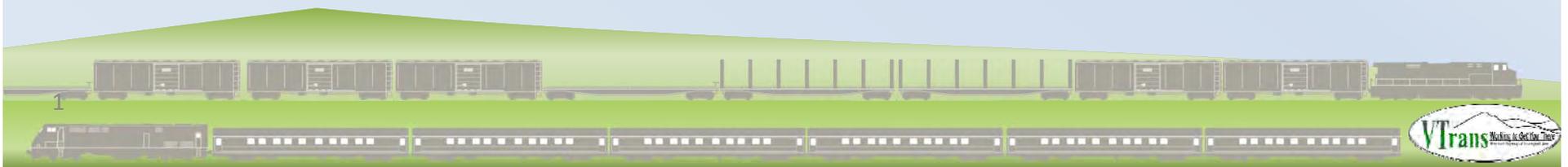




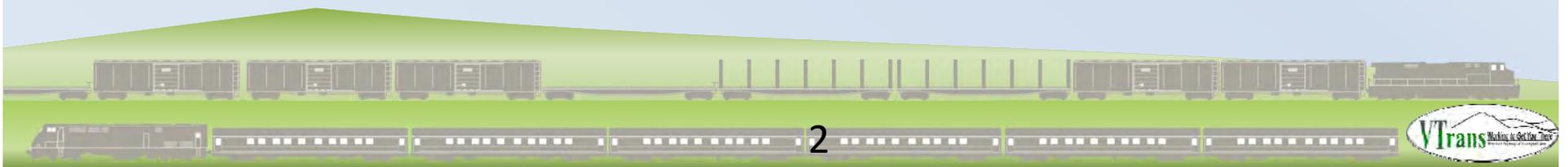
Vermont State Rail Plan Status Update

October 29, 2014 – 1:00 PM
Vermont Rail Advisory Council
VTrans Headquarters, Montpelier



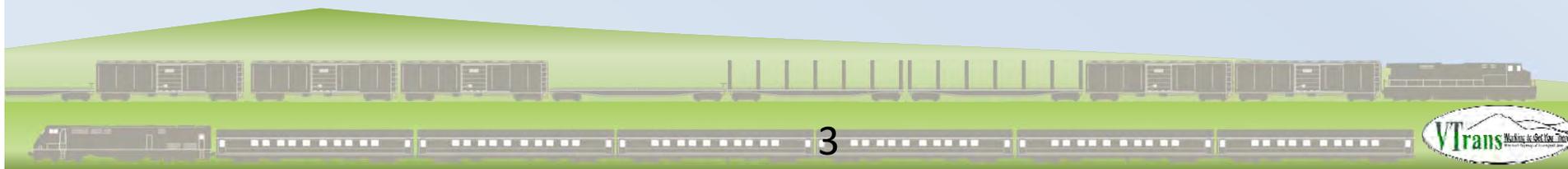
Agenda

- Introductions
- State-Owned Rail Lines
- Project Prioritization



Options for State-Owned Rail Lines

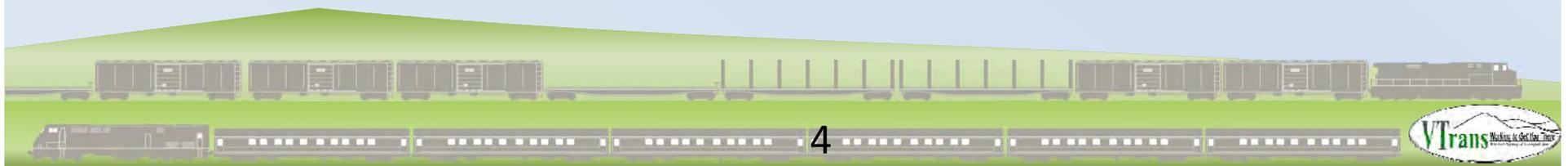
1. Continue current arrangements and maintain lines to their current level.
2. Continue current arrangements and upgrade lines to a state of good repair, 286,000 pound rail car capacity.
3. Sell selected state-owned lines.
4. Sell all state-owned lines.



