



FACTS

SEDA-COG Joint Rail Authority
201 Furnace Road
Lewisburg, PA 17837
570-524-4491

July 2015

www.sedacograil.org
jstover@seda-cog.org

Importance of Rail Freight to Central Pennsylvania

Railroads serve high-value industries, allowing them to survive in a highly competitive global market. Some companies would simply cease to exist or close facilities if efficient and fairly priced rail services were not available. Most railroad customers are manufacturers or tied to extractive industries, such as coal or gas. These are employers our region holds dear because rail-served industries, in most cases, offer the highest paying jobs. In central Pennsylvania the average wage in manufacturing jobs is nearly **double** service sector jobs.

The SEDA-COG Joint Rail Authority (JRA) – A Privately Funded Public Trust

The JRA is an eight-county joint municipal authority formed in 1983 with its primary mission to preserve essential rail freight service and to further economic development and job creation in the region through improvement and expansion of rail infrastructure. Through the JRA's public oversight and ownership, the abandonment of rail lines is no longer a threat as was the case under Conrail or would be with a new private owner. The JRA-member counties consist of: Centre, Clinton, Columbia, Lycoming, Mifflin, Montour, Northumberland and Union.

In 1984, the JRA purchased lines from Conrail that were being abandoned. The first two lines consisted of 80 track miles. At that time, 3,000 jobs were at stake should rail service be lost. Today the JRA owns six successful short lines comprising 200 rail miles. The **JRA lines are operated privately using a competitively selected operator.** The operating railroads are: Juniata Valley, Lycoming Valley, Nittany & Bald Eagle, North Shore, Shamokin Valley and White Deer & Reading. Together the lines provide rail service to about 85 industries with over 10,000 employees.

In 2014 rail traffic topped 26,000 carloads. That is a far cry from the 1980s when traffic on the first 80 miles of line was less than 2,000 carloads. This extraordinary increase is due to a combination of additional lines (Williamsport and Lewistown in 1996), plus aggressive marketing and customer-oriented rail service. Not to be discounted is the JRA's exceptional ability to build strong partnerships with the region's economic development community and private developers.

The JRA's **public-private partnership** has a national reputation for doing it "right." Norfolk Southern even took the unprecedented step in 2008 in recognizing the JRA with an Industrial Development Award. In a 2009 independent study, the **World Bank even used the JRA as the model of how to do rural economic development.**

The JRA's private partner, the North Shore Railroad and affiliated companies have had significant achievements as well. Since 2004, they have won **21 awards**, principally for business development. The North Shore group has also been recognized with three awards from the American Short Line and Regional Railroads Association. Their biggest achievement, however, came in 2004 when the Nittany & Bald Eagle Railroad was named "**Short Line of the Year**" by *Railway Age* magazine, the nation's premier railroad trade publication. With over 500 short line railroads in the U.S., this is an extremely difficult award to receive.

The JRA and its private operating partner have responded well to the increases in traffic from the Marcellus-related business, which started in 2008. Traffic on the lines was growing before Marcellus, but the gas drilling has added some 25% rail traffic. Despite these new challenges, all rail customers' needs have been met. In April 2015 an independent, detailed customer survey was done which showed extremely high satisfaction with the current operation.

FAQ's

What does the JRA do in comparison to the private rail service operator?

The JRA owns the railroad real estate - the tracks, yards, bridges and buildings. The JRA is also responsible for all capital projects, such as new sidings, or bridge replacements or upgrades. The private rail service operator purchases the locomotives and hires the crews to serve the customers. They also are charged with annual track maintenance and marketing of the railroad service. The JRA and private rail service operator cooperate on helping existing customers or new prospective ones locate or expand along the lines.

The JRA is a large bureaucracy?

The JRA has a staff of 2½ persons. In contrast, the JRA's private operator provides 90 family sustaining jobs throughout the region. The JRA Board of Directors itself consists of 16 unpaid individuals. Each of the eight counties appoints two voting Board members. The Board is fortunate to have a mix of rail shippers, county commissioners, business leaders and some retired executives to guide its policies and operation.

Is the JRA transparent?

