REPORT OF THE
SECRETARY OF TRANSPORTATION ON

ALTERNATIVE FORMS OF OPERATION AND/OR OWNERSHIP OF SHORT-LINE RAILROADS AND THE LONG-TERM ECONOMIC SELF-SUFFICIENCY OF SHORT-LINE RAILROADS

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 55

COMMONWEALTH OF VIRGINIA
RICHMOND
1999

COMMONWEALTH *of* VIRGINIA

Office of the Governor

James S. Gilmore, III
Governor

Shirley J. Ybarra
Secretary of Transportation

January 27, 1999

The Honorable James S. Gilmore, III
Members, Virginia General Assembly

Dear Governor Gilmore and General Assembly Members:

Pursuant to Chapter 464, Item 514 D of the 1998 Virginia Acts of Assembly, I am enclosing the study report, "Alternate forms of operation and/or ownership of short-line railroads and the long-term economic self-sufficiency of short-line railroads." The information collected during the study process reveals that the Commonwealth's programs have been beneficial to large and small businesses throughout the Commonwealth. The report shows promise for economic development as we work collectively to build a more efficient transportation system for Virginia while maximizing existing resources.

Thank you for the opportunity to conduct this study.

As always, let me know if you have questions.

Very truly yours,

Shirley J. Ybarra
Secretary

Enclosure

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PREFACE

The 1998 Session of the General Assembly of Virginia under Chapter 464, Item 514 D, Virginia Acts of Assembly, directed the Secretary of Transportation to "study alternative forms of operation, lease, or ownership of short-line railroads in Virginia, and make recommendations that would foster and encourage the long-term economic self-sufficiency of such railroads."

Pursuant to this directive, the Secretary of Transportation undertook such a study. Staff of the Department of Rail and Public Transportation (DRPT) was asked to assist in conducting this study. A description of the study effort, its findings and recommendations are contained in this report.

The study group consisted of eight short-line railroads operating a common carrier rail service under a Class III operating standard. Representatives from each of Virginia's eight short-line railroads were interviewed as part of the study process. Related information discussed was considered and incorporated in the study report.

The short-lines interviewed as part of this study were:

The Buckingham Branch Railroad
The Chesapeake and Albemarle Railroad
The Commonwealth Railway
The Eastern Shore Railroad
The North Carolina and Virginia Railroad
The Shenandoah Valley Railroad
The Virginia Southern Railroad
The Winchester and Western Railroad

The study team members were as follows:

Shirley J. Ybarra, Secretary of Transportation

DRPT Staff:
Leo J. Bevon, Director
George R. Conner, Rail Administrator
Billy D. Ketron, Rail Programs Supervisor
Kevin B. Page, Senior Rail Transportation Engineer

EXECUTIVE SUMMARY

Railroads are an important partner in Virginia's transportation network. Over time, railroads have emerged from being the major provider of transportation services to now being a transportation partner with highways. Following a decline of rail service that ended in the mid 1980's, Virginia's rail transportation network has evolved to better meet the needs of the shipper. Transportation planners now speak of adjacent rail and highway systems as "transportation corridors". Each system performs a specific service of the total transportation network. Planners realize that adequate rail service can relieve burdened highway systems by providing additional capacity to adjacent transportation facilities. As railroads analyze their marginally profitable rail lines as compared to their entire rail system, these lines are sold to a short-line operator or the track is abandoned. A short-line railroad is a non-mainline track segment that usually serves several industries and maintains a low traffic volume as compared to a mainline railroad operation. These short-line segments can usually be operated efficiently by small rail operator not burdened by the cost of labor and corporate administrative costs. In some cases, a non-viable rail line proposed for abandonment may be taken over by a public body to preserve the rail service for a local industry that could not operate without rail transportation. In response to abandonments and the need to preserve right-of-ways for future use, federal and state agencies developed guidelines to analyze potential abandoned short-lines for viability.

Recognizing the need for continued service in some areas, federal and state programs were put into place to provide public assistance for the continued improvements to rail facilities on short-line railroads. Virginia utilizes its Rail Preservation Program to assist eight short-lines in the Commonwealth. Under this program, the rail service must have a benefit cost ratio of 1.0 or greater in order for the short-line to qualify for public assistance. The eight short-lines in Virginia have an average benefit cost ratio of 2.5. The Rail Industrial Access Program (RIA) assists economic development by offering rail access to industrial sites. Both Rail Preservation and RIA enhance and assure a transportation alternative and spur economic development to areas of the state which may not have existed without public support.

