sale subject to final approval of Maryland Board of Public Works

# Details of the Sale

<b>Series 1997 Bond Issue</b>	
Amount of issue - 7/1/1997	\$23,000,000
Remaining Debt	\$13,535,000
Cost of Defeasance	\$14,300,000
<b>Proceeds from Sale</b>	
MTA Sales Price	\$22,000,000
Cost of Defeasance	\$14,300,000
Cash after Defeasance	\$7,700,000



# The Purchase

<b>Number of cars needed</b>	<b>10</b>
<b>Base Price per Railcar</b>	<b>\$2,200,000</b>
<b>Total Cost for Railcars</b>	<b>\$22,000,000</b>
<b>Oversight of Construction</b>	<b>\$2,100,000</b>
<b>Contingency/Fees</b>	<b>\$880,000</b>
<b>Total Purchase Cost</b>	<b>\$24,980,000</b>

# Available FRA Financing

- In 2005 FRA approved a total loan amount of \$72.5M for purchase of railcars
- Needed only \$57.5M for 50 railcar option order
- Subsequently reduced to \$55M by state grants
- Have unused loan balance of \$17.5M

# Financing for 10 Railcars

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

# Overall Outstanding Debt

Decrease in debt from Kawasaki sale	\$13,535,000
Increase in debt for Gallery railcar purchase	\$17,280,000
<b>Net increase in overall debt</b>	<b>\$3,745,000</b>
<b>Decrease in annual debt service costs</b>	<b>\$712,151</b>



# Overall Financial Benefit

- For the period FY 2009 to FY 2023
  - Decrease in gross costs: \$4.0M
  - Decrease in NPV costs: \$5.3M
- Major factors for the decrease:
  - In first ten years, debt service is significantly lower with the sale
  - Major reduction in railcar rehabilitation when Kawasaki and Gallery railcars are compared



# Benefits of Kawasaki Sale

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## 1. Standardizes VRE Fleet

- With the sale, fleet would consist of 71 new galleries and 30 older galleries
- Sufficient railcars to expand service to 36 trains per fleet plan through FY 2015

## 2. Reduces railcar maintenance costs

- Kawasaki railcars more complex – dual braking system, rated at 125 mph
- Maintenance costs 11% higher

# Benefits of Kawasaki Sale

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3. Increases fleet flexibility
  - Kawasaki railcars have very limited compatibility with Gallery railcars
  - Functionally a stand-alone fleet
  - Kawasaki railcars limit our ability to sustain 6 car consists
4. Provides exceptional sales price
  - Paid \$23 million for railcars in 1997
  - Do not believe a higher price can be obtained in the future

# Benefits of Kawasaki Sale

5. Decreases overall expenses:
  - Reduces debt service by \$1.3M in FY 2009 and \$700K/year for following 9 years
  - Reduces maintenance costs in FY 2009 – 13 less railcars to maintain
6. Provides some relief to FY 2009 operating budget by offsetting increasing fuel costs

# Fleet Plan w/o Kawasakis

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
<b>Railcar Fleet</b>								
Kawasaki (Trailer + Cabs)	13	0	0	0	0	0	0	0
Sounder (Trailer + Cabs)	0	0	0	0	0	0	0	0
Old Galleries (Trailers only)	35	30	30	30	30	30	30	30
New Galleries (Cabs)	18	21	21	21	21	21	21	21
New Galleries (Trailers)	28	40	50	50	50	50	50	50
Total Railcars on Hand	94	91	101	101	101	101	101	101
<b>Revenue Service</b>								
Assigned to Trains	67	70	82	82	90	90	90	90
Spares	27	21	19	19	11	11	11	11
Total Passenger Coaches	94	91	101	101	101	101	101	101

# Steps to Complete Transaction

- For sale of Kawasaki railcars and defeasance of debt: need approval by Commissions
- For purchase of Gallery railcars
  - Approval by Commissions
  - Approval of all jurisdictions for assuming increased debt – requires unanimous approval
- For sale and transfer of federal interest:
  - Gain FTA approval

# Steps to Complete Transaction

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- VRE recommends NTP for Gallery purchase by August 31<sup>st</sup>
  - Ensures delivery of new Gallery railcars by February 2010
  - MTA sales offer valid until October 4, 2008
- Requires rapid Commission and jurisdiction approvals
- Requires approval for VRE to meet with jurisdictions prior to Commission meetings

# Jurisdiction Board Meetings

Jursidiction	Meeting Date(s)
Arlington	July 19
Alexandria ✓	June 24
Fairfax	August 4
Fredericksburg ✓	July 8
Manassas	July 16 (finance)/July 28
Manassas Park ✓	July 15
Prince William	July 22
Stafford ✓	July 1

✓ Prior to Commission meetings on July 3<sup>rd</sup> and 17<sup>th</sup>



# End of Presentation

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Questions?