Absolutely. All JRA board meetings are open to the public and are duly advertised. All JRA minutes since 2007 are on our web site (www.sedacograil.org). We can provide copies of *any* minutes from 1984 on. We have an excellent record in responding quickly and openly to any requests for information. The JRA has adopted a prescribed Right-to-Know policy. When confronted with litigation, the JRA must refrain from specific public comment.

Also, periodically JRA board and staff give detailed briefings to its member county boards of commissioners.

The counties provided the money to buy and upgrade the railroads, right?

Of the millions of dollars needed to purchase and rehabilitate the rail network, only in two instances have counties contributed cash. In 1984, Centre County gave \$50,000 of its Federal Revenue Sharing funds to acquire the lines there; that was 1.2% of the total project cost. In 1988, Northumberland County provided \$25,000 toward the purchase of Conrail lines that became the Shamokin Valley Railroad; this amount was 2.4% of the acquisition cost.

The JRA needs tax dollars to survive, right?

The JRA does not, nor has it ever, used tax dollars for its operation. The JRA's operation and capital investments in the rail lines are supported by operating fees paid as a percentage of the operator's gross freight revenue. The JRA also receives revenue from utility license agreements and from trackage rights fees. Total revenue in 2015 will be some \$1.7 million. The majority of that income is plowed right back into capital improvements. The need for further JRA investments is laid out in the JRA's Capital Budget.

What is all this about grants then?

The JRA competes for grants against other railroads, both private and public. Yes, we have been pretty successful over the years. That is a result of two things: being in a great region with good projects and having a JRA Board and Staff and Railroad Operator that are both creative and aggressive. Further, we have an unmatched record of building solid partnerships with both public and private entities.

Attached is a list of all PennDOT rail grants awarded statewide for the last four years. It is telling that 86% of these grants go to **private companies**. The JRA harbors no unfair advantage, but we do an excellent job to bring tax dollars back to our service region for economic development.

What's this about a "no bid" contract?

When the JRA first bought the Conrail lines in 1984, it issued a Request for Proposals (RFP) to select a private railroad operator for **specialized professional services**. Pennsylvania law specifically allows competitive procurement of professional services using the RFP process. Six proposals were received. After a detailed review, Richard Robey's company was selected based on the fact he would operate both lines (North Shore and Nittany & Bald Eagle) and would be locally based.

Over time, the initial agreement was renewed, usually with improvements that benefited the JRA. **State law clearly does not require rebidding when professional service agreements need to be renewed.** In 2007 a new agreement was inked that the JRA worked hard to get. For example, the operating fee percentage was **doubled** from 5% to 10% of gross freight revenue. Equally important, the JRA adopted its own set of track standards **substantially tougher** than federal standards. Further, the JRA has insisted that **ALL** JRA-owned lines be upgraded or maintained to that standard, regardless of the amount of traffic on that line. This enables properties along those low-volume tracks to be more attractive to new industrial prospects or as industrial development sites.

The current operator was informed in 2009 that the JRA would be issuing a new Request for Proposals ahead of the 2017 agreement termination date. In May 2014 the JRA issued a RFP for operation of the lines after July 2017. There were five respondents in the first phase which assessed each proposer's qualifications. The RFP called for the top three scoring proposals to be invited to Phase 2 which is more detailed and requires submission of plans for rail operations, maintenance, marketing and finances. The three potential operators the JRA is weighing are Carload Express, North Shore and Northern Plains.

So the JRA doesn't bid work?

On the contrary, in strict accordance with Pennsylvania law, the JRA bids all construction, demolition and materials purchases and sales, even for very small projects well under the amount mandated by the Commonwealth. In the period between 2004 and 2010, the JRA bid and awarded 68 contracts for track work and other improvements totaling nearly \$19 million! Since 2010, 20 more contracts have been awarded via the bid process.

Are the railroads being maintained?

The JRA insists on a high level of track maintenance. In fact, it engages a highly qualified specialized railroad track engineer consultant to inspect the tracks and to have final say over the annual track maintenance plan. Since 1996 the JRA's operator has spent a total of \$52 million on track maintenance. Likewise, the JRA engages a specialized Railroad Bridge Engineer to inspect and design all JRA rail bridge projects.