As short-line railroads were created, the ever-changing need resulted in many forms of ownership. There are five types of short-line ownership identified in this report. These types range from private ownership and private operation without public assistance to public ownership and public operation with state assistance. The eight short-line railroads in Virginia fall into two categories 1) private ownership-private operation with public assistance, and 2) public ownership-private operation with public assistance.

This study analyzed short-line ownership and issues and identified the need for continued support and technical assistance to aid short-line railroads to achieve an optimum level of operation. It is the goal of the Department of Rail and Public Transportation (DRPT) to bring these eight short-lines under the Rail Preservation Program to the optimum level of ownership; private ownership-private operation without public assistance. Based on this review, the following recommendations are offered:

Rail Preservation: DRPT's Rail Preservation program has established priorities to retain service where justifiable, provide financial assistance where feasible, and to assist short-lines in achieving the optimum level goal of becoming private ownership-private operation without public assistance. The Rail Preservation Program should be continued at its current level of funding to assist the short-line railroads in achieving optimum efficiency. Each short-line should be evaluated individually. After analysis, if long-term viability or a benefit-cost greater than 1.0 is determined not to be achievable, then the short-line should not receive public funds.

Rail Industrial Access: The DRPT Rail Industrial Access Program should be continued to foster growth and industrial opportunity for otherwise non-accessible rail areas. This program provides another tool for local jurisdictions and the state to compete for industrial development.

Rail Marketing: DRPT should continue to work with its sister agencies to promote economic development in Virginia. Efforts to continue to assist all railroads in Virginia in their quest to market their facilities in the economic development arena should continue. Short-lines should work with the Class I railroads to improve their marketing efforts and services.

INTRODUCTION

THE VIRGINIA SHORT-LINE RAILROAD STUDY

THE GENERAL ASSEMBLY'S REQUEST

In the FY 1998 Budget Bill, Chapter 464, the General Assembly of the Commonwealth of Virginia passed the following legislation:

> "The Secretary of Transportation shall study alternative forms of operation, lease, or ownership of short-line railroads in Virginia, and make recommendations that would foster and encourage the long-term economic self-sufficiency of such railroads." (Item 514 D of Chapter 464, 1998 Virginia Acts of Assembly)

To achieve this task, the Secretary of Transportation requested the Department of Rail and Public Transportation (DRPT) to develop a scope of work and assist in data gathering and summary of findings. As a result, DRPT used the following scope of work:

1. Identify study group and conduct on-site interviews of short-line operators.
2. Evaluate historical transportation trends, regulations and developments of railroads.
3. Identify the types of short-line ownership and issues by category.
4. Summarize efforts to retain economic viability.
    a. Virginia's efforts to maintain economic viability.
    b. Publicly funded short-line rail programs.
    c. Private and public economic development initiatives for short-lines.
    d. Marketing and assistance to short-lines by longer haul Class I railroads.
5. Prepare report and study findings.

STUDY FINDINGS

THE EVOLUTION OF VIRGINIA'S SHORT-LINE RAILROADS

Rail planners use the 1970's as the turning point of America's rail network. Goods and services once fully delivered by rail are now in parts delivered by other transportation modes, leaving bulk commodities or larger than truckload commodities being delivered by rail. In the period 1970-1980, 10 Class I railroads, or 20% of the industry, went into bankruptcy affecting dedicated rail service in 30 states. Bankruptcy proceedings followed the truncation of rail corridors for residual asset reclamation. From 1970 to 1996, 142,114 U.S. track miles (45%) were abandoned. The total 1970 Virginia rail network mileage was approximately 4,021 miles. Of the 4,021 miles, 1,071 miles (27%) were classified as lines with light density rail service. A light density line is one that carries less than 5 million gross tons-miles on an annual basis. Since 1970, 716 miles (76%) of the 1,071 miles of Virginia's light density lines have been abandoned. This trend of rail mile reduction was observed nationally and accelerated following the passage of the Staggers Act of 1980. The Staggers Act deregulated the U.S. rail industry and allowed for the continuance of rail service on the basis of the line's ability to generate revenue to support its existence. Railroads were no longer required by law to operate parallel lines and marginally profitable branch or "short-lines" that had proven not to be a viable asset to the rail network. A short-line railroad is a non-mainline track segment that usually serves one or more industries and maintains a low traffic volume as compared to a mainline railroad operation. Short-line segments can usually be operated more efficiently by a small rail operator not burdened by the cost of labor and corporate administrative cost assessments. Larger Class I railroads' employee groups are very "trade" specific in the duties that employees may perform. For example, Class I locomotive engineers can operate locomotives but cannot change light bulbs in the station or wayside signals while short-line employees can perform many tasks without restriction, resulting in a more efficient operation. Many times, the administrative burden and trade specific employee restrictions prevent revenues generated by Class I short-line segments from meeting the bottom line. Under the current law, marginally profitable lines and lines that have seen no local service for a period of two years are eligible candidates for the abandonment review process.

