**2001 ANNUAL REPORT**

**OF THE**

**IOWA RAILWAY FINANCE AUTHORITY**

**PURPOSE**

The Iowa Railway Finance Authority (IRFA) was created in 1980 by the 68th General Assembly to provide for the financing of rail facilities, and to enhance and continue the operation of essential rail facilities.

IRFA is authorized to offer financial assistance for the acquisition, rehabilitation, construction, refinancing, extension, replacement, maintenance, repair or leasing of any rail facility.

Financial assistance may be in the form of no‑interest or low‑interest loans, grants, partnerships or equity interests. IRFA is also authorized to purchase and temporarily operate a railway if necessary to preserve essential service.

**FUNDING**

When IRFA was established the Legislature funded IRFA by imposing state taxes on railroad activity. However, state and federal court decisions invalidated the locomotive fuel tax and the car mileage tax.

IRFA collected approximately $2.5 million in delinquent railroad property taxes, primarily from 1983 collections involving the bankruptcies of the Rock Island and Milwaukee railroads. Also, in 1983 the 70th General Assembly authorized a $15 million interest‑free loan to IRFA from the use tax on motor vehicles. These two funding sources provided revenue for IRFA totaling $17.5 million. Most of this initial funding was used in 1984 to provide $17 million in loans to shipper groups for the purchase of lines of the bankrupt Rock Island Railroad ($2 million to Iowa Northern Railroad and $15 million to Heartland Rail Corporation). IRFA has repaid $2.5 million of the use tax loan. Under 1988 legislation, the remainder is due 30 years after IRFA's receipt of Heartland loan repayments.

In 1988 legislation also allowed IRFA to issue bonds which must be paid solely with IRFA revenue (e.g., project loan repayments), but can be backed with a bond guarantee from the use tax.

In 1989 the Legislature repealed the deposit of delinquent railroad property taxes into IRFA's account at the request of the Iowa Department of Transportation. Collections in recent years had been small and it was expected future collections would not warrant administrative costs.

In 1991 legislation was passed to require a transfer of the IRFA cash balance on June 30, 1991, to the state General Fund. In addition, the legislation required any monies deposited to the IRFA Fund (loan repayments) be transferred to the state General Fund for FY 1992 and FY 1993. In 1993 legislation extended this transfer indefinitely. Since FY 1992 the rail assistance and IRFA programs have received a common appropriation from the General Fund.

|  |  |  |
| --- | --- | --- |
| IRFA and Rail  Assistance (RAP)  Loan Repayments  Transferred to  General Fund | | IRFA and Rail  Assistance (RAP)  Appropriation from  General Fund |
| **FY 91** | $5,985,026 | --- |
| **FY 92** | $1,585,363 | $2,370,651 |
| **FY 93** | $1.291,273 | $2,005,025 |
| **FY 94** | $1,174,045 | $1,410,553 |
| **FY 95** | $1,061,818 | $2,110,553 |
| **FY 96** | $2,094,959\* | $1,497,000 |
| **FY 97** | $3,678,409\*\* | $1,229,000 |
| **FY 98** | $1,084,528 | $1,415,000 |
| **FY 99** | $1,190,000\*\*\* | $1,190,000 |
| **FY 00** | $1,361,495 | $1,424,672 |
| **FY 01** | $786,296 | $602,000 |
| **FY 02** | $634,702\*\*\*\* | $568,458 |
| **FY 03** | $1,031,237 \*\*\*\* | $0 |
| \* Includes year-end reversion of $555,557  \*\* Includes year-end reversion of $307,013  \*\*\* Total repayments = $4,553,956 – difference went to Rail  Revolving Loan Fund  \*\*\*\* Estimated | | |

**IRFA ACTIVITIES DURING 2001**

There were no new IRFA projects approved by the IRFA board in 2001.