Public Ownership of Rail Lines

Advantages

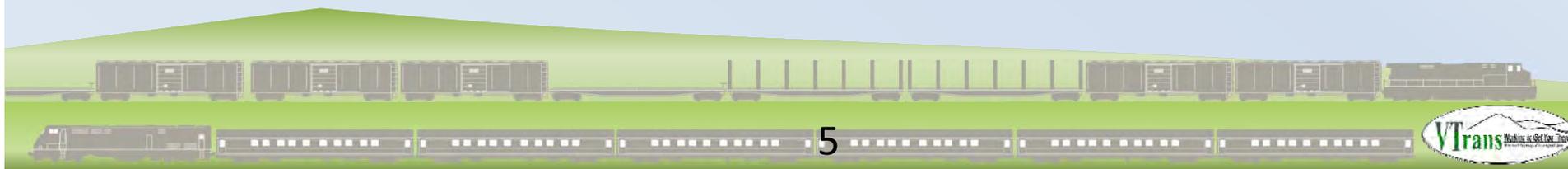
- State can manage rail assets for the public good in line with stated goals
- Allows the preservation of rail corridors that would otherwise be permanently lost
- State-owned rail may compete better with other modes for public funding.
- Simplified liability and tax issues, particularly when initiating passenger service.



Public Ownership of Rail Lines

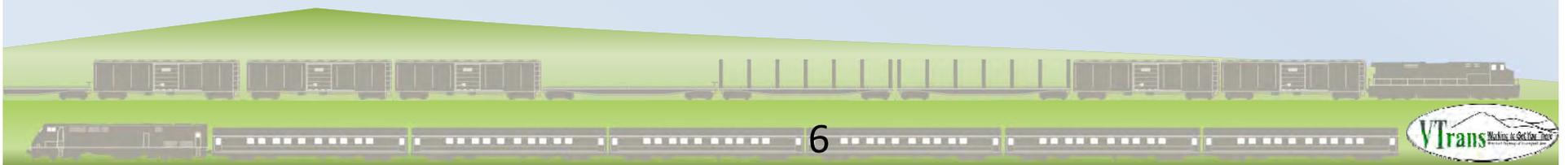
Disadvantages

- Ties up public investment and funding
- Significant operating and capital outlays may be needed to maintain and repair the lines
- Does not guarantee ongoing operations or self-sufficiency
- May reduce tax revenues
- Ineligible for certain types of financing



Existing VRS Leases

This analysis was prepared by transportation planning professionals, not lawyers. As a result, the conclusions should be treated as an informed opinion based on a layperson's reading of the leases, not a legal opinion.



Existing VRS Leases

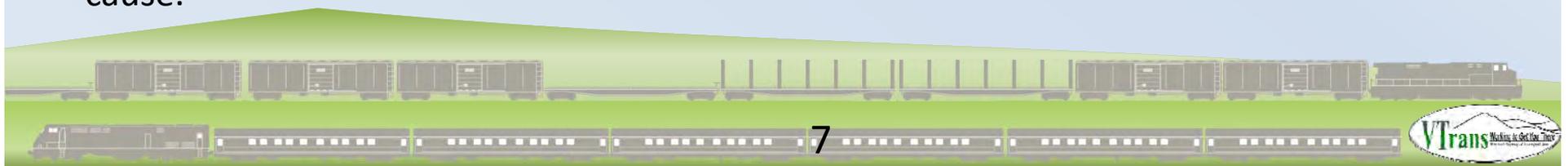
Railroad	Lease Year	First Renewal Year	Lease Expiration Year	Renewal Frequency
Vermont Railway, Inc.	1990	1994	2054	10 years
Green Mountain Railroad Corp.	1992	2001	2060	10 years
Washington County Railroad (CT River Line)	2003	2013	2033	10 years
Washington County Railroad (Montpelier Branch)	1999	2004	2024	4 years

- For WACR CT River Line,

“The term of the agreement may be extended beyond the Initial or any Renewal Term by the STATE in its sole discretion; provided, however, that RAILROAD’s consent is required to extend the Initial or Renewal Term more than six (6) months beyond the expiration date.”

- Only lease that includes language giving the State the right decide whether to renew without cause.

