Statement of

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High-Speed Rail in the United States: Opportunities and Challenges

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Good afternoon. Chairman Brown and Members of the Subcommittee, my name is Michael Pracht. I am President and CEO of US Railcar, based in Columbus, Ohio. I am delighted to be invited to testify here today. As a 27-year veteran in the passenger rail industry, I have never seen this level of excitement and commitment by our national and state leaders for supporting passenger rail.

Prior to joining US Railcar, I previously held key leadership positions with Pittsburgh based Union Switch & Signal, the Italian passenger railcar company AnsaldoBreda and the German based Siemens Transportation. Six months ago, I joined a group of investors led by Barry Fromm of Columbus – true visionaries who intend to revive and reestablish American owned, American designed, American engineered and American manufactured passenger railcar manufacturing in the United States.

In my testimony I will offer background on US Railcar's formation and describe the opportunities we see in a new market for U.S.-built passenger rail equipment. I will also outline the challenges we face and the need for a strong federal partner to assure not only the success of passenger rail in the United States, but the success of new manufacturing ventures such as ours.

For US Railcar, that federal leadership means:

- Approval by the U.S. Department of Transportation of the Ohio Rail Development Commission's application for an $8.73 million TIGER grant to support construction of a proposed new railcar manufacturing and heavy maintenance facility in Ohio.

- Funding for high-speed rail research and development to enhance passenger rail equipment performance.

- Effective administration of the Passenger Rail Investment and Improvement Act (PRIIA) Section 305 Next Generation Corridor Train Equipment pool.

- Fair implementation of the Buy America provisions enacted in PRIIA to nurture domestic passenger railcar industry manufacturing and growth.

- Assured federal capital flows for intercity and high-speed passenger rail investments that translate into steady and predictable orders for passenger rail equipment.

Formation of US Railcar

In January 2009 a small group of private investors led by Barry Fromm, chairman of the Value Recovery Group, Inc.[1] ("VRG") of Columbus, Ohio acquired the assets, including the intellectual property (manufacturing documentation, engineering drawings, software, patents, test plans) along with existing inventory, tooling, fixtures, jigs, and equipment from the former Fort Lupton, Colorado based, Colorado Railcar Company. The former Colorado Railcar Company engineered and manufactured the first and only Federal Railroad Administration (FRA) compliant, self-propelled Diesel Multiple Unit (DMU) passenger rail car in the American market since the departure in the 1980s of the Budd Company. The Budd Company was the last U.S. passenger rail car builder in this county. The Budd Company made the "RDC" cars (rail-diesel cars), similar in functionality to the DMUs developed by the Colorado Railcar Company (and now US Railcar).

[1] Value Recovery Group, the parent company to US Railcar is based in Columbus, Ohio and Washington DC. The various Value Recovery business lines have several common features and purposes, the first being of service to public agencies in various disciplines, distressed asset management and recovery, claims management, brownfield and economic development, energy program management services and now passenger railcar manufacturing, all with a goal of increasing the value of underperforming assets.

DMUs contain propulsion engines and passenger seating in one railcar, unlike an independent locomotive that hauls coach cars. The cars easily travel in both directions and offer greater flexibility and efficiencies, significantly lowering operating costs. Our new company, US Railcar, plans to recommence passenger railcar manufacturing production, ideally in the State of Ohio and using suppliers from across the Midwest and around the nation, to meet the needs of an emerging new market.

