



Ohio Rail Development Commission

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MEMORANDUM

TO: Jim Seney, Director

FROM: Lou Jannazo, Chief of Project Development



SUBJECT: Panhandle Sale: Input from Licking County Officials

DATE: November 12, 2002

On Friday, November 8, 2002, I met with Licking County Officials at the offices of Rick Platt of the Heath - Newark - Licking County Port Authority. The following people attended:

- * Rick Platt, Port Authority
- * David Handley, Port Authority
- * Roney Murphy, Mid-Ohio Development
- * Tom Denison, Mid-Ohio Development
- * Larry Parr, Southgate Corporation
- * Elizabeth Welsh, Licking Chamber
- * Jerry Brems, Licking County Planning
- * Mike McFarland, Administrator, Hebron
- * John Groff, City of Heath

Mid-Ohio Development and Southgate officials are developers of industrial parks along the Panhandle. The Port Authority also has an industrial park along the line.

I gave a short introduction about the Panhandle. I briefly described how the State needed to step in to the matter in 1992 to finance the acquisition from Conrail with COPs financing and how the State had conducted a competitive selection process to determine the best operator 5 years later. I said that since the line is now profitable, ORDC was considering its sale, either to the C&OR on through a competitive bid process. I did state that a competitive bid could be problematic by encouraging a railroad to pay too much for the line. While I stressed that no decisions have been made and that staff was only investigating options, I informed the group that the C&OR was actively pursuing a sole source purchase. I added that this option might be reasonable given that the C&OR has already gone through a competitive selection process and has continued to meet all ORDC requirements since that time.

Many participants stated that the current operator of the line, the C&OR, represents an improvement over Conrail. All agreed that continued operations by the C&OR on the Panhandle made sense and that they wanted the C&OR to be a successful, profitable rail carrier.

Many questions were asked, some of which I was able to answer with fact, others of which required opinion and speculation which I generally did not try to answer.

Mr. Denison asked if the State invested more money in the Panhandle because the State owned it. I cited the example of the highway bridge in Muskingum County and the culvert in Dennison which probably would not have been funded by ORDC if the State did not own the line.

Mr. Groff asked if the shippers on the line were satisfied. I responded by describing the Panhandle shipper survey ORDC recently conducted which demonstrated shippers were very satisfied with the C&OR.

Mr. Platt asked if the Newark bike path would have been built had not the State owned the line. I responded that it would be very doubtful that the C&OR would have allowed the path to be built in its current configuration had it owned the line.

Mr. Denison asked who would get the money if ORDC sold the line. I stated that question had not yet been resolved.

There was much discussion of the State, or other public entities, retaining certain rights to the Panhandle after a sale. Mr. Brems proposes that future passenger rights would need to be maintained for services which might not be started for 10 or 15 years. He also noted that a condition of sale could be that publicly owned utilities and entities would have the right to access property in a manner not detrimental to the rail operations, and to buy select non-operating portions of the Panhandle property, at current market value. He did understand that such a reservation could be difficult to work out with the buyer and would require extensive appraisal work up front.

Elizabeth Welsh raised the issue of maintaining some sort of public access for future freight services on the Panhandle.

Mr. McFarland raised the issue of the future of the line after a private railroad owned it. He noted that once a railroad owned it, it could sell out to another railroad with unknown consequences.

Messers Murphy, Denison, Parr, and Brems started a very lively discussion on the issue of whether or not it was a good idea to sell the line to a private railroad. I raised the philosophical question of whether a public body should own a railroad line that is in very sound financial condition. They answered that the question by saying that once the deal is done it is all water over the dam. They stated that the State took a risk and should capitalize the best its can on the economics of the situation.

Mr. Denison noted that selling the line at or near the cost of outstanding debt would be like "getting a ticket down on a horse after the race". He added that even selling the line at a profit may not be advantageous to the State because the shippers could be burdened with higher rates to make up the difference. He concluded that the status quo was advantageous because the C&OR is doing a good job but having the State as a mediator could be a big advantage in the future if the situation changes for the worse.

Mr. Murphy stated that "if it ain't broke, don't fix it" and that it would be senseless for the State to lose a business advantage.

Mr. Brems stated that a better option than selling the Panhandle might be to re-finance the deal so that the C&OR would have a better rate of return.

The group stated or showed agreement with the concept that private ownership was a problem in the past, and could be again in the future so why give up the protection of State ownership of the asset.

In testing my understanding of the group position, I restated the group position as: 1) the State should retain ownership; 2) the State should consider refinancing to reduce debt load on the C&OR; and 3) the State should extend the length of its Operating Agreement with the C&OR so as to provide the C&OR the needed security to make long term investments. The group agreed that this was an accurate summary of the conversation.

There was also a brief discussion as to whether public hearings should be held before ORDC proceeds with any sale option. Several participants said that hearings of some sort should be conducted. It was noted that written comments should be solicited as well as spoken comments.

C: Matt Dietrich, Alan Klodell

lj27/PanhandleInputLicking