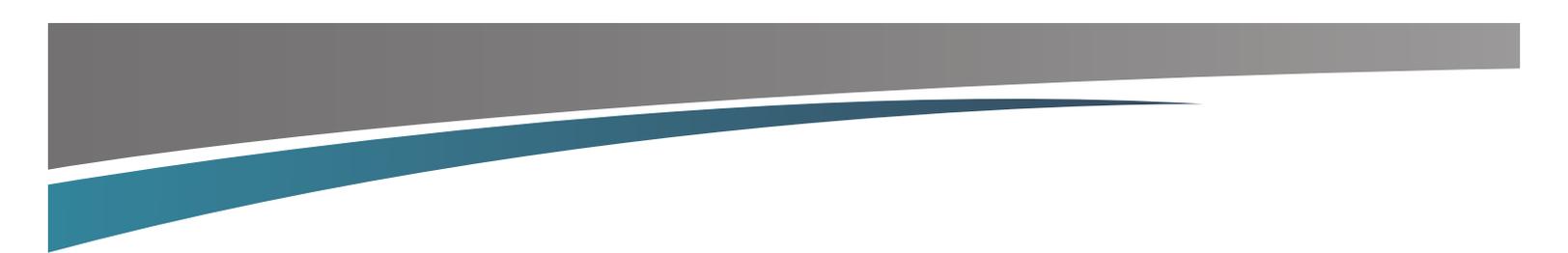


Freight finance options





The railroads in Iowa are all privately owned businesses. The railroads are a capital-intensive industry that invests in and maintains their own right of way, track, bridges, structures, equipment, and facilities. When a company or community chooses to invest in rail infrastructure, it can represent a large initial investment, often more than a company can afford without assistance or creative financing. Access to rail provides users many advantages and also benefits public transportation agencies by reducing highway maintenance and congestion. Rail transportation also provides environmental benefits for the public.

Rail development projects are typically complex. They require land, track, and equipment and often include facility investments for storage and freight handling. The rail funding programs listed below come from a variety of state and federal programs. Most programs have a defined eligibility that specifies types of projects and organizations eligible to apply.

When considering any capital investment, a solid business plan is a good first step. Understanding expected shipment volumes, competitive rate structures, and return-on-investment is necessary to justify funding for rail projects. Matching funds are often important for both loan and grant applications.

Financing and business assistance

The federal, state, and local governments all have business assistance or funding programs in place that can assist you in various ways. Each state university in Iowa has some form of business assistance services available to help you with your business plan. Your local economic development organization may also be aware of additional local or regional resources or contacts. The Iowa Economic Development Authority has trained professionals available to help you navigate state incentive programs, regulatory assistance, and other business development options.

Most shortline railroads and Class I railroads are familiar with rail development programs. They can help you identify engineering and planning resources to help you develop your project and estimated costs in order to apply for funding. Many Class I railroads have a structured process for seeking their approval for new rail development projects that connect to their network. Most funding programs will require that the connecting railroad provides approval for the project plans.

The following pages detail funding programs that have or could potentially assist in financing a rail development. This is by no means an exhaustive list, but includes details on proven programs. To begin the process, it is often helpful to consider project eligibility. Some funding programs are available for railroad applicants or businesses; some might only be available to or must be sponsored by a public/government agency, such as the Transportation Investment Generating Economic Recovery (TIGER) discretionary grant program. Review different programs and make sure your project fits the program objectives. For example: Congestion Mitigation and Air Quality Improvement Program grants seek to improve the environment through the reduction of greenhouse gas emissions. Some programs focus on job creation and are designed to support economic development. Other funding programs prioritize exporting assistance and rail safety.

Each public or private funding source may use different evaluation criteria. Finding a funding source, or combination of sources, that aligns well with the specifics of your project or that match your goals can be the key to successfully obtaining financing assistance.

State programs

Railroad Revolving Loan and Grant (RRLG) Program

Eligible projects: Economic development, rail network, and rail port planning.

Program objectives: To build or improve rail infrastructure or facilities that will spur economic development and job growth; provide assistance to railroads for the preservation and improvement of the rail transportation system; and planning studies related to rail development.

Website: www.iowadot.gov/iowarail/assistance/rrlgp.htm

Revitalize Iowa's Sound Economy (RISE) Fund

Eligible projects: Construction or improvement of primary roads, secondary roads, city streets, state park roads, and county conservation parkways.

Program objectives: To promote economic development in Iowa through construction or improvement of roads and streets.

Website: www.iowadot.gov/systems_planning/rise.htm

Iowa's Clean Air Attainment Program (ICAAP)

Eligible projects: Eligible projects will fall into one of the following categories –

- Investments that reduce emissions via traffic flow improvements and provide a direct benefit to air quality by addressing ozone, carbon monoxide, or particulate matter PM-2.5 or PM-10.
- Investments that reduce vehicle miles of travel.
- Investments that reduce single-occupant vehicle trips; or other transportation improvement projects that improve air quality or reduce congestion.