The original Colorado Railcar platform was developed in 2002 and later enhanced in conjunction with the Central Florida Regional Transit Authority and development grants from FRA. Since 2006, ten DMU railcar units have been built, sold and placed into revenue service with commuter and intercity rail operating agencies in South Florida, Portland, Oregon, and Alaska.[2]

DMU Platform Advantages and Opportunities

The new DMUs that US Railcar plans to build in the heartland of America offer substantial innovation and potential:

- The US Railcar DMU is the only FRA-compliant DMU meeting 49 CFR Part 238 passenger rail equipment safety standards. Unlike any other DMU design globally, the US Railcar DMUs already meet all FRA safety standards, enabling immediate operation on the general railroad system. This safety compliance means that regional commuter and intercity passenger rail authorities can offer start-up or expanded service over the existing freight rail network, subject to agreement with host railroads. Other than a locomotive-hauled FRA compliant consist, the only other service option would be to negotiate temporal-separation agreements with freight railroad facility owners to enable operation of non-compliant DMU equipment during the day and freight service at night. Such temporal-separation agreements have proven difficult to accomplish, compromise freight capacity and are suitable only for corridors with low-density freight service.

- DMUs can offer significant operational flexibility. When transporting between 300 intercity to 500 regional commuter passengers per trainset, DMUs offer greater operating flexibility and lower operating costs, with substantial environmental and energy efficiency advantages. Using high-horsepower locomotives hauling multiple coaches with similar carrying capacity, and a cab car at the other end of the train,

[2] See http://www.usrailcar.com/tiger/usrailcarpictures.pdf , http://www.youtube.com/watch?v=Z76WdoKZhj0, and http://www.usrailcar.com/tiger/usrailcar_video.htm for images and video of the DMU in service.

wastes fuel and increases carbon footprint. US Railcar DMUs will seat up to 94 passengers per car for commuter rail applications and 65 for intercity service (including space for galley and rest facilities). US Railcar also produces a bi-level DMU with twice this seating capacity. DMUs typically run in married pairs, and are capable of coupling multiple married pairs providing even greater operational savings and significant operating flexibility compared with locomotive-hauled consists. DMUs are easily coupled/uncoupled enabling single and multiple car consists "right-sized" to meet fluctuating daily, weekly and regional demand thereby avoiding wasted fuel moving empty seats in the larger and less flexible loco-hauled consists.

- DMUs can offer greater environmental and energy benefits. DMUs emit less noise and pollution when compared to a traditional locomotive. Operational flexibility results in lower environmental impact, reducing the carbon footprint and energy consumption per passenger.

- DMUs allow for smaller stations/platforms, maintenance facilities and yards, saving operating authorities and ultimately passengers millions. Inclusion of propulsion in the DMU passenger car itself eliminates the need for an additional 70 foot long locomotive and a trailing cab car, saving platform space needed to board passengers and reducing the land and additional construction costs required for station development.

The market for the US Railcar DMU is emerging quickly and includes new start-up services, existing regional commuter lines and intercity passenger rail corridors seeking more modern (fuel efficient/greener) rolling stock (i.e. railcars) to support growing ridership and increasing demand for alternative transportation. Secondary markets include replacement of aging locomotive-hauled push/pull fleets whose midlife overhaul and/or in-kind replacement cost exceeds comparable return-on-investment (ROI) projections established and proven for DMUs in after-market customer trials.

While we are still in the early stages of our business approach, US Railcar believes that for the right applications, DMU pricing can be less expensive compared to locomotive-hauled options. A number of States and operating authorities have recognized the potential advantages of DMUs.

As an example of our strategic business planning, since we are located in Ohio, we have discussed with ODOT the potential for utilization of DMUs to begin starter service in the proposed 3C (Columbus, Cleveland & Cincinnati) corridor. Additionally, other Midwest corridors (including starter routes for the Midwest Regional Rail Initiative) in Illinois, Indiana, Missouri, Michigan, Pennsylvania and Wisconsin and other states, together with new high-speed

and intercity passenger rail corridors across the country, offer exciting opportunities for US Railcar.

DMUs are not a new or high-risk technology; DMUs in both Asia and Europe have proved an important part of a balanced transportation plan. Application of FRA-compliant DMUs will help passenger operating authorities across the United States ensure that high speed and intercity rail transportation remains cost-competitive, while improving long-term efficiency and reliability. We are optimistic about the future opportunities for passenger rail in the United States. The American public is becoming increasingly aware that from a financial, environmental and strategic long-term national planning perspective passenger rail make sense. And it is now a necessity as part of a balanced national transportation policy.