The need to keep **all** line segments maintained is best demonstrated by the Shamokin Valley Railroad between Shamokin and Mt. Carmel. This corridor has never had any rail traffic to speak of. Nevertheless,

the JRA required the operator to upgrade the tracks east of Shamokin to its standards. It was a good thing, too, as the JRA and the Shamokin Valley Railroad are now in a partnership with DMS that will bring new rail traffic to the Shamokin Valley. It is a safe bet a private owner would not have maintained railroad track that was not bringing in revenue. In contrast, the JRA views its rail network as a regional industrial resource that needs to be maintained for our economic future-and not just the high dollar corridors.

Comparison of Two Forms of Privatization:

<p>Private Operation with SEDA-COG Joint Rail Authority Property Ownership</p>	<p>Private Operation and Property Ownership</p>
<p>Since 1984, the JRA has owned the railroad property, but engaged a private specialized rail service operator, initially through a competitive RFP process. This ownership arrangement is quite similar to the model used by the Green Bay Packers. Since 1923 that NFL franchise has been owned by the community. Its board of directors hires a management team to run the franchise. Thus, they control the destiny of the team.</p> <p>The issue of “competition” with the private sector has been mentioned. This is misleading. In terms of “competition”, private railroads, trucking companies, etc. compete against the JRA’s private railroad operating companies, <u>not</u> against the JRA itself.</p> <p>Operation</p>	<p>As is being done now, a new owner, would operate the lines privately. Under this scenario, though, the new entity would own the real estate. In Pennsylvania, railroads do not pay real estate taxes so there is no fiscal advantage to counties to have the land in private hands.</p> <p>Under state law, these railroad properties have to be sold at fair market value. That number is debatable, but based on recent short line sales in PA the value of JRA rail system infrastructure may be near \$100 million or perhaps much more. The need to seek return on that investment virtually guarantees that there would be great pressure for any new short line’s owner to seek higher revenues and/or curtail service. Otherwise, how could a new operation recover its huge investment? Our local industries that rely on rail service tell us they want no part of such a bargain.</p>
<p>The current operation is successfully serving 85 customers in the region. A survey earlier this year revealed a high level of satisfaction with the service.</p> <p>Oversight</p>	<p>Based on the survey results, it would be difficult for any new operation to improve service. As discussed above, service would likely suffer.</p>
<p>The JRA is an open and transparent organization as demonstrated by holding public meetings, having minutes available for download on our web site and regular briefings of member counties.</p> <p>The JRA serves as a regional forum for shippers, municipalities and the public to discuss and address central PA rail transportation issues or problems.</p> <p>Economic Development</p>	<p>There would be no oversight if the lines were sold to a private interest. Some of the privately held short lines in PA are known for operating in a near-secret environment.</p>
<p>The JRA and its operator have an unmatched record of fostering new rail-served economic development. In the last few years, the JRA has partnered with over 42 private companies and public entities. These partnerships created jobs and/or improved the region’s railroad infrastructure.</p> <p>The JRA has a strong reputation for delivering complex economic development projects involving multiple partners.</p> <p>Proceeds to Counties</p>	<p>Sale to a private owner would result in the loss of the nationally recognized relationships that exist within the existing public-private partnership.</p> <p>Railroads in private ownership (as opposed to just private operation) can still compete for PennDOT rail freight grants. In fact, over 80% of these grants go to the private sector. The JRA, as a municipal authority, holds no inherent advantage in competing for PennDOT grants.</p>
<p>For nearly 30 years the JRA and its operator have demonstrated the ability and knowledge to generate</p>	<p>The sale of the JRA’s assets — at fair market value— would result in a one-time-only payment to the eight member counties. It is unclear how the proceeds of the</p>

project after project and build rail traffic. This has directly preserved *and* created jobs.

Since 2004 alone the JRA has invested or leveraged \$46 million in rail capital projects, which are either completed or in process.

Summary

The JRA's public-private partnership has documented phenomenal results in terms of economic development and community benefits. Do we believe no one can do it better? Yes we do. We believe the record shows that to be the case in comparison to other short lines in Pennsylvania.

Some have said the JRA has accomplished its mission and should disappear. Based on what the JRA has accomplished in the last thirty-one years, though, nothing could be further from the truth.