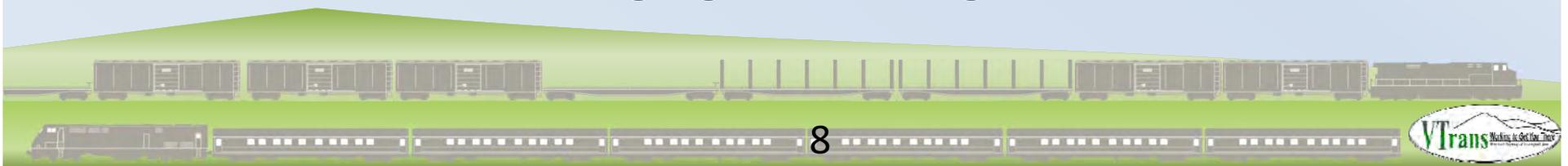
- None of the leases include language giving the State the right to terminate without cause.



VRS Right of First Refusal

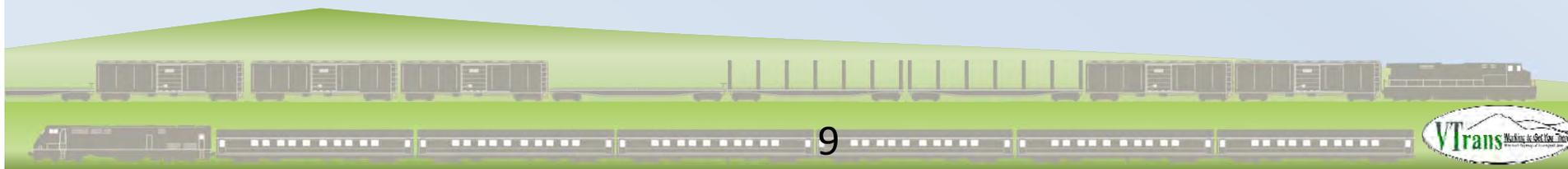
- VRS has right of first refusal on each lease
- Language from GMRC lease, no mention of inflation adjustment

“It is agreed and hereby understood by the parties that STATE’s cost, as used herein, amounts to \$1,943,319.83 as of December 31, 1989. Beginning in January 1, 1990, the STATE’s costs will be increased in any calendar year in an amount by which capital investment by the STATE, including (but not limited to) bridge rehabilitation/ replacement and the purchase and installation of heavier weight rail (i.e., 100#/yard or greater), exceeds rentals paid by RAILROAD. Beginning January 1, 1990, the STATE’s cost will be decreased by amount by which capital investment by RAILROAD went beyond RAILROAD’s maintenance obligations under this or predecessor lease and which the STATE agreed in advance was necessary for the efficient operation of the railroad.”
- VTR lease has similar language establishing initial cost at about \$3M



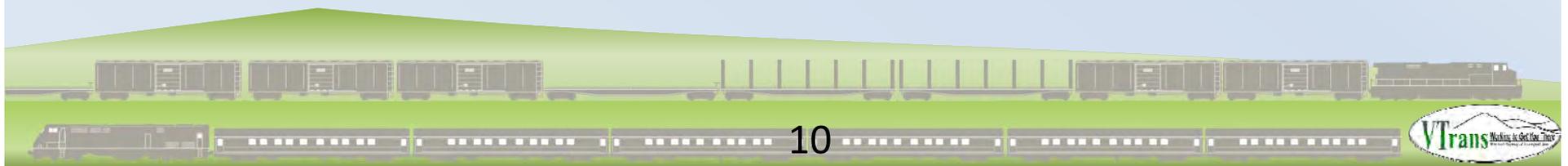
Continue Current Arrangements

- \$1 Million per Year in Lease Payments
- Vermont has budgeted \$4M per year in capital improvements, but what would be avoided if Vermont sold the lines, and what would be the State/Federal share going forward?



