Testimony of

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Before the

House Transportation and Infrastructure

Subcommittee on Railroads, Pipelines and Hazardous Materials

On

"The Role of Innovative Finance in Intercity Passenger Rail"

Submitted by

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Introduction

Chairman Denham, Ranking Member Brown, and Members of the Subcommittee, thank you for the invitation to participate in this hearing. I am grateful for the opportunity to share some of private industry's perspectives on innovative financing approaches that can benefit the passenger rail industry.

My name is Frank Chechile and I am the Chief Executive Officer of Parallel Infrastructure, an asset development and right-of-way management firm based in Jacksonville, Florida.

Before providing you with a description of Parallel Infrastructure, I would like to offer context and describe Parallel's association with our parent and sister companies. I think this information is helpful, giving insights into our experience with building, evolving and sustaining large-scale, transportation-related businesses.

Parallel Infrastructure is a wholly owned subsidiary of Florida East Coast Industries (FECI). FECI has a rich history dating back over a century, when a predecessor company was established by Mr. Henry Flagler. Mr. Flagler was a pioneer in the development of Florida's east coast, and today FECI continues to transform Florida in the areas of real estate, transportation and infrastructure.

FECI is comprised of four wholly owned subsidiaries, of which Parallel is one. The other three are: Flagler Development, a full-service commercial real estate company; All Aboard Florida, an intercity passenger rail system that will be privately owned and operated; and South Florida Logistics Services, an integrated logistics company. FECI and its four subsidiaries work closely with our sister company, Florida East Coast Railway (FEC), a freight rail system stretching from Jacksonville, Florida to Miami, Florida.

Although operated independently from one another, all of the FECI companies are focused on creating value from transportation opportunities, and related areas such as real estate and right-of-ways, just as our founder did over a century ago. Through a focus on unlocking opportunities to generate value for our stakeholders, including our customers, we have maintained our vitality and relevance, and built successful businesses. By doing so, we have fostered economic development and created jobs, while ensuring safety and respecting the environment.

Together, we have worked to maximize the value of our rail corridor, which is 100 feet wide, and stretches 351 miles, beginning in downtown Jacksonville, Florida, and continuing through the cities of Daytona Beach, West Palm Beach, Fort Lauderdale, and Miami. The corridor traverses through areas whose total population is just under 9 million people, and also connects to three major seaports: Port of Palm Beach, Port Everglades and Port Miami.

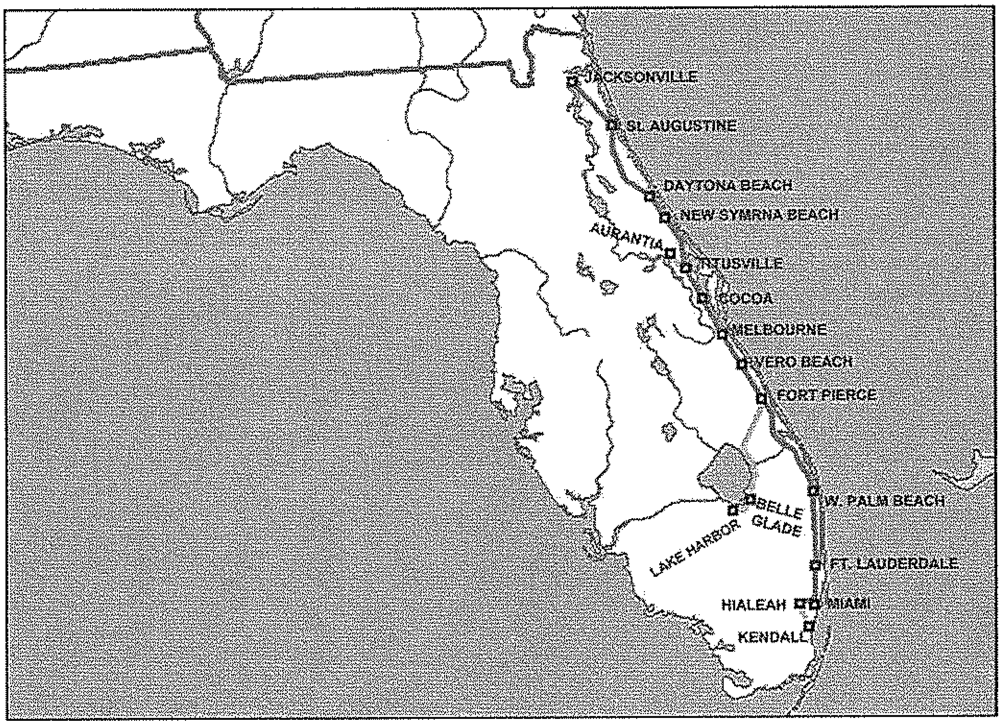

Figure 1. Florida East Coast Railway (FEC) Corridor

Although each entity is distinct in purpose and organization, in many ways, the lessons we've learned from collaborating with one another to fulfill a broader mission can be employed by public-private partnerships (P3). It's my belief that collaboration between the public and private sector would provide a material new source of financing for intercity passenger rail systems in our country.