Program objectives: This program funds highway/street, transit, bicycle/pedestrian, or freight projects or programs that help maintain Iowa's clean air quality by reducing transportation-related emissions. Eligible highway/street projects must be on the federal-aid system.

Website: www.iowadot.gov/systems_planning/icaap.htm

Highway-Railroad Crossing Safety Program

Eligible projects: Public grade crossings. Priorities are determined through a benefit-cost analysis that takes into consideration the extent of vehicle and train traffic at the crossing, speed of trains, certain characteristics of the crossing, effectiveness of the proposed improvement, estimated cost of the improvement, and other factors. Generally, those crossings with a high probability for a serious crash with a proposed improvement anticipated to be effective and cost-efficient will receive the highest priority.

Project objectives: This federally funded program improves the safety of public highway-railroad grade crossings.

Website: www.iowadot.gov/iowarail/assistance/130/federalaid.htm

Highway-Railroad Crossing Surface Repair Program

Eligible projects: Public grade crossings.

Program objectives: This program assists railroad companies and public road jurisdictions with rebuilding public highway-railroad grade crossing surfaces in Iowa. Both the railroad and the public road jurisdiction must enter into a project agreement.

Website: www.iowadot.gov/iowarail/assistance/surface/surfacerepair.htm

The Iowa DOT's Office of Rail Transportation has experience with each of these programs and is available to help you conceptualize your project. Depending on the project scope, the Iowa Economic Development Authority can assist you with economic development programs.

Federal rail programs

Several federal programs are not currently funded, however that may change in future years.

Rail Line Relocation and Improvement Capital Grant Program

Eligible projects: The relocation of any portion of a rail line for the purpose of mitigating negative impacts caused by rail activity, on quality of life, economic development, or highway safety.

Program objective: To improve safety and economic impacts. Currently not funded.

Website: www.fra.dot.gov/Page/P0090

Freight Intermodal Distribution Pilot Grant Program

Eligible projects: Intermodal projects that relieve congestion, improve transportation safety, facilitate international trade, and encourage public-private partnerships.

Program objective: To improve multimodal transportation, safety, and trade. Currently not funded.

Website: www.ops.fhwa.dot.gov/freight/infrastructure/fidpgp.htm

Rural Business and Cooperative Programs

Eligible projects: Typical projects include rural business and industry financing, rural community health and community facilities, job training and distance learning, economic development, and business incubators.

Program objective: Provide credit needs in under-served rural areas, often in partnership with private-sector lenders.

Website: www.rurdev.usda.gov/LP_Subject_BusinessAndCooperativeAssistance.html

Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grants

Eligible projects: Transportation infrastructure projects sponsored by state, local, and tribal governments, metropolitan planning organizations, other political subdivisions of state or local governments, and multijurisdictional groups.

- Highway or bridge projects eligible under 23 U.S.C. 53.
- Public transportation projects eligible under chapter 53 U.S.C. 53.
- Freight rail projects.
- High-speed and intercity passenger rail projects.
- Port infrastructure investments.

Program objectives: Invest in road, rail, transit, and port projects that promise to achieve critical national objectives and have a significant impact on the nation, a region, or a metropolitan area.

Website: www.dot.gov/tiger

Railroad Rehabilitation & Improvement Financing (RRIF) Program

Eligible projects: Acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, bridges yards, buildings and shops, and to develop or establish new intermodal or rail facilities.

Program Objectives: Loans to develop railroad infrastructure.

Website: www.fra.dot.gov/Page/P0128

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Eligible projects: Help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues. Many surface transportation projects including railroad, and intermodal freight are eligible for assistance.

Program objectives: Direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance.

Website: www.fhwa.dot.gov/ipd/tifia

Economic Development Assistance Program

Eligible projects: Construction, nonconstruction, technical assistance

Program objectives: To leverage regional assets and support the implementation of economic development strategies that advance new ideas and creative approaches to advance economic prosperity in distressed communities.

Website: www.eda.gov/funding-opportunities

Finance Case Study 1:

Iowa Northern Railway Co. (IANR)



Project

Develop a comprehensive funding strategy to support Iowa Northern's new ethanol business and general growth of the railroad.

Background

IANR sought to position itself for growth within the Corn Belt and IANR's management retained the company Strategic Rail Finance to transform its capital access for pursuing these opportunities in the burgeoning ethanol industry.

IANR was profitable, but standard financial evaluations did not lead to funding at the levels required by the new opportunities. Banks are not always well-versed in a particular industry, and may not grasp how the financial statements represent the company's stability, collateral value, and growing place in the regional economy. This often happens with railroads, leaving even successful executives challenged to develop a comprehensive funding strategy.