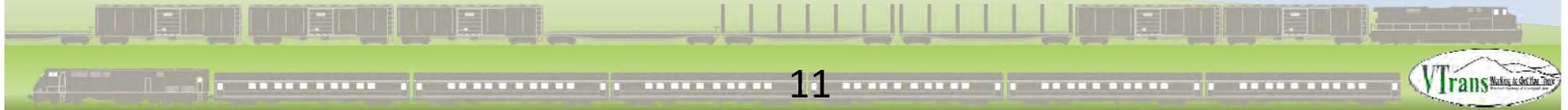
Likely Proceeds of Sale – All Lines

- VRS purchase price at “State’s cost” is not currently calculated
- VRS believes that going concern value is zero
 - Cost of maintaining will eclipse the any positive operating cash flows
- VRS previously offered to buy for \$1 previously to qualify for programs such as RRIF loans
- May have value, but constrained
 - No specific growth prospects based on past traffic makeup
 - Heavy reliance on one customer
 - If not zero, probably \$0 - \$25M and toward the low end of this range
 - Heavy maintenance requirement



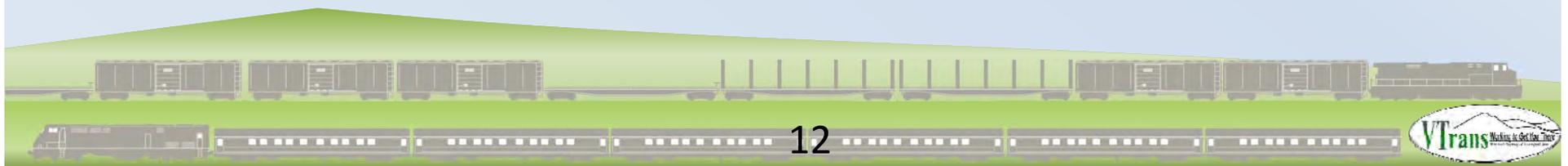
Risks of Selling Lines

- In general:
 - Passenger rail considerations
 - Continued freight rail operations
- To VRS: Substitute direct payment for reinvestment
- To Other Company:
 - VRS continues to own CLP, a key gateway
 - Will not necessarily have access to assets still owned by VRS
 - Salt sheds in Burlington, Bellows Falls, Rutland
 - Tank farms in Burlington and Rutland
 - Buildings in Burlington, Rutland, Bellows Falls
 - Areas needed for expansion in Shelburne, Florence, Riverside, Rutland
- Potential market concentration
- Employment Impact



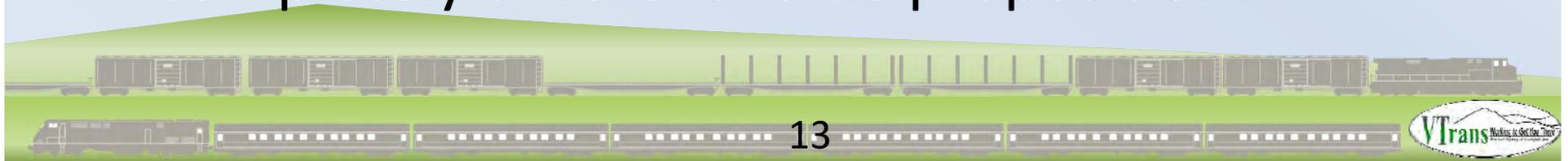
Some Risks of Ending VRS Leases

- VRS has shown ability, willingness to operate rail lines others have not
 - WACR segments had different operators. One went bankrupt, other was uninterested in continuing to operate
- VRS has provided evidence that the company has spent heavily on MOW
 - 31% revenues on VTR, 20% on GMRC
 - MOW plus lease payment is 40% of revenues for VTR, 24% GMRC
 - Class I industry average MOW percent of revenues is 13% (no comparable data available for short line industry)
- VRS institutional knowledge and relationships



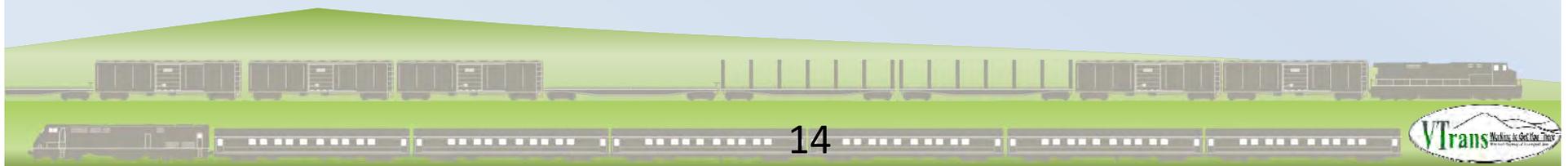
Risks of Selling Select Lines

- Could be more valuable than combined State-owned lines, but,
 - Some VRS business have subsidized others in the past. Taxpayers may need to take on cross-subsidies.
 - Lose efficiencies of VRS system – sharing train crews, MOW resources, mechanical resources, etc., though new efficiencies could emerge
- On the other hand, if a new owner had a completely different value proposition.....