A New Domestic Passenger Railcar Manufacturing Industry Must Support the Nation's New High-Speed and Intercity Passenger Rail (HSIPR) Initiative

US Railcar applauds the commitment of the President, the Congress and this Committee in promoting high-speed and intercity passenger rail development. We endorse the $50 billion funding allocation included in the Committee's surface authorization legislation. I personally have been an advocate for many years for advancing higher-speed intercity passenger rail corridors and the creation of a more balanced intermodal (road, rail, air) national transportation system. As other witnesses have testified and the Committee recognizes, as the U.S. population continues to grow it is impractical simply to continue to expand highways, roads and bridges –it is cost prohibitive and environmentally unsound. A more balanced approach is essential.

At a time when America is looking to create more jobs, reduce its dependence on foreign oil and become more carbon efficient, high speed rail can make a significant contribution quickly and cost effectively. The opportunity to once again manufacture railcars in the United States is timely.

With our nation's new commitment to high-speed rail, however, established foreign competitors with their huge marketing budgets are begin to position themselves to aggressively compete for upcoming passenger car contracts--funded largely by U.S. taxpayers.

A number of operating agencies around the country have indicated strong interest in the US Railcar DMU platform assuming that the company can receive the necessary support to be brought back to market in the next twelve months before alternative foreign (European/Asian) equipment decisions are forced by lack of competing American options.

It is important to note that there are currently no longer any other American-owned passenger railcar builders in existence in the United States. Legendary U.S. manufacturers such as St. Louis Car, Pullman Standard and the Budd Company succumbed long ago.

Today, all transit and passenger railcars currently sold in the United States are provided by foreign companies from France, Germany, Italy, Japan, Korea, Spain, the Czech Republic and Switzerland. While such companies have valued U.S. workers and local assembly, their railcars are only partially produced in the United States (typically 60 percent with the other 40 percent imported and their profits exported back to their home countries. From a transportation and manufacturing security position, as well as from the standpoint of American leadership, reestablishing our domestic passenger railcar industry should be an important national priority. US Railcar's passenger cars and DMUs will be made in America with U.S. content, and our very name, US Railcar, LLC, pronounces that we are an American company. Design, engineering, research & development, sales, service, customer support and after-market care will be managed and accomplished in the United States.

Federal Leadership is Essential to Success

Passenger rail revival in the United States creates an historic opportunity to establish an entirely new industry that will bring back crucial manufacturing jobs and help keep American dollars in America at a critical time in our history. But we face substantial challenges that require strong federal leadership and vision. Important steps include:

A. Approval by USDOT of the TIGER Application by the Ohio Rail Development Commission (ORDC) to establish a new railcar manufacturing and maintenance facility.

On September 15, 2009, ORDC, an independent commission within the Ohio Department of Transportation, applied for $8.73 million from USDOTs Transportation Investment Generating Economic Recovery (TIGER) Program to facilitate a public-private partnership to produce and ultimately maintain DMU passenger railcars in a new manufacturing and maintenance facility in Gahanna, Ohio.

US Railcar is thrilled to be a partner in this application. We are gratified by the support of ORDC, ODOT, Governor Strickland[3] and a number of Members of Congress.[4]

[3] http://www.usrailcar.com/tiger/governor_support_ltrs.pdf

[4] http://www.usrailcar.com/tiger/support_ltrs.htm

Approval of ORDC's TIGER grant request would enable US Railcar to build the new capital facilities necessary for our firm to compete. Total project fixed asset costs for the proposed manufacturing and maintenance facility are estimated at $14.5 million. Of this amount, the State of Ohio has committed up to $3.638 million,[5] or a 25 percent share. US Railcar will commit $2.282 million, or 15 percent, for total non-federal cost sharing of 40 percent of total project costs. These commitments do not include substantial investments US Railcar has made to acquire the former Colorado Railcar intellectual property and equipment, assemble working capital and move an entirely new manufacturing and production initiative forward.