The challenges that lie ahead for both the Marcellus Shale/natural gas and other industrial development demand a framework that has not only stood the test of time, but has evolved in to a system that —both physically and organizationally — is the envy of the Commonwealth.

sale might be distributed, whether it would be in equal shares or in some sort of allocation. PA law appears to require equal shares for all JRA Member Counties, but that will raise fairness issues since some Member Counties have far more trackage and rail infrastructure than other Member Counties.

The sale of the JRA's assets would achieve only one positive (one-time payment to counties) and a host of negatives and unknowns. In return, the counties would lose control and say goodbye to what is recognized as a class-leading railroad system that responsive to both customers and communities.

The sale of the JRA's railroad system is not only flawed in concept, but would be very bad for Central Pennsylvania's economy.

Are the JRA and private rail service operator community minded?

Absolutely. A great example is through the significant financial support for the railroad passenger excursions in the region. The JRA pays \$20,000 for the specialized insurance needed to fully cover the 59 trips. In addition, the North Shore Railroad and affiliated companies contribute nearly \$100,000 per year by providing crews, fuel and locomotive time to pull the excursion trains. Proceeds from the ticket sales are shared by the local trip sponsors and the passenger car owner. Neither the JRA nor private rail service operator receives any monies from these trips.

Does the JRA partner for economic development?

The JRA has an extraordinary and well-documented record of both assisting and partnering with private companies. That assistance is provided by the JRA at no cost to customers. It can be in the form of PennDOT grant help, loan of track materials to lower the cost of the improvements and/or preliminary track designs. The JRA, together with its private rail service operator, pave the way for rail-served industrial development and job growth. Some of the private companies and other entities that the JRA and its operator have directly assisted, or have various partnerships with, include:

Shamokin Valley Railroad			
Clark's Feed	<i>Weigh Scales</i>	DMS	<i>Ranshaw</i>
Drug Plastics	<i>Elysburg</i>	Anthracite Industries	<i>Sunbury</i>
TruBilt Lumber	<i>Sunbury</i>	SEEDCO	<i>Mt. Carmel Township</i>
Juniata Valley Railroad			
Standard Steel	<i>Lewistown</i>	Allensville Planing	<i>Lewistown</i>
Sylco	<i>Lewistown</i>	Mifflin County IDC	<i>Lewistown</i>
First Quality Baby	<i>Lewistown</i>		
Lycoming Valley Railroad			
Halliburton	<i>Montgomery</i>	Koppers	<i>Montgomery</i>
Keystone Filler	<i>Muncy</i>	G. O. Hawbaker	<i>Pleasant Gap &</i>
Charlotte Pipe	<i>Muncy</i>	ADS	<i>Muncy</i>
Sooner Pipe	<i>Montoursville</i>	Williamsport Wire	<i>Williamsport</i>
Lundy Industrial	<i>Williamsport</i>	Staiman Recycling	<i>Williamsport</i>
Bulkmatic	<i>Williamsport</i>	Moran Industries	<i>Williamsport</i>
Reagent Chemical	<i>Williamsport</i>	Lonza	<i>Williamsport</i>
Unimin	<i>Williamsport</i>	Marcellus Energy	<i>Williamsport</i>
High Steel	<i>Williamsport</i>	Jersey Shore Steel	<i>Williamsport</i>
PA College of Tech.	<i>Williamsport</i>		
Nittany & Bald Eagle Railroad			
Avery Dennison	<i>Mill Hall</i>	Happy Valley Blended	<i>Pleasant Gap</i>
Clinton County	<i>Castanea</i>	PVS Chloralkali	<i>Castanea</i>
First Quality Tissue	<i>Lock Haven</i>	Webb's SuperGro	<i>Mill Hall</i>
Smith Logistics	<i>Tyrone</i>	Graymont	<i>Pleasant Gap</i>
		Croda	<i>Mill Hall</i>
North Shore Railroad			
Columbia County	<i>Bloomsburg</i>	Berwick IDA	<i>Berwick</i>
		Autoneum Automotive	<i>Bloomsburg</i>
White Deer and Reading Railroad (under development)			
Union Co. EDC	<i>Lewisburg</i>		

For more information contact:

Jeff Stover
 Executive Director
 SEDA-COG Joint Rail Authority
 201 Furnace Road
 Lewisburg, PA 17837
 570-524-4491 (office)
 570-847-9503 (mobile)
jstover@seda-cog.org / www.sedacograil.org