In 2001, the IRFA Board held three meetings and approved six requests:

1. approval for Iowa Interstate (IAIS) to: 1) incur additional debt of $2.1 million for track improvements and allow the Iowa DOT to have a mortgage position behind IRFA; 2) Defer IRFA loan principle payments for 12 months; and 3) allow IAIS to invest available cash in money market funds.
2. approval for Iowa Traction Railroad to have a 120-day delay in payment.
3. approval of North Central Railroad Association (NCRA) to abandon and scrap the materials on the Hampton-to-Geneva line and provide payment to IRFA of the proceeds.
4. approval of IAIS to use the proceeds from the Otley-to-Prairie City sale of track material as match for an Iowa DOT rail assistance grant.
5. approval of a a two-month extension for IAIS of the previous principle payment deferral and delay of interest payments.
6. approval of Rail Development Corporation to present a proposal for the purchase of the IAIS including a request for IRFA approval to retain the current loan agreement.

**STATUS OF ACTIVE PROJECTS**

To date, IRFA has funded 15 rail projects. These projects have used $25.8 million in IRFA funds to leverage total project costs of $44.7 million. IRFA has preserved rail service on 763 miles of track serving approximately 363 rail shippers. Seven loans have been repaid in full and one has been revoked. (See table and map at end of the report.)

Heartland Rail Corporation (Operated by Iowa Interstate Railroad)

A $15 million IRFA loan was made to the Heartland Rail Corporation October 10, 1984, to help this shipper‑owned company purchase 547 miles of track and trackage rights from the bankrupt Rock Island Railroad. Included in the $31 million purchase was the east‑west main line from Council Bluffs to the Chicago metropolitan area, and four branch lines: Hancock to Oakland; Atlantic to Audubon; Pella to Altoona; and Milan, Ill., to Rock Island, Ill.

In 1985 the Federal Railroad Administration approved a rehabilitation loan to Heartland to upgrade the Davenport‑to‑Des Moines line to 40 mph standards. This work was completed by the end of 1987. In 1990 Heartland received an IRFA loan for $1,782,000 to rehabilitate the track from Menlo to Council Bluffs. This loan has been repaid in full.

Heartland and IAIS began a major restructuring of the railroad in 1991. Railroad Development Corporation purchased equity in IAIS and provided new management of the railroad. Arrangements were negotiated with major unsecured creditors and the FRA rehabilitation loan was bought out. A new term loan was provided by Maytag Corporation to assist in the refinancing package, and Maytag also provided a revolving credit loan. The restructuring was completed in 1993, with the refinancing of loans with IRFA and Maytag.

On May 28, 1993, IRFA loaned Heartland/IAIS $626,990 to rehabilitate four passing tracks along the main line in Iowa. The loan was a 10‑year loan at 4 percent interest. The work on the passing tracks at Walcott, Colfax, Booneville and Atlantic was completed in 1993. This loan has been repaid in full.

On June 29, 1994, IRFA approved $2.5 million in funding to construct a new intermodal yard and rehabilitate track in Newton. This funding was in conjunction with additional city, county and other state funding to retain Maytag Corporation in Newton, and to ensure the manufacture of high efficiency washing machines in Newton. Of the total, $1 million is a grant and $1.5 million is a forgivable loan.

In 1995 the IAIS abandoned the Audubon branch line and received IRFA approval to apply the proceeds to IRFA principal payments. In 1997 the IAIS sold and leased back 151 miles of main line rail, and repaid the passing tracks and Menlo‑to‑Council Bluffs IRFA loans.

In January 1999 the board approved an increase in the acquisition loan interest rate, from 3 percent to 4 percent, effective January 1, 1999.

**Financial Status of Loans**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Principal Repaid Through 12/31/01** | **Principal Balance After 12/31/01** | **Totals** |
| Acquisition\* | $10,636,453 | $4,363,547 | $15,000,000 |
| Menlo‑to‑Council Bluffs Rehabilitation | $ 1,782,000 | $-0- | $ 1,782,000 |
| Passing Tracks  Rehabilitation | $626,990 | $-0- | $ 626,990 |
| Newton Intermodal | $-0-\*\* | $-0- | $-0- |
| Totals | $13,045,443 | $4,363,547 | $17,408,990 |

\*A total of $755,422 in deferred interest must also be repaid to IRFA

\*\* The requirements for the $1,500,000 forgivable loan were met in 2001.