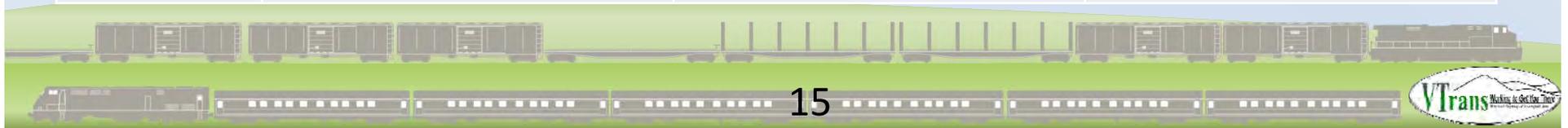
Economic Impact of State-Owned Lines

Type of Impact	Annual Impact
Direct	
Employment (person-years)	130
Earnings (2012 \$ millions)	\$7.04
Customers	
Employment (person-years)	3,700
Earnings (2012 \$ millions)	\$200.42
Induced	
Employment (person-years)	2,592
Earnings (2012 \$ millions)	\$134.93



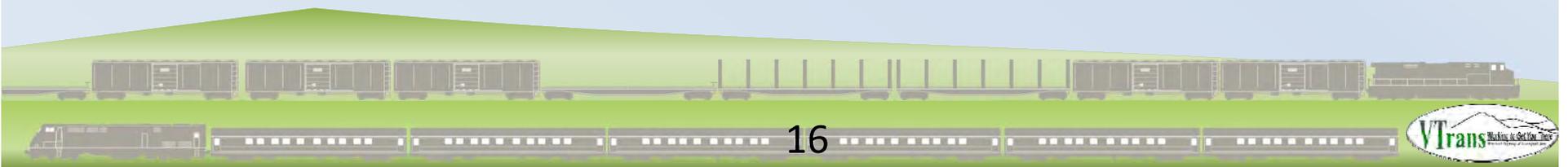
Annual Economic Benefits of State-Owned Lines 2013 Traffic Base, Average Distance for VT Rail Moves

Category	25% VRS Traffic Diverts to Truck		50% Traffic Diverts to Truck		75% Traffic Diverts to Truck	
	Units	Cost	Units	Cost	Units	Cost
Fuel Consumption	3.23m Gallons	\$11,953,115	6.46m Gallons	\$23,906,230	9.7m Gallons	\$35,859,346
Carbon Dioxide	45k Tons	\$1,301,946	90k Tons	\$2,603,892	135k Tons	\$3,905,837
Highway Maintenance	26m VMT	\$10,685,125	52m VMT	\$21,370,250	78m VMT	\$32,055,375
Fatalities	0.24 Fatalities	\$2,206,204	0.48 Fatalities	\$4,412,408	0.73 Fatalities	\$6,618,612
Injuries	6 Injuries	\$607,025	11 Injuries	\$1,214,049	17 Injuries	\$1,821,074
Property only Accidents	19 Property only Accidents	\$76,452	39 Property only Accidents	\$152,904	58 Property only Accidents	\$229,357
Total Costs	\$26,829,867		\$53,659,734		\$80,489,600	