The Regional Rail Reorganization Act of 1973 and the Railroad Revitalization and Regulatory Reform Act of 1976 were responses to identified need to continue rail operations on marginally profitable light density lines. At the national level, states were encouraged to begin rail planning activities to assist in the identification of a national rail need. Through the newly organized national rail planning network, federal, state and local public and public/private initiatives were put in place to assist in the retention of rail corridors identified. The rail planning process provides for the comprehensive analysis of all rail lines and has established a mechanism for determining the need for rail service. Not all rail lines can be saved from abandonment. Lines without sufficient use or economic viability are usually abandoned.

Each year, railroads internally analyze their owned or operated lines. Traffic trends are tracked and evaluated. The system diagram map is a critical tool in the evaluation process. A system diagram map is produced annually by each of the Class I railroads. On this map, traffic density (tonnage hauled) is noted for each line. Lines with less than .3 million of gross ton-miles per mile annually are identified. Railroads note lines as potential for abandonment within three years. National and state rail planners flag these lines and begin to track the trend for further decline.

Short-line railroads are important to Virginia's economic development. Virginia has seen a resurgence of heavy industry such as co-generation applications in rural areas requiring rail service. Marginally profitable lines may be important to localities and have the potential to become economically viable for small or short-line railroad operations. Rail abandonment of marginally profitable lines impact shippers and industry as they find themselves without an alternative transportation service which might have been saved if some improvements had been made or a different operator had been secured. Localities and small operators often cannot support the full cost of initial purchase and rehabilitation. Financial assistance can mean the difference between saving the line and abandonment.

For Virginia, an inventory of shippers and potential market growth is conducted on lines identified for potential abandonment. The Federal Railroad Administration (FRA) guidelines for a benefit-cost analysis were adopted by DRPT in the analysis of lines identified for potential abandonment. A benefit-cost ratio is calculated and compared along with the impact on the local economy provided rail service ceases. A benefit-cost ratio of greater than 1.0 for a light density line indicates that the line is a candidate for rail assistance provided that a new operator is found. A short-line is then created. Rail lines that cannot achieve a benefit-cost ratio of greater than 1.0 and where no venture operator can be located are usually abandoned with right-of-way property being identified for other uses. Abandoned rights-of-way, in some cases, become recreational trails, highways, utility corridors, or are returned to the original property owners. For short-lines that are created and achieve a benefit-cost ratio of greater than 1.0, the Rail Preservation Program administered by the Department of Rail and Public Transportation can provide assistance. Established in 1990, the Rail Preservation Program is a viable program that provides assistance for repairs and improvements to short-lines that have suffered from deferred capital maintenance. The Rail Preservation Program also provides assistance for new rail construction of short-lines.

Based on national study, rail service is an important part of our national transportation system and has proven to be a safe, economical, and energy-efficient form of transportation. Heavy and bulk service plays an important role in economic development, particularly in rural areas where rail abandonments are more pronounced. The loss of viable light density short-lines could be damaging to Virginia for several reasons. Short-lines accommodate local freight services and are instrumental in the economic development of various sections of Virginia. Virginia short-lines serve over one hundred businesses and industries. Many short-lines serve rural areas and provide the only means of transportation for shippers. Rail freight transportation provides relief to highway systems by transporting heavy and bulk freight relieving highway stress and increasing corridor capacity along and on primary and secondary roadways and urban streets. In many cases, railroads perform a vital service to Virginia's agricultural industry by transporting bulk commodities which cannot be transported effectively by other modes.

Marginally profitable short-lines under Class I railroad operations may at times operate at a greater return if operated by a Class III or short-line railroad operator. Class I railroads usually maintain a higher administrative burden than short-line railroads. Short-lines also operate at lower, mostly non-union, wage rates. Shippers on short-lines benefit from the personal one-on-one contact with the local short-line operator. For these reasons, the U.S. rail industry has observed an increase of short-line operations as Class I operators seek to maximize their operating ratio and return on investment.