For example, we have learned that joint problem-solving among organizations with a diverse set of objectives, sometimes conflicting, is hard work, but doable when the end game is well-defined, clearly understood, and has buy-in at multiple levels. This is enabled by building consensus on the key metrics that guide decision making, implementing workable governance models to keep stakeholders aligned and informed, and developing constructs to share financial gain.

These are among some of the disciplines and best practices that we bring to the table. I also believe that this gives us unique perspectives on getting complex things done and getting them right – *at scale.*

About Parallel Infrastructure

Now, some background on the company I have the privilege of leading, Parallel Infrastructure.

Our firm was created from our decades-long heritage as a right-of-way management organization for FEC Railway. Launched as a separate company just two years ago, we have become a national player with expertise in maximizing the value of right-of-ways and other similar and related real estate through proactive management and focused asset development. By entering into innovative revenue-share agreements with right-of-way property owners, we help to monetize their underutilized real estate without interrupting core operations. The result is increased revenue for a right-of-way property owner with little to no risk, and plenty of upside for incremental revenue generation.

In collaboration with our right-of-way clients, and using our own capital, we take the lead in:

- Proactively leasing right-of-way land,
- Deploying communications infrastructure facilities,
- Creating energy distribution systems, such as pipelines, and
- Building facilities that lend themselves to right-of-way property, including advertising (e.g., billboards), parking and storage structures.

In our short history, we have established asset development agreements with 28 freight railroad property owners and have roughly 1,800 miles under contract. We manage over 5,100 individual leasing contracts – the agreements between a railroad and lessees along the right-of-way. In addition, we manage hundreds of separate land parcels, including some with existing buildings or structures, sized from 1 to over 300 acres that are mostly adjacent to or near the right-of-way. We also enjoy relationships with public sector clients who have looked to Parallel Infrastructure to identify asset development and revenue generation opportunities, and are actively engaged with Class I railroads, as we build on our success with regional and short line railroads.

Our value proposition is straightforward: We provide both the capital and resources to develop revenue-generating assets on a right-of-way owner's property, and share the returns with the property owner. This allows the right-of-way owner to use their capital on improving their transportation infrastructure, while participating in the financial returns earned from someone else's investment in other types of assets. In fact, in many instances, such as state Departments of Transportation, a public sector entity must use its funds to maintain or expand transportation infrastructure, not on communications, utility, or other assets that can generate new revenue streams.

For our private and public sector clients alike, the ability to partner with a firm such as ours allows them to focus on their core operations, knowing that our own railroad heritage and right-of-way expertise ensures we understand what that entails. Indeed, working with Parallel Infrastructure provides ease of mind given our unique institutional expertise, built over decades of right-of-way management experience. Furthermore, many appreciate the perspectives that we offer and highly value the insights and best practices we share with them. We are not only right-of-way monetization experts; we are right-of-way operational specialists.

Our view of the opportunity

The opportunity to fully earn revenues from right-of-way real estate in our country is vast.

There are over one million miles of transportation corridors in the United States. These corridors are owned principally by state Departments of Transportation, local governments and private railroads. In addition, utility companies operate hundreds of thousands of miles of transmission lines in the United States, often on right-of-way land that they own. Parallel Infrastructure is targeting these entities to provide right-of-way real estate management services, and to generate significantly more value for them by building infrastructure assets that are well suited for those types of properties, such as communications facilities, energy distribution systems, and so on.

Our market research shows that less than 50,000 miles, or 5%, of transportation right-of-way are co-managed with or partially outsourced to third-party providers. The remaining almost 1 million miles of right-of-way are managed internally by their owner. Given our successful track record with the FEC Railway corridor and our growing list of client accomplishments, we believe that there is a significant market for our services. To provide a sense of scale, assuming that right-of-way owners could earn just $1,000 per mile from the types of activities we undertake, the million miles of transportation corridor in the U.S. would generate $1 billion. While that number might sound ambitious, you should note that Parallel Infrastructure is generating approximately $50,000 per mile in our own 351-mile long FEC Railway corridor just from telecommunications, pipe and wire, and land leases.

Parallel Infrastructure's services help any right-of-way owner, either in the public or private sector, achieve an important objective: maximize the value earned from its real estate assets. In addition to the direct benefit of providing additional recurring revenues for a right-of-way owner, these arrangements can also allow a right-of-way owner to obtain access to capital to support large-scale funding needs. More specifically, since Parallel is focused on developing assets whose demands are expected to continue growing, such as communications facilities, and its contracts are with creditworthy tenants for long periods of time, they offer predictable revenue streams for a right-of-way owner that could be collateralized.