North Central Railway Association (NCRA)

On September 13, 1989, IRFA provided an $806,284 loan at 5 percent interest over 30 years to the NCRA to purchase and rehabilitate Chicago North Western's (CNW) abandoned rail line between Hampton and Steamboat Rock. The 27.25‑mile line was acquired by NCRA, a local shippers association representing shippers on CNW lines between Mason City and Marshalltown, and between Coulter and Clarksville. Total acquisition cost was $917,55 1. Eleven miles of the line, between Ackley and Geneva, were rehabilitated at a cost of $100,000. The other 16 miles are rail banked for future use. The Chicago Central & Pacific agreed to provide rail service for 30 years from its connection at Ackley under a lease arrangement with NCRA.

On March 15, 1991, IRFA loaned NCRA $159,870 for purchase of the 5.85‑mile abandoned CNW rail line between Rockwell and Sheffield. NCRA rail banked the line for future rail use. The IRFA loan repayment is over a 15‑year term at 3 percent interest.

In 1998, NCRA received IRFA board approval to sell its interest in the Rockwell-to-Sheffield line, and the IRFA loan was repaid.

NCRA decided to scrap out the Hampton to Geneva line with the proceeds to be used for loan repayment.

**Financial Status of Loans**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Principal Repaid Through 12/31/01** | **Principal Balance After 12/31/01** | **Totals** |
| Hampton‑to‑Steamboat  Rock Acquisition and  Rehabilitation | $205,683 | $600,601 | $806,284 |
| Rockwell‑to‑ Sheffield  Railbank | $159,870 | $0 | $159,870 |
| Totals | $365,553 | $600,601 | $966,154 |

Iowa Traction Railroad Company (ITRC)

On August 6, 1987, IRFA provided a $280,000 loan to the ITRC. This 3-percent, 15‑year loan was to purchase the abandoned Mason City‑to‑Clear Lake segment of Iowa Terminal Railroad. The 10.4‑mile line, which serves several railroad shippers in Mason City, is the last electric freight railroad in the United States. In 1990 ITRC helped establish an electric trolley tourist attraction in cooperation with the Mason City and Clear Lake Railroad Historical Society.

On March 31, 1989, IRFA provided a $307,607 rehabilitation loan to ITRC for rehabilitation of four miles of track between Emery and Clear Lake to serve a new fertilizer shipper at Clear Lake. The project also allowed ITRC to work with a local tourist group to develop an electric trolley tourist train between Mason City and Clear Lake. ITRC completed rehabilitation of the track to Clear Lake in October 1989. The trolley began service in May 1990.

On July 21, 1990, IRFA provided an additional $107,298 to supplement ITRC's acquisition loan to comply with an Interstate Commerce Commission (ICC) order requiring ITRC to pay an additional $134,123 on the purchase price to the railroad's former owner. IRFA extended the term of the acquisition loan from its original 15 years to 23 years to allow ITRC's annual loan payments to remain essentially unchanged.

ITRC received IRFA board approval to defer its annual rehabilitation repayment for 1991 to allow ITRC to pay an additional $24,523 in interest on the additional acquisition cost ordered by the ICC.

In 1995 ITRC received IRFA approval to sell nonoperating property and use the proceeds to improve their track connection to the Canadian Pacific Rail System in Mason City.

As a result of a fire at one of ITRC major shippers, IRFA approved deferal of loan payment for four months.

**Financial Status of Loans**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Principal Repaid Through 12/31/01** | **Principal Balance After 12/31/01** | **Totals** |
| Acquisition and  Supplemental | $206,694 | $180,604 | $387,298 |
| Rehabilitation of Emery­-  to‑Clear Lake | $128,650 | $191.084 | $319,734 |
| Totals | $335,344 | $371,688 | $707,032 |