As rail lines were abandoned and short-lines were realized, many forms of short-line ownership have resulted due to the ever-changing needs of shippers and transportation resources. The most efficient and most desired level of ownership to achieve is that of private ownership with private operation without public assistance.

TYPES OF SHORT-LINE OWNERSHIP

Rail line abandonments found industries and local governments working cooperatively to maintain a viable transportation option. As a result, short-line ownership in many cases is not solely private or owned by a Class I operator. Short-line ownership can be broken into five categories; Private Ownership - Private Operation without Public Assistance, Private Ownership – Private Operation with Public Assistance, Public Ownership – Private Operation without Public Assistance, and Public Ownership – Private Operation with Public Assistance, Public Ownership – Public Operation with State Assistance.

Private Ownership – Private Operation without Public Assistance, the ultimate goal for optimum efficiency.

This form of ownership is the most self-sufficient without dependence on federal, state, or local public assistance. Railroads classified as private ownership and private operation without public assistance are operated on the basis of their viability and capability to offer investors adequate return on their investment. All Class I main line railroads in Virginia are classified under this type of ownership. Although some of the short-lines are close to this achievement, none of the Class III railroads studied are placed in this category.

Private Ownership – Private Operation with Public Assistance, an incremental step in achieving optimum efficiency.

This form of ownership is usually common to marginally self-sufficient short-lines allowing for private enterprise to exist with some federal, state, or local public assistance. Private ownership and private operation with public assistance is the level of ownership for seven of the eight Rail Preservation short-lines operating in Virginia. Public assistance is provided to assure the preservation of the rail corridor through the application of funds to projects that perform deferred maintenance and rehabilitation/upgrade on track and related facilities. As rail lines move toward being self-sufficient, they will require less public assistance.

Public Ownership – Private Operation without Public Assistance, the preservation of a rail corridor while a private operator maintains the responsibility for all infrastructure and operating needs.

This form of ownership is unique. Many times a rail corridor is acquired by a public body to generate long-term stabilization of a local economy or the public body speculates that the corridor must be preserved for future economic development be it rail, rail-related industrial development, or a form of public utility right-of-way. As the local economy changes, the need for rail service resurfaces and proves to be self-sustaining. The public body, although desiring to retain ownership control over the corridor, may wish not to be involved in the direct day-to-day operations of a railroad. As a result, a lease or operating agreement can be made between the public body and a private operator. Low lease costs allow for the operator to focus on maintenance and facility growth. In addition to rail use, rail development, and retention of public ownership, the corridor may be used for many public applications such as placement of public utilities and new road or trail construction in the event of rail line abandonment.

Public Ownership – Private Operation with Public Assistance, the preservation of a rail corridor while a private operator maintains the responsibility for all infrastructure and operating needs with public assistance.

Study finds it common for this type of ownership to result from the catastrophic loss of a rail line due to a natural event like a flood or unplanned severe rehabilitation need. The infrastructure improvements to reopen the line outweigh its short-term viability or the line had no other potential buyer when it was previously abandoned. Major public assistance is levied to bring the short-line back into service. One main difference to public ownership with private operation without public assistance is that public monies are provided for the rehabilitation or operation of the short-line. Retention of public ownership enables the corridor to be used for many public applications such as placement of public utilities and in the event of rail line abandonment, new road or trail construction

Public Ownership – Public Operation with State Assistance, the preservation of a rail corridor where the private operator has either failed or the line is not viable to sustain private operation.

Like the two previous public ownership categories, a public body retains ownership. In this scenario, the rail line is publicly operated, with the state providing assistance for corridor improvements and other capital needs. Public ownership/operation with state assistance is the most public dependent of all forms of ownership. This type of operation may work in some cases, but where there are multiple shippers and contracts, the disclosure of certain confidential information regarding private businesses must be prevented.

Ownership of Virginia's Short-line Railroads

Short-line railroad ownership in Virginia can be broken into two categories, public ownership-private operation with state assistance and private ownership-private operation with public assistance. Each ownership category has specific issues; however, car availability, reliable Class I interchange, and competitive rates are common operating issues identified in all categories.