The proposal includes the construction of a 100,000 sq. ft. passenger railcar manufacturing facility on 13 acres in the City of Gahanna, outside of Columbus Ohio. The proposed project will employ up to 162 workers within the first three years and up to 200 workers within the first five years after completion of the construction of the manufacturing facility. A shovel ready site has been chosen and work can commence soon after award.

The new US Railcar facility will also help establish new intra- and interstate supply chains and international trade lanes that will benefit many other businesses. Many of these suppliers that have suffered tremendously from the dramatic slowdown in the automotive industry. This vast network of auto suppliers which represents all facets of motor vehicle production, including plastics, metals, instrument control and lighting may, in many cases, potentially be the same suppliers used by US Railcar. We believe that leading motor vehicle manufacturers in America would support the additional work to ensure their supplier base remains strong. There is also a market in Canada and Mexico for FRA compliant passenger railcars like the ones that will be produced by US Railcar. Initial market studies show strong potential export opportunities helping to balance the U.S. trade deficit with our nearest national neighbors.

We see a unique opportunity to leverage private, state, and federal funding, to reestablish a proven product/technology, and bring new business opportunities in the passenger rail business. Our proposed s public-private partnership helps create the railcar which allows ideal travel choices to create employment opportunities and economic development in a safe, productive, energy efficient and environmentally sensitive manner that enhances our cities and towns throughout the Midwest and around the Nation. The expansion of passenger rail and commencement of the US Railcar project will create immediate jobs, spur economic development via a new supplier base, and resurrect a bygone American industry, while supporting a more sustainable and balanced national transportation plan. This opportunity allows Ohio to build upon the State's large automotive and rail parts-supplier bases, utilize the

[5] A copy of the State's commitment for up to $3.6 million can be found at: http://www.usrailcar.com/tiger/state_support.pdf.

existing trained American workforce, and procure U.S.-made raw materials and equipment from manufacturers across the Midwest. US Railcar is now in discussions with some of the Midwest's top-notched engineering schools regarding partnership opportunities as we look to produce the next generation of passenger railcars.

B. Federal R&D Funding Must Support New High-Speed Rail Passenger Railcar Equipment Development.

Initial production versions of the US Railcar DMU are capable of operation at speeds of up to 90 mph, depending on track conditions, with full FRA Part 238 compliance. Future upgrades to increase speeds to 110 mph and 125 mph, including enhancements to the carbody, suspension and powertrain, will require additional engineering investment. Development costs to ensure compliance with EPA Tier 4 regulations will also require substantial capital commitments.

The proposed FRA high-speed rail research and development program being considered in FY 2010 THUD appropriations can help meet these challenges. This new R&D initiative included within the larger HSIPR grant program may be funded in FY 2010 at $30 million as proposed by the House, or $50 million as the Senate has proposed. R&D grants administered by FRA, similar to the previous Next Generation High Speed Rail program, and could potentially help address key issues in adapting current passenger rail equipment platforms to unique higher-speed operating challenges. US Railcar looks forward to competing for and participating in this new high-speed rail R&D program should funding be appropriated.

C. The PRIIA Section 305 Next Generation Corridor Train Equipment Pool Must be Implemented Effectively.

PRIIA Section 305 tasks Amtrak will be establishing a Next Generation Train Equipment Pool Committee to "design, develop specifications for, and procure standardized next-generation corridor equipment."

US Railcar supports this important standardization effort. It is incumbent on all passenger rail industry participants to learn from the transit sector and avoid expensive, wasteful "one-off" custom procurements with every authority requiring different technical specifications for essentially the same vehicle product. New manufacturing organizations such as US Railcar cannot afford to develop different platform capabilities for each and every operating agency equipment procurement.