Rail finance approach

A rail consultant assumed the role of consulting chief financial officer to oversee the transition from long-term bootstrap funding to full capitalization for rapid growth. An innovative Federal Railroad Administration's Railroad Rehabilitation & Improvement Financing (RRIF) loan, along with private-sector credit facilities to expand overall capital access for years to come, were brought together to fund this project. New revenues were identified along with new savings that exceeded all engagement fees.

Results

- Closed \$25.5 million RRIF loan, the largest Class III RRIF loan in the program's history.
- Secured additional \$1.5 million financing from client's current bank.
- Arranged \$2.75 million in new equipment financing.
- Positioned enterprise for \$17 million in investment capital.
- Negotiated \$700,000 in savings from previous lenders, debtors, and vendors.
- Saved \$197,000 through innovative agreement with track contractor.
- Facilitated \$45 million in new capital for growing Class III rail operation.

Finance Case Study 2: Lincolnway Railport

Project

The Lincolnway Railport is a planned 1,000-acre industrial park near Clinton, Iowa designed to accommodate large wind component manufacturers and other rail served industries. The location has unique advantages to serve a wide array of industry requiring rail and/or barge to bring in raw materials and ship out finished goods. The railport's potential for new job creation and new taxable investment for the State of Iowa is substantial.



Background

The Clinton Regional Development Corp. (CRDC) developed this rail-served industrial park. This site has access to the Union Pacific Railroad's east-west mainline. The Lincolnway Railport is expected to create 1,000 new jobs when the park is completed. The railport is adjacent to a 10,000-foot Union Pacific passing siding and enough track to handle full unit trains for tenants in the industrial park.

Rail finance approach

Funding for the rail investment of the Lincolnway Railport comes from a variety of public and private sources and through numerous projects. Prior to 2009, CRDC worked with the local community and investors to obtain local funding for more than \$8 million in investments to procure right of way for the railport and to connect to the Union Pacific. The Union Pacific provided right of way adjacent to their mainline for the siding track. The Iowa DOT provided a \$2 million grant for the siding in 2009 from Federal Highway Administration's American Investment and Improvement Act funds that were flexed to use on critical rail projects. In 2010, the Iowa DOT's Railroad Revolving Loan and Grant (RRLG) Program provided a \$443,800 railport grant for construction of a lead track connecting the siding track to the industrial park. In 2012, the first new tenant, Rail One, committed \$16.3 million to locate a new concrete tie plant in the railport and the Iowa DOT's RRLG Program awarded Rail One a grant of \$372,000 based on the creation of 62 new jobs and a loan of \$744,000.

Results

- Constructed a 10,000-foot-long passing siding and lead track into the Lincolnway Railport.
- A new company, Rail One, located in the industrial park and invested \$16.3 million.
- Secured local funding through Tax Increment Financing program (\$2.4 million), Enterprise Zone Sales Tax Rebate program (\$307,000), and Investment Tax Credit program (\$1.85 million).
- Secured Iowa Economic Development Authority funding of \$378,000.
- Negotiated use of Union Pacific Railroad right of way for passing siding.
- Secured Iowa DOT funding for a portion of the passing siding construction (\$2 million in 2009).
- Secured Iowa DOT RRLG Program funding for construction of the lead track (2010 grant of \$443,800).
- Secured Iowa DOT RRLG Program funding for construction of rail service to Rail One (2012 grant of \$372,000 and loan of \$744,000).

Finance Case Study 3:

Cherokee Industrial Corp. Rail Spur



Project

Quad County Corn Processors (QCCP) was an important contributor to the local economy and agricultural producers in the Cherokee area. However, QCCP lacked rail service to economically ship ethanol and byproducts from their plant. Without alternative transportation that would cut transportation costs, the plant's profitability was at risk.

Background

A partnership between the Cherokee Industrial Corp. (CIC), QCCP, local banks, and the Railroad Revolving Loan and Grant (RRLG) Program allowed CIC to build an upgraded rail spur and ethanol transload facility on the CN at Cherokee.

Rail finance approach

The CIC and QCCP partnership leveraged commercial financing with a no-interest, 10-year loan of \$617,454 from the RRLG Program to finance the project.

Results

The \$617,454 loan from the RRLG Program helped the CIC build an upgraded rail spur and ethanol transload facility. QCCP pays a transloading fee to CIC for each load shipped to help offset CIC's loan and payoff bank loans that made up the balance of the financing package.

"In the first 13 months of operation, QCCP transloaded over 30-million gallons of ethanol at the Cherokee site, saving more than \$1.5 million in shipping costs. With the savings, QCCP is expanding their plant and increasing production and employment. The revenue generated for the CIC is allowing us to look at new rail shipping opportunities for other local industries that create efficiencies, save costs, and increase employment. The success CIC achieved would not have been possible without the RRLG Program."

– Rick Mongan, President
Cherokee Industrial Corp.