Public Owned and Private Operated Railroads with State Assistance – The Eastern Shore Railroad

The Accomack-Northampton Transportation District Commission (ANTDC) owns the stock of Canonie Atlantic, Incorporated. Canonie Atlantic owns the rail facilities of the Eastern Shore Railroad (ESHR). The ESHR was acquired when its previous owner, Canonie, Incorporated, could no longer operate the rail line at a profit. The ESHR operates the railroad. Through this public ownership of Canonie, the ANTDC has exercised its ability to acquire public bonding for the purchase of the railroad's real property needed for rail operations.

Issues – Public owned railroads are usually created after determining the essential need of maintaining rail service to a particular rail corridor. This rail service will assist in meeting the essential need to retain industry and to stabilize the local economy. Public entities are formed to own, subsidize, or operate transportation services that lack the ability of self-sustenance to support a private owner. Based on analysis, these lines prove to be of vital importance in local economic stability. One of the largest public ownership issues for achieving the economic viability of short-lines is the relief of public debt. Public entities have the power to levy bonds and other forms of public debt to purchase short-lines. The efficiency of short-line operations is diminished by the lack of cash flow to meet financial obligations. At times, decision-makers are not railroad experts but appointed political representatives serving on the local public agency or commission board. In these cases, outside employees must be hired.

Private Owned and Private Operated Railroads with Public Assistance– The Buckingham Branch, Winchester and Western, Shenandoah Valley, Virginia Southern, North Carolina and Virginia, and Chesapeake and Albemarle Railroads, and the Commonwealth Railway.

Of the seven privately owned short-line railroads studied, five are owned by private corporations, one is family owned, and one is owned by a partnership consisting of two corporations and a local development corporation. Uniquely, the Virginia Southern Railroad, the Chesapeake and Albemarle Railroad, and the Commonwealth Railway are operating all or in part on leased trackage owned by Norfolk Southern and leased to a private short-line operator.

Issues – Private Corporations, Family Owned, and Partnership Owned

Private Corporations have many reasons for owning short-line railroads. In many cases, railroads are either owned for investment/venture or to allow the parent corporation the opportunity to serve its own industry. Although most railroads within this ownership category have their own staff while being a subsidiary of larger corporations, decisions are usually made to the bottom line with investors anxious to receive an adequate return on investment. In many cases, maintenance and other essential services may be deferred, allowing future infrastructure need to mount. A limited customer base alters the versatility of the rail line, which at times limits the ability to market new customers. In the case of customer ownership to serve its own industry, like a mining company, the short-line is operated as a cost center without the viable options that many of the non self-serving short-lines have. New business opportunities located on the short-line would stabilize revenue traffic during off periods.

Family Owned short-lines are unique in today's railroad environment. Family owned railroads do not enjoy benefits of large corporations such as financial stability, buying power, and equipment availability. Family owned short-lines must be truly self-sufficient, for there is neither corporate umbrella nor other driving source of funds to make the bottom line.

Partnership Owned short-lines usually result from industrial partners in an area collectively joining to retain rail service. Partnership ownership is defined by percentage of each member of the partnership. An important issue is that major infrastructure capital contribution is assessed to each partner by percentage of ownership. If one partner lacks the cash flow to meet group agreed commitments, the entire partnership may fold, leaving all parties responsible, by percentage, for their share of the debt. In some cases, the partnership consists of the shippers located on the rail line. As in the self-service corporate ownership profile, the partners are the shippers and tend to make decisions knowing that rail improvements will create higher rates and a lower return in their investment. Maintenance and other essential services may be deferred, allowing future infrastructure need to mount.

EFFORTS TO MAINTAIN ECONOMIC VIABILITY

Virginia's Role in Identifying Short-line Freight Rail Need - In 1991 (SJR 188), in 1994 (SJR 240) and again in 1997 (HJR 160), DRPT studied the needs of Virginia's short-lines. The goals of these studies were to evaluate current short-line rail facility conditions and identify line segments requiring update or stabilization due to deferred maintenance and the upgrade of current bridge and related facilities to accomplish the increasing load weight requirements of today's rail freight cars. A 20-year planning horizon was established with criteria to bring the identified rail sections and facilities to a FRA Class II Safety Standard. Working with the Secretary of Transportation, three need scenarios were outlined and reported in July, 1997 to the Commission on the Future of Transportation in Virginia. Under Scenario 1, an annual rail freight service need of $4.6 million was identified. A progressive program need for funding annually for Scenario 3 was $51.66 million The comprehensive findings of this report were communicated to