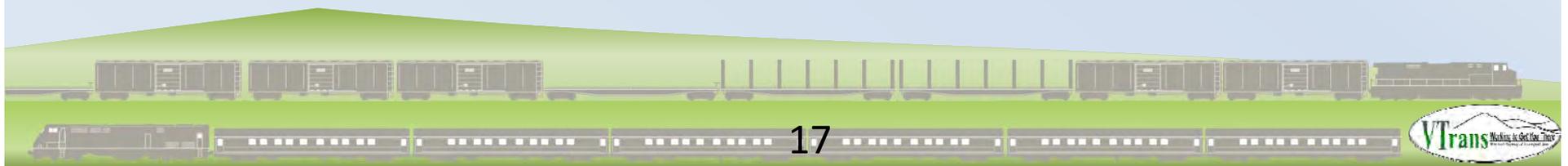
Agenda

Project Prioritization



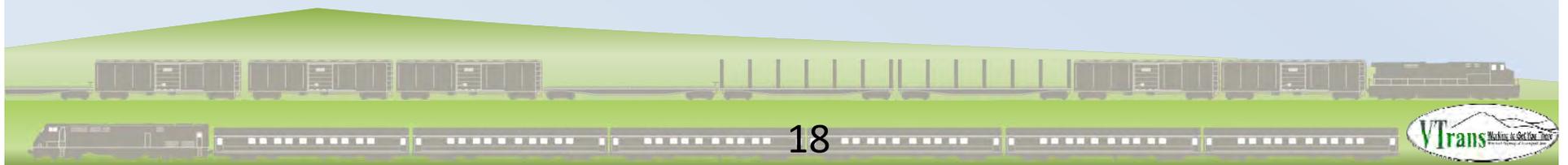
Project Prioritization – Approaches

- No prioritization (multiple locations)
- Grouping of projects into short term (funded) and long term (unfunded) (multiple locations)
- Prioritization by panel (Colorado)
- Benefit/cost analysis (Massachusetts)
- Carrier-identified prioritization—can be both public and private carriers of freight and passenger traffic (Connecticut)
- Prioritization by performance indicator (Florida)



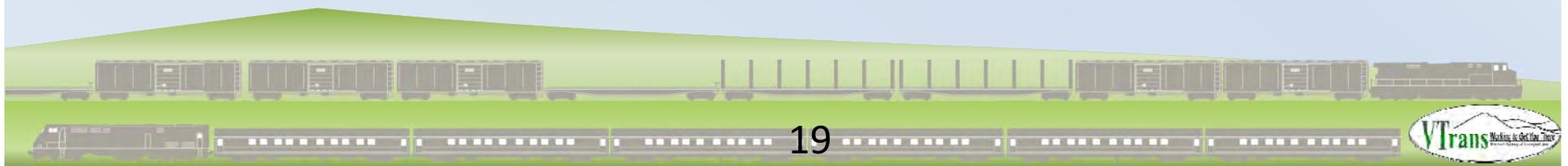
Project Prioritization - Background

- PRIIA and FRA guidance requires that the plan include an investment program that identifies a portfolio of rail improvement projects
 - Short-term (4-year) program
 - Long-term (20-year program)
- Recent State Rail Plans in other locations have included this investment program, but have not fully met intent of 2013 FRA guidance



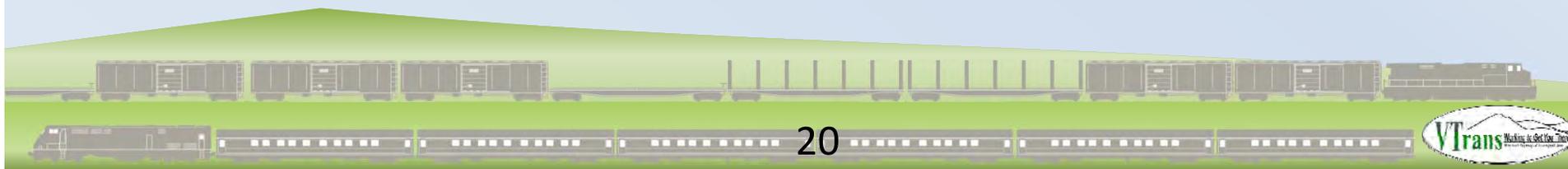
Project Prioritization – Challenges

- Identifying funding sources in both short-and long-term timeframes
- Prioritizing projects within a multimodal framework (including passenger vs. freight)
- Integrating economic development, environmental, and social objectives
- Addressing varying needs of public and private railroads



Next Steps

- Rail Ridership Alternatives
- Needs Assessment Report



Additional Items / Q&A