For example, if a transit agency generates $10 million of annual revenue from the sort of right-of-way management opportunities that I'm describing, it could easily use that as collateral to secure $100 million in capital through a financing transaction. So by first unlocking the value of underutilized real estate by leveraging a third-party's capital and, in turn, leveraging the value of the annuities, an agency is positioned to take on previously unfunded or underfunded capital projects.

Economic conditions in our country remain fragile, at best, and we all know that transportation funding is woefully inadequate to meet our future needs. With respect to using traditional methods to reduce costs, or to increase revenues, much of the proverbial low-hanging fruit has been picked. I believe it's for these reasons that Parallel Infrastructure is finding right-of-way owners, both in the private and public sectors, accelerating efforts to forge partnerships and monetize underutilized real estate.

In the public sector, more specifically, where property values and property tax receipts have declined, and where slow economic activity has reduced tax receipts, we are seeing local governments making efforts to capture additional revenue by focusing on unlocking the value of their real estate.

Parallel Infrastructure success stories

For instance, Parallel Infrastructure was recently selected by Allegheny County, in western Pennsylvania, as one firm to help it maximize its income in this manner. Through a competitive bidding process, we were selected to build communications facilities on property the County identified as suitable for those purposes. We will use our capabilities and our capital to build, maintain, and lease facilities to communications service operators, which in turn, will provide the County with a long-term revenue stream without having to spend any of their money. In addition, by selecting several awardees, the County ensured that it obtains maximum value for the long term. While sharing revenue earned from communications facilities with a land owner is not a new concept, doing so in a comprehensive manner with a public sector land owner is the type of public-private arrangement that public sector entities like Allegheny County are using to institutionalize revenue capture opportunities.

As states grapple with a shortfall in needed transportation infrastructure funding, they are also recognizing the opportunity to access new sources of revenue from their right-of-way real estate assets, often using P3 arrangements. Parallel Infrastructure is in a unique position to assist these entities in doing so given our real estate focus, our transportation affiliation, and our railroad heritage. Indeed, a combination of proactive right-of-way real estate management, asset development, and passenger and freight railroad experience is a formidable experience set that brings intriguing P3 possibilities.

Another benefit of these types of arrangements is for land owners to obtain access to the assets that are built in their right-of-way to help fulfill their own operational needs, in a more cost-effective manner. For instance, Parallel Infrastructure recently partnered with a leading fiber optic network company to allow it to build its advanced technology network using the FEC Railway right-of-way. While the fiber network company will market this network to a multitude of potential customers who have growing needs for these technologies, our All Aboard Florida and FEC Railway sister companies will be able to access them for their own operating needs, such as assisting with the deployment of Positive Train Control, and for offering intercity passengers with superior amenities, including uninterrupted Wi-Fi service.

While maximizing the value of real estate is a straightforward and uncomplicated idea, achieving superior results requires the expertise of a firm with experience in doing so, that possesses people with a passion for maximizing the value of real estate, that understand the operating requirements of a railroad or utility or a local government, and with the capital needed to build the assets that ultimately generate the revenue. At Parallel Infrastructure, we possess all those things, as well as our methodology for obtaining results – the ValueMax℠ Right-of-Way Revenue Creation Model. This approach enables us to identify, evaluate and act on tangible revenue capture possibilities together with our right-of-way clients.

Personally, I am very proud of the effort that went into creating the model and am absolutely delighted to witness our team apply the requisite rigor and discipline to each client engagement. All of our intellectual capital, taken together, allows us to make the opportunities visible and actionable. When there is sharpened focus on and knowledge about monetizing right-of-way assets, it is quite literally a win-win situation.

Connection to innovative financing and passenger rail

These sort of experiences that right-of-way land owners have had with using their existing assets to generate new sources of revenue, many of them with Parallel Infrastructure's help, have demonstrated one innovative and substantial way to finance passenger rail in the United States.

Certainly, there are many approaches to close funding gaps, and to increase investment in our nation's transportation infrastructure and facilities. The holes are significant and the numbers are big, and a combination of approaches and solutions will be needed. One approach is to do what a leading consulting firm recently recommended when it suggested that, "one of the most powerful ways to reduce the overall cost of infrastructure is to optimize infrastructure portfolios – that is, simply to select the right combination of projects."[1] Another approach is to continue streamlining and reducing the cost of building infrastructure; while yet another is to increase fees paid by infrastructure users. But, what I'm proposing today is the easiest means of generating funding for transportation: simply focus on monetizing and maximizing the value of existing assets that lay underutilized.

