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Contract & Property Advisory Committee:

GUIDELINES FOR DIVESTITURE OF STATE OWNED RAILROAD PROPERTY

March 9, 2011

Background: The Ohio Rail Development Commission (ORDC) manages six rail properties owned by the State of Ohio. A listing of these properties in included as Exhibit "A". The lines are vastly different in character and circumstance. The Honda Line connects CSX to a rail yard that serves Honda's Marysville assembly plant. The Jefferson Industrial Track and the Piney Fork Cluster are marginally profitable freight branchlines operated by small short line railroads. The Ohio Southern Rail Line is an out of service track with little or no current freight potential that may be used in the future for a tourist rail operation. USRA Line 714 has no track and is currently used by local park districts for a trail. And the Panhandle Rail Line is the core line of a very successful regional railroad.

The operator of the Panhandle, the Columbus & Ohio River Railroad (C&ORR), had offered to purchase the line in the past. So has the Wheeling & Lake Erie Railway. ORDC chose not to sell and is now working on a 25 year lease agreement with the C&ORR. The operator of the Piney Fork Cluster, Ohi-Rail Corporation, has formally inquired about purchasing the northern portion of the line. The operator of the Jefferson Industrial Track, the Ashtabula Caron Jefferson Railroad, has expressed interest from time to time in buying the line but currently the traffic on the line will not support an acquisition.

The ORDC Contract & Property Advisory Committee has requested that ORDC Staff develop draft guidelines for handling offers to acquire ORDC managed State property and provided guidance on some key components to include. The draft guidelines below represent the ORDC Staff response to the Committee request.

I Issues to Consider before Divesting any ORDC Managed Line: The first question that needs to be addressed when there is an offer to purchase/proposal to sell an ORDC managed property should be: Should ORDC consider divesting the line? Some issues to consider to help answer this question are included below.

A) Strategic Value of Line: ORDC should give very careful consideration to divesting a property it deems "strategic" to avoid missing opportunities to capitalize on the line in the future to the benefit of the people, business, and commerce of Ohio. In the event that ORDC decided a divestiture of a strategic asset was warranted, ORDC would need to consider retaining certain rights that would preserve State options for the future. Some questions to consider to determine if a line is strategic include:

- Does line carry or have potential to carry overhead freight?
- Does the line carry or have the potential to carry double stack containers?

- Does line have potential for future passenger operations?
- Does line serve current major Ohio employer(s)?
- Does line serve significant economic development sites, especially sites with official major "Job Ready Site" designations?
- Does line serve major, significant natural resources or agricultural interests?
- Is the line needed for national defense, i.e. is it on the STRACNET system?

B) **Impact on Ohio Rail System:** No railroad line exists in a vacuum. What happens on one line generally impacts other connecting lines. Before divesting a line, ORDC would need to address the impacts on other lines in the region. Some questions to consider in this regard include:

- What is the impact of the sale on connecting Class I carriers?
- What is the impact of the sale on connecting Short Line and Regional Railroads?
- What is the impact of the sale on the line itself in terms of shipper service, economic development, community development and related issues?

C) **Impact on Ohio Rail Users:** A change in ownership could have positive or negative impacts upon the rail users on the line in question as well as connecting lines. Questions to ask to address shipper impacts include:

- Will the terms of the divestiture that would be required by the Governor or General Assembly create conditions that require the serving carrier to increase rail rates wherever possible?
- Will the terms of the divestiture create a moral obligation for ORDC to provide future support of the acquiring carrier?
- Does the acquiring carrier have a good track record at serving shipper needs?
- Does the acquiring carrier have the economic means to survive business downturns?
- Will the operations of the acquiring carrier impact rail moves between shippers on the ORDC line in question and lines not owned by ORDC, for example creating a two line haul where a one line haul now exists?

II Divestiture Options to Consider: If ORDC evaluates a line for divestiture and determines that it is appropriate to divest the line, the next question is: What form should the divestiture take? Here are some options to consider.

A) **Competitive Bid:** ORDC might consider a bidding process to maximize the return from a sale or long term lease.

B) **Outright Sole Source Sale to Offeror:** ORDC might consider an outright sale with no conditions required from the buyer except payment in full for lines that have no strategic value and for which the sale would not adversely impact Ohio railroads or shippers or economic development potential.

