



# OHIO RAIL DEVELOPMENT COMMISSION

1980 WEST BROAD STREET • COLUMBUS, OH 43223

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## Panhandle Rail Line Facts and Information

### *Saving the Panhandle Line: A Win-Win Return on Investment for Ohio*

A vital rail corridor has been saved from abandonment. The State of Ohio's investment (the COPS bonds) will be paid off in April, driving over \$1million annually directly to the state rail budget. In addition to saving the line, the rail line has actually greatly improved, physically. Shippers & jobs have grown and the economies of communities all along the line have benefited as well. Today, all parties can celebrate a better, stronger transportation link and economic development driver.

### *The Panhandle Line: A Brief History*

There are 160 miles of track running from Columbus to near the Ohio River, south of Steubenville, with track speeds averaging 40 MPH. The Panhandle Line is a strategic line for the eastern portion of the state and potential long term connections to Pittsburgh Region. It serves 33 businesses employing over 8,000 people.

### *The State of Ohio Steps In:*

The state views this long-term lease agreement as a success: In the early 1990's then owner Conrail threatened abandonment of Eastern half of the line. A local effort to preserve the line, led by Tuscarawas County, brought the State to the table. As a result, Conrail sold it rather than abandoning it. A small railroad, Ohio Central, won the bid, but couldn't get financing. The State stepped in with Certificates of Participation (COPS) Bonds and purchased it for a \$8.68 million bond issuance. Ohio Central has been the operator since April, 1992 (the railroad was purchased by Genesee & Wyoming in 2008). Caprail, a holding company, technically owns the line, but the State (ORDC) oversees it. Upon retirement of debt service in April 2012, the State will buy the line for \$1.

### *Current Lease & Operations:*

- Since 1992, there have been a series of 5 year lease agreements. In 1997, there was a competitive selection of railroad operator and Ohio Central won.
- Each 5 year agreement has performance measures
  - Close monitoring of investment and maintenance
  - Carload Reports
  - Safety
  - Customer satisfaction surveys
- The current lease generates \$2,500 per month to ORDC and \$58,000 to pay off COPS
- If provisions are met, the operator is eligible for another 5 year agreement under same or mutually agreed upon terms

### ***Why A Long-Term Lease?***

In April 2012 the bonds are paid off, creating for the first time in 20 years a situation in which a substantial revision of the operating agreement terms is necessary. Also, the railroad has evolved; it is no longer a small shortline. 33 businesses rely on the rail line to transport materials and goods to and from their locations. Additionally, short term lease agreements are stifling long term investments by the operator of the line. Why would the railroad invest in long-lived assets if they are only certain to be the operator for 5 years? By agreeing to a longer term lease, the State can

- Promote more railroad investment and stability
- Earn more money in the form of lease payments
- Let the railroad run the railroad with less state involvement/interference
- Protect its asset by putting onus on operator for maintenance
- Mandate specific provisions for tourist operations (limitations and parameters) which didn't exist before

### ***Constants in the New Lease***

The new agreement is modeled on the old one. There will still be review periods for service. Every five years there will be a review of track maintenance and connectivity/value added. Every two years, a performance review of shipper satisfaction and safety will occur. Non-performance will have a cure period prior to being declared an event of default. The new lease also allows competitive rail service for new businesses or closed businesses that reopen under new ownership.

### ***The Return on Investment:***

The long term agreement dictates a two-tiered payment system; if the railroad thrives, the state benefits also.

- The operator has a base payment of \$1,000,000 annually. (Up from existing \$726,000 annually with \$696,000 going to debt service of bonds)
- There will be variable payments based on carloads (approximately \$150,000 to \$ 300,000 annually, based on previous and projected volumes)
- Both payments are subject to annual CPI increases

Total Payments equate to \$25-30 million over the life of the lease, based on historical carload data. For reference, the appraised value of asset, not counting real estate, is \$17-47 million, depending on scrap markets and based on net liquidation value w/o take up costs. The railroad is responsible to maintain the line to its current standards, at their cost.

### ***Reinvesting the State's Return:***

Payments to ORDC will be used for operations of the agency first, then towards the freight rail assistance program (into 4N40 account). Why would the money go towards operations first? So there isn't the situation where rent that is paid by one railroad is being used to provide grant funds for a competitor railroad. Variable payment comes to ORDC, but the operating railroad can request a deferral of payments (credits in future years) for investment in major rehabilitation projects or economic development projects on the line. The line rent payments also allow all of ORDC's GRF appropriations to be available for freight rail grants.

### ***Comments / Questions:***

If you would like to comment on the proposed long-term lease of the Panhandle Line, you can e-mail us your comments to Julie Kaercher at the ORDC: [julianne.kaercher@dot.state.oh.us](mailto:julianne.kaercher@dot.state.oh.us) or by surface mail at: Ohio Rail Development Commission, 1980 West Broad Street, 2<sup>nd</sup> Floor, Columbus, Ohio 43223