At the state and local government level, the marketplace is clearly telling us that proactive right-of-way management and asset development are parts of the financing solution. With the scale of real estate assets maintained in the public sector, there is rich potential to use annuity streams generated from right-of-way real estate as collateral and to secure financing for capital projects. When one looks at companies like Parallel Infrastructure, particularly with our heritage and track record, you see an attractive option for forging a strong public-private partnership. We are a firm with the ability and willingness to use our capital to build infrastructure assets and to share the financial gains with right-of-way owners; and, I believe models such as these should be applied at the federal level as a supplemental means to provide funding for intercity passenger rail.

After years of stagnant or slow growth in passenger volumes, Amtrak has finally begun to see significant increases in ridership, reaching record numbers in the past year. Yet Amtrak's revenue still covers only a portion of its operating costs, and its capital needs far exceed annual congressional appropriations.

When you look at intercity passenger rail systems operating at distances of less than 400 miles, revenues generally exceed operating costs and therefore demonstrate viable business models. Amtrak's own operations within the Northeast Corridor show a positive balance when separated from its long-distance operations. However, passenger revenue and congressional subsidies combined do not adequately meet long-term depreciation costs within the corridor.

Amtrak's own estimates state that it will take up to 15 years to bring the Northeast Corridor to a state of good repair even if they received all their requested annual funding from Congress. We

[1] "Infrastructure productivity: How to save $1 trillion a year", McKinsey Global Institute and McKinsey Infrastructure Practice, McKinsey & Company, January 2013.

believe that innovative private-sector partnerships can close the funding gap for our federally operated intercity passenger rail system and help shorten this time frame.

The 2008 PRIIA Act sought to enhance the relationship between the states and Amtrak, calling for more state participation, developing state rail plans and public-private partnerships. PRIIA's successor should seek to strengthen those provisions and provide the kind of incentives that take advantage of private sector expertise where appropriate, particularly if they generate dependable revenue streams that attract investment by the capital markets.

By aggressively monetizing ancillary assets through proactive right-of-way management and asset development, and by capturing land-value from station investments, private and public intercity passenger systems will be financially stronger, more viable, and better positioned to leverage steady revenue streams, revive dormant assets, and ultimately thrive in ways that have not been accomplished in the last 50 years.

Closing remarks

Let me close by saying that public-private partnership is more than a trendy buzzword. It truly is an opportunity to reach new levels of collaboration between business and government. In the case of financing intercity passenger rail, it offers a straightforward opportunity to take advantage of existing real estate assets to generate greater revenue.

For Parallel Infrastructure, and for me personally, being part of this transformation is invigorating. There are obstacles to overcome and business models will mature over time as lessons are learned from practical experience. But, taking the initial steps is always the hardest part. I am certain, though, that each subsequent step is worth taking. And the time is now for the public sector to take the step towards actively managing right-of-ways by leveraging the private sector's experience and capital.

Again, let me express my gratitude for the opportunity to participate today.

Thank you. I would be delighted to answer any questions or address any comments you might have on my testimony.

Committee on Transportation and Infrastructure

Truth in Testimony Disclosure

Pursuant to clause 2(g)(5) of Rule XI of the Rules of the House of Representatives, 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:

FRANK CHECHILE

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

PARALLEL INFRASTRUCTURE

(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:

NONE

Frank Chechile

Signature

7/3/2013

Date

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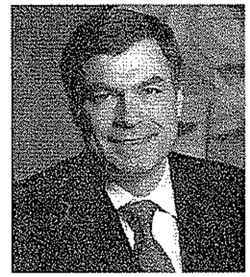

FRANK CHECHILE
Chief Executive Officer

Frank Chechile is the Chief Executive Officer of Parallel Infrastructure, a national leader in right-of-way management and asset development. Frank, who brings more than 20 years of global market experience, is responsible for managing the Company's operations and developing new business opportunities. Since joining Parallel in 2012, Frank has led the company through rapid expansion, signing asset development agreements with multiple right-of-way owners in both the public and private sector, while simultaneously increasing the scope and scale of its communications line of business, and preparing to launch others.

Prior to joining Parallel Infrastructure, Frank served as CEO of HP State and Local Enterprise Services—the state and local government services division of Hewlett Packard Co. (NYSE: HPQ). In his four years heading the unit, he completed the integration of important acquisitions and spearheaded the unit's dramatic growth, creating an industry leader with substantial practices in motor vehicles, elections, public retirement, human services, technology, and outsourcing.

Previously, Frank worked at Electronic Data Systems (EDS), where he served in many roles, while living and working in the U.S., Europe and Australasia. Frank led service delivery to some of the firm's clients around the globe, as well as engagements with some of the world's largest telecommunications operators.

Frank received an M.C.I.S. degree from Rutgers, the State University of New Jersey, a B.S. degree in mathematics from Fairfield University, and completed an executive development program at the London Business School.