C) **Sole Source Sale to Offeror with Conditions:** ORDC might consider a sale but with conditions that protect any minor State strategic interests, Ohio railroads, shippers, and economic development options. It is likely that this type of sale option would be chosen for lines without major strategic issues but where there were "Locally Critical" issues such as current rail users, clear economic development potential, essential mineral deposits or agricultural resources, or other such issues.

D) **Long Term Lease:** ORDC might consider a lease with conditions that protect any minor State strategic interests, Ohio railroads, shippers, and economic development options. This option offers a more conservative method of addressing State assets where there were strategic or Locally Critical issues. This option might also enable ORDC to capture a steam of revenue for future use as opposed to a one time gain. (This assumes that the Governor and General Assembly allow ORDC to benefit from the divestiture.)

E) **Other:** There may be other tools such as long term operating agreements or the like that would fit particular divestiture scenarios.

III Determining the Value of the Asset to be Divested: There can be huge differences in the perceived value of a rail line or rail right-of-way that result from looking at the asset from varying perspectives. Here are some of the issues that could impact how a "fair" sale or lease price can be derived balancing the value of the asset with the impacts of the sale price on Ohio commerce and industry:

A) **Competitive Bid:** The ultimate free market going concern value of a rail line is what bidders will pay in a competitive process.

B) **Going Concern Appraisal:** An appraisal based on the profitability of the operations on the line.

C) **Fair Market Value Appraisal:** A valuation of the land, track, and fixtures based on generally accepted appraisal techniques that do not assume costs for take up of track and disposal of valueless appurtenances such as old ties.

D) **Net Liquidation Value Appraisal:** A valuation of land, track, and fixtures based on the assumption that the track will be salvaged and property will be sold quickly on a "fire sale" type of basis. Costs for take up and disposal of valueless assets are deducted from the appraised value.

E) **Original Purchase Price:** What did the State pay for the line when it acquired it?

F) **"Sweat Equity" of Acquiring Entity:** What did the acquiring party do to build up the current rail traffic base and to promote economic development?

G) **Investments of the Acquiring Entity:** How much of its own funds did the acquiring entity invest in the line? How did this investment compare to the profits reaped from the line?

H) **Upside Potential of the Line:** What economic development opportunities are present for future rail business? What other assets does the line have, e.g. minerals, agricultural resources and the like?

I) **Impact of the Divestiture Price on the State of Ohio:** Is ORDC giving up future strategic options for current monetary gains?

J) **Impact of the Divestiture Price on Ohio Railroads:** Will the price of the acquisition adversely impact the acquirer's ability to effectively operate the line in question? Other lines that it owns or operates?

K) **Impact of the Divestiture Price on Ohio Shippers:** Will the price of the acquisition adversely impact the acquirer's ability to effectively operate the line in question so that it is forced to raise rail rates wherever it is possible?

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'A'

STATE OWNED RAILROAD PROPERTY

	MILES	ACRES	MILEPOST	Annual Income
HONDA (USRA Line 1264)	3.63	43	330.37 to 334.00	19,510.00
Peoria to State Route 33				
Acquired: April 1979				
JEFFERSON INDUSTRIAL TRACK (ACJ)	6.25	75.85	5.38 to 11.63	2,300.00
Carson Yard to City of Jefferson				
Acquired: June 1984				
OHIO SOUTHERN RAIL LINE	14.8	144.6		2,500.00
Z & W Running Track	11.7	107.9	45.8 to 57.5	
Fultonham Running Track	3.1	36.7	0.0 to 3.1	
Acquired: June 1982				
PANHANDLE RAIL LINE	161.5			31,545.00
Columbus to Mingo Junction				
Weirton Secondary Track	108.3		157.9 to 49.5	
Weirton Secondary Track	32.6		CSX 136.4 to 103.8	
Cadiz Running Track	12.8		0.0 to 12.8	
Hebron Industrial Track	5.5		133.0 to 138.5	
Trinway Secondary Track	1.1		0.3 to 1.43	
East Columbus Industrial Track	1.2		4.1 to 5.3	
Acquired April 16, 1992				
PINEY FORK CLUSTER	39.6	470		12,000+
Minerva to Hopedale				(+ varies by railcar/Apex)
Tuscarawas Secondary	1.8		2.7 to 4.5	
Piney Fork Secondary (Alliance Branch)	34		43.5 to 77.5	
Wolf Run Branch	3.8		0.0 to 3.8	
Acquired: June 1982				
USRA LINE 714	43.1	496.73	81.1 to 124.2	8,976.50
North Warren to Ashtabula				
Acquired: November 1983				

total annual revenue from leases in 2009 - $75,254.94