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The Role of Short-line Railroads in Virginia

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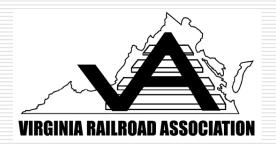
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Short-line Railroads: Who We Are

- 9 short-line railroads operate in Virginia
- ☐ They comprise the Virginia Railroad
 Association, a group dedicated to the support and expansion of freight rail as a viable transportation mode in the delivery of materials and products to and from businesses throughout the Commonwealth. See www.varail.com



Nine Active Members

- Bay Coast Railroad
- Buckingham Branch Railroad
- Chesapeake and Albemarle Railroad
- Chesapeake Western Railroad
- □ Commonwealth Railroad
- Norfolk & Portsmouth Belt Line
- North Carolina & Virginia Railroad
- Shenandoah Valley Railroad
- Winchester & Western Railroad



What are Short-line Railroads?

- □ Independently operated freight railroad companies that operate over a relatively short distances
- Operate over 500 miles of track in Virginia
- ☐ Serve more than 150 customers in Virginia
 - Customers include small businesses and large corporations (Ex.: Ford, Perdue, BASF)
- ☐ Payrolls upward of \$8.5M
- □ Annual operating costs upward of \$22M
- □ Provide "last mile" connections



What Short-lines Haul

- Peanuts
- Printing ink
- Fertilizer
- Finished steel
- Stone
- ☐ Grain
- Wood chips
- Industrial sand

- ☐ Corn
- □ Soy
- Lumber
- Propane
- Auto parts
- ☐ Lime
- Wood pellets
- Railroad ties
- Plastics



Public Benefits Offered By Short-lines

- Provide transportation services for economic development
- 2. Reduce highway maintenance costs
- Reduce highway congestion and enhance motorist safety
- 4. Reduce air pollution
- 5. Reduce dependence on foreign oil



1. Provide transportation services for economic development

- Alternative overland service
- Access to distant markets for Virginia products
 - Ex.: Short-lines enable Buckingham County to supply wood to North Carolina, South Carolina and Ohio
- Bay Coast Railroad ("BCR") transports liquefied petroleum gas ("LPG") that cannot be trucked across the Chesapeake Bay Bridge Tunnel to three Virginia sites
 - Ex.: 166 rail tank cars of LPG is equivalent to 600 tanker trucks
- Stella Jones in Goshen
 - Ties are delivered to east coast states
- Martin Marietta Quarry in Verdon.
 - Stone carried by Buckingham Branch Railroad ("BBR") from Illinois to Florida



2. Help reduce highway maintenance costs

- Transportation Research Board: one heavy truck is equivalent to about 90 passenger cars in terms of impact on highway maintenance cost (or 1 truck = 9,500 cars)
- One full railcar carries equivalent of 3-4 truckloads
 - The diversion of a 40-car freight train could potentially result in road damage equal to traffic of over 1 million automobiles
- Interstate 81 designed to carry 15% heavy truck traffic, yet about 40% of vehicles using that corridor are heavy trucks



4. Help reduce air pollution

- EPA estimates that for every ton mile a typical truck emits roughly three times more nitrogen oxides and particulates than a locomotive
- Norfolk Southern: diverting 700,000 longhaul trucks to rail in the Crescent Corridor will reduce carbon dioxide by 110,000 tons per year



5. Help reduce dependence on foreign oil

- Offers a more fuel efficient alternative
- If just 10% of freight currently moved by truck were diverted to rail, fuel savings would approach one billion gallons per year
- Railroads can move a ton of freight 480 miles on one gallon of fuel.



Challenges to Short-lines

- Inherent Inequity
 - must compete with trucks operating on <u>public</u> highway systems
 - railroads must acquire or lease their track and make <u>private</u> investments in rail infrastructure
 - railroads must pay local real estate taxes and maintain their railways
- Heavy on-going capital needs and increased maintenance costs force some short-lines out of the market
- Difficult to qualify for federal railroad tax credits
- Without funding from DRPT, short-lines would be unable to bear infrastructure capital needs in serving 150+ customers throughout Virginia, including agribusinesses, warehouses, manufacturing facilities, etc.



