

Testimony of Michael Sussman, Strategic Rail Finance

Subcommittee on Railroads, Pipelines and Hazardous Materials

“Sitting on Our Assets: Rehabilitating and Improving our Nation’s Rail Infrastructure.”

Thursday, February 17, 2011 at 10:00 a.m. in 2167 Rayburn House Office Building

Good Morning, Chairman Shuster and Members of the Subcommittee. My name is Michael Sussman. I own Strategic Rail Finance, a company I founded seventeen years ago after I discovered that most freight railroads, for no inherent business reason, have fewer funding options than companies that are much less important to the nation. I have coordinated financing for rail projects in 23 states, inventing new ways to integrate private-sector financing with public-sector funding. This collaborative approach delivers more capital and strengthens rail projects for all stakeholders.

I have been asked by the committee staff to provide my perspectives on the Railroad Rehabilitation and Improvement Financing program, or RRIF. The RRIF program is a USDOT loan and loan guarantee program with three main attractions. One is the repayment term which can be as long as 35 years. Second, is its relatively low interest rate based on Treasury securities of a similar term. Most importantly, it recognizes the collateral value of track, right-of-ways, and transportation facilities, assets for which it is challenging to secure long-term private-sector financing.

The country can enjoy a substantial return from improving the RRIF program. In spite of America’s love-hate relationship with railroads, rail transportation provides many public benefits. Each trainload of freight, if moved on our highways, requires a convoy of trucks 27 miles long. Since those trucks burn two to four times the amount of diesel fuel the consequent increase in air pollution is significant. We need trucks as part of a complete transportation system, but we need increased rail transportation more than ever.

Seeing a RRIF loan application through to completion is like raising a child. No one really talks about how damn hard it is and even if they do, it is harder than anyone has the capacity to imagine until they have one of their own.

What I would like to see is a less expensive, less strenuous application process for smaller RRIF loans in support of one of its stated purposes, "Preserve or enhance rail or intermodal service to small communities or rural areas." As an addendum to my remarks, I have provided data on the outstanding repayment history of state revolving loan funds that rely on much less application information and a relatively rapid approval process.

The RRIF process needs to be more predictable and more interactive. Applicants need more coaching and support at every stage and the application itself needs to be rewritten by writers, not financial analysts or engineers. Many of the application questions do not clarify the level of data and detail required and the FRA is often muted in its response to inadequate applications. This communication gap adds weeks and months to the process, often ending in frustration and withdrawn applications.

Relating to a much simpler state loan application, Kathleen Grover, former administrator of Michigan's rail loan program said that 50% of the applicants did not respond to requests for additional information. Railroaders are some of the hardest working people in industry. A successful RRIF campaign requires more determination and communication than most rail operators can muster.

My addendums also include a side-by-side comparison of USDOT's RRIF and TIFIA finance programs that you may find helpful during your continued analysis. For that, I thank Joe Pomponio, the former director of the RRIF program, and Bryan Grote and David Seltzer of Mercator Advisors, two of the primary developers of the TIFIA program.

If we apply our limited public resources intelligently, we can seed private-sector investment to accomplish goals that neither sector can achieve on their own. The resulting innovation can provide the capital environment for railroads to substantially increase their contribution to America's economic vitality. Thank you for this opportunity to present my views.

Curriculum Vitae

Michael Sussman has been president of Strategic Rail Finance since its inception in 1994. Michael has created a comprehensive program for expanding private and public sector capitalization of rail-related transportation projects. This program is based on an innovative approach that leverages the underlying asset value and potential of freight railroad projects. In the last seventeen years, Mr. Sussman has coordinated financing for projects in 23 states.

During all of his years of work with the federal government, Michael has preserved the autonomy to speak and act in the best interests of the rail industry and the country by self-funding all of Strategic Rail's activities in Washington, DC. Respect and trust for Michael's innovative thinking culminated on December 8, 1998, when Strategic Rail Finance conducted a rail industry briefing in the U.S. Capitol Building with 55 congressional staffers, drawing many compliments as the finest briefing they have attended during their Washington years.

Michael Sussman has expanded his capabilities with a high level of commitment to knowledge, relationships, service, and integrity. Some of Mr. Sussman's specific activities and results are:

- Coordinated productive relationships with the offices of 65 United States Senators and 68 House Members
- Conducted a rail transportation conference in the U.S. Capitol Building for 55 congressional staff on December 8, 1998
- Successfully influenced H.R.115 – National Infrastructure Development Act to add eligibility of freight rail projects
- Collaborated with public- and private-sector entities to create the Washington State Produce Railcar Pool Act as passed by the 2003 state legislature
- Initiated changes to the Railroad Rehabilitation & Infrastructure Financing Act, eliminating audited financial statement requirements for Class II & III railroads
- Orchestrated a rail industry breakthrough for a Class III rail operation in Lakeville, Minnesota by coordinating three banks, MNDOT, and Canadian Pacific Railroad to generate three times the project capital previously offered
- Authored articles and/or covered by Traffic World, Railway Age, The Shortline, Progressive Railroading, Rail Business, Association of Transportation Law, Logistics & Policy, Rail Intelligence, and Transportation Quarterly
- Convened a five-hour summit of industry and government leaders in the U.S. Capitol Building on December 11, 2008 to develop new collaborative approaches to advance freight transportation efficiency
- Founded OnTrackAmerica, a non-profit transportation policy development organization

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
Truth in Testimony Disclosure

Pursuant to clause 2(g)(5) of House Rule XI, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name:

MICHAEL SUSSMAN

(2) Other than yourself, name of entity you are representing:

STRATEGIC RAIL FINANCE

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

YES

If yes, please provide the information requested below and attach your curriculum vitae.

NO

(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:

\$ 0 (ZERO)


Signature

2/17/11
Date