

**2002 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 it 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. However, IRFA has never issued bonds.

In 1989 the Legislature repealed the deposit of delinquent railroad property taxes into IRFA's account at the request of the Iowa Department of Transportation.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	\$1,037,970 ****	\$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 2002

IRFA did not approve any new projects in 2002.

In 2002, the IRFA Board held three meetings and approved two requests:

- approval for Iowa Interstate (IAIS) to have a reduced interest rate (to 3 percent per annum) for the period January 31, 2002, to December 31, 2004, on condition that IAIS add a \$100,000 project to its 2002 capital program. The extra \$100,000 project was completed in November 2002.
- approval provided to Heartland Rail Corporation for the sale of its assets to IAIS and to sell Heartland shares in IAIS to Rail Development Corporation contingent upon approval by the board secretary and IRFA legal counsel and receipt of a signed mortgage assumption agreement by IAIS for all mortgage agreements held by IRFA and Iowa DOT on Heartland property. The transaction had not been completed as of December 31, 2002.

In addition, North Central Rail Association (with IRFA approval in 2001) abandoned 6.25 miles of track from Hampton to Geneva in Hardin County and salvaged the track materials for a net value of \$150,000, which was paid to IRFA and reduced the principal loan balance accordingly. Also, NCRA is in the process of disposing of the right-of-way, with the proceeds to also be applied to the loan balance.

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.

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 was a grant and \$1.5 million was 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. However, in 2002 the rate was reduced to 3 percent for the period January 31, 2002, to December 31, 2004. Also, in 2002 IRFA approved the sale of IAIS assets to Rail Development Corporation (RDC) with conditions cited above.

Financial Status of IRFA Loans to Heartland/IAIS

	Principal Repaid Through 12/31/02	Principal Balance 12/31/02	Totals
Acquisition*	\$11,109,685	\$3,890,315	\$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	\$13,518,675	\$3,890,315	\$17,408,990

* Scheduled to be paid off by October 2008.

** 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 \$917,551. Eleven miles of the line, between Ackley and Geneva, were rehabilitated at a cost of \$100,000. The other 16 miles were 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.

In 2001 IRFA approved the abandonment of the Hampton-to-Geneva line. NCRA sold for salvage the track and materials of the Hampton-to-Geneva line, with the net proceeds of \$150,000 applied to the loan balance.

Financial Status of IRFA Loans to NCRA

	Principal Repaid Through 12/31/02	Principal Balance 12/31/02	Totals
Hampton-to-Steamboat Rock Acquisition and Rehabilitation *	\$385,511	\$420,773	\$806,284
Rockwell-to- Sheffield Railbank	\$159,870	\$0	\$159,870
Totals	\$545,381	\$420,773	\$966,154

* Scheduled to be paid off by September 2014.

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 Traction 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 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 its track connection to the Canadian Pacific Rail System in Mason City.

In August 2001, as a result of a fire at one of ITRC's major shippers, IRFA approved deferral of loan payment for four months.

Financial Status of IRFA Loans to ITRC

	Principal Repaid Through 12/31/02	Principal Balance 12/31/02	Totals
Acquisition and Supplemental *	\$222,904	\$164,394	\$387,298
Rehabilitation of Emery- to-Clear Lake *	\$146,240	\$173,494	\$319,734
Totals	\$369,144	\$337,888	\$707,032

* Scheduled to be paid off by August 2010.