DRPT Rail Programs and Short-lines

- □ Four rail funding programs:
 - Rail Enhancement Fund (freight/passenger)
 - Rail Preservation Fund (freight)
 - Rail Industrial Access Fund (freight)
 - Intercity Passenger and Rail Operating Capital Fund (passenger)
- In theory, short-lines benefit from first three programs
- In practice, short-lines receive the most benefit from Rail Preservation Fund and Rail Industrial Access Fund



Access to Other Funds

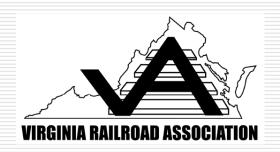
- Governor's Development Opportunity Fund (about \$24M for FY12-14)
- Up to 10% of highway funds (for "mitigation of highway congestion")
- Transportation Partnership Opportunity Fund (includes rail, if used for public rightof-way)



DRPT Rail Programs and Short-lines

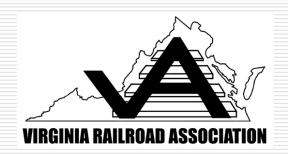
1. Rail Enhancement Fund

- Created in July 2005
- Provides approximately \$23M annually for freight and passenger rail improvements in VA (3% of gross proceeds from motor vehicle rental tax)
- Under HB3202 (2007 Session) an additional \$12.9M annually for rail capital, either through this rail program or the Rail Preservation Fund (minimum of 4.3% of transportation bond proceeds)
- ☐ Must meet a "public benefits" test
- Requires a 30% match to state funds



2. Rail Preservation Fund

- Provides assistance to short-lines since 1991, last codified in 2006
- \$20M (including local match in FY13-14) for rail upgrade projects, including additional capacity at terminals and interchanges, 24-month projects
- A tool for economic development and preservation of rail service to localities and regions



Rail Preservation Fund: Examples of Projects

- Central Piedmont: Buckingham Branch Railroad
 - Tie and rail replacement, major yard interchange rehabilitation at Doswell
- Eastern Shore: Bay Coast Railroad
 - Tie and rail replacement, yard rehabilitation at Cape Charles
- ☐ Hampton Roads:
 - Commonwealth Railway, Inc.
 - Marshalling yard and APM/Maersk connection
 - Norfolk and Portsmouth Belt Line Railroad Company
 - Tie replacement



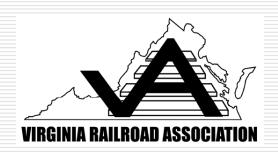
3. Rail Industrial Access Fund

- Created in 1987 \$3M annually
- Provides access to rail transportation for businesses
- Helps to achieve:
 - Investing in Virginia communities
 - Creating and sustaining jobs
 - Taking trucks off the road



3. Rail Industrial Access Fund (cont'd.)

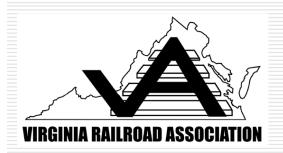
- A key component of Governor's incentive package to attract and retain business and industry
- Tracks and facilities from such funds "shall be the property of the Commonwealth for the useful life of the projects" (<u>Va. Code</u> § 53.1-221.1:1)



Growing Concerns About Programs

- Strong competition for Rail Enhancement Fund money
- Annual appropriation for Rail Preservation Fund has been unchanged for many years, while shortline trackage in Virginia has doubled
- Threat of new Intercity Passenger Rail Operating and Capital Fund:

2012 Appropriation Act diverts over \$26M from Rail Enhancement Fund to this new fund, with no matching requirement, because no new funding source has been identified



Future of Short-lines in Virginia

- Heavier railcars threaten short-line viability
- More money is needed to adequately fund rail maintenance and construction projects essential to supporting increased rail traffic in Virginia
- Failure to maintain and upgrade short-line infrastructure will bring more heavy trucks to our highways, secondary roads and city streets
- Failure by General Assembly to establish separate funding source for passenger rail operations will deprive funds for long-term capital improvements



Future of Short-lines in Virginia (cont'd.)

- Short-line railroads are a viable component in Virginia's overall transportation network
- Short-lines' future is exciting because the need for its service is clear. Short-lines accept the risk and the challenge, but need basic support to compete with other publicly-assisted modes of transportation

Thank you.

If you have questions about this presentation or the Virginia Railroad Association, please contact:

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