In addition to savings on capital procurements, taking advantage of and leveraging common platforms would also provide substantial operating and maintenance cost savings

similar to those demonstrated/achieved by Southwest Airlines with their emphasis on the Boeing 737 airframe.

A challenge facing the Pool Committee is to ensure that all perspectives are heard as standard specifications for various equipment types including DMUs are developed. As a related matter, FRA's examination through the Railroad Safety Advisory Committee of alternative approaches to Part 238 compliance merits full and comprehensive discussion. US Railcar looks forward to participating in the Pool Committee and to a new and equitable passenger rail equipment procurement process that captures the economies we can and should achieve.

D. PRIIA Buy America Standards Must be Administered Fairly.

PRIIA implemented new Section 24405 Buy America grant conditions applicable to both intercity passenger rail service corridor capital assistance and the high-speed rail corridor program. In place of the corresponding Amtrak Buy America standard which requires procurement of "manufactured articles, material and supplies manufactured in the U.S. ***substantially from*** articles, material, and supplies mined, produced or manufactured in the U.S." PRIIA requires that grants be made for a project **"only if the steel, iron, and manufactured goods used in the project are produced in the United States."**

Section 24405 provides for waiver of this requirement pursuant to certain exceptions but requires notice and comment on proposed waivers and a report to Congress on any waivers that may be granted.

Implementation of these new PRIIA Buy America standards as Congress intended poses a true test of our commitment to establishing a new domestic passenger rail car production manufacturing capability. To create U.S. jobs for U.S. workers producing U.S. trains for service in the U.S. and keep business returns here, it is essential that the new PRIIA Buy America standards be administered evenly and fairly.

E. HSIPR Requires Sustained and Dedicated Funding.

Railcar manufacturers require a predictable stream of customer orders to attract the substantial capital needed for equipment development, engineering and manufacturing. Such demand must be sustainable and reliable.

Operating agencies can only generate steady demand for new equipment if they in turn receive dependable and secure capital funding. President Obama has called the $8 billion federal investment in high-speed and intercity passenger rail a "down-payment" on our mobility future. But without continuing federal leadership and enactment of a reliable funding source for intercity

passenger service development our collective vision for high-speed rail in the United States cannot be realized.

US Railcar stands shoulder to shoulder with every stakeholder in our emerging industry in asking this Committee and the Congress to enact, as part of the surface transportation authorization or other legislation, a new dedicated funding source for high-speed and intercity rail development. That will enable our firm and other industry participants to attract the long-term investment capital we need to produce the new equipment Americans want to ride. We appreciate the Committee's leadership in moving this funding commitment forward and commend the Committee's inclusion of a $50 billion authorization for high-speed rail in the pending surface transportation authorization legislation. We are ready to work with you to assure a dedicated funding stream to support this authorization and achieve a more balanced surface transportation investment program that will benefit us all.

Conclusion

In order for high speed rail and ultimately passenger railcar manufacturing to succeed in the United States, there must be real demand, a reliable market and a steady stream of vehicle orders. The old names of great American railcar passenger production – St. Louis Car, Pullman Standard, Budd, and others – disappeared a generation ago because demand ended with shifting transportation investment priorities. The commitment of President Obama and the Congress for $8 billion to high-speed and intercity passenger rail is a promising start to ensure this demand, but it must be more than a down payment. The United States must develop a more balanced national transportation plan for the country.

We believe US Railcar is at the forefront of a new drive to help create a revitalized U.S. passenger railcar industry, with cleaner, quieter, more energy efficient equipment which will be accepted by the American public. Passenger rail revival in the United States and our plans to establish DMU manufacturing facilities in Ohio creates an historic opportunity to establish an entirely reborn/new industry that will create new industrial jobs and help to ensure American investment dollars are invested in American owned enterprises at this critical time in our nation's history.

Thank you for this opportunity to testify. I would be pleased to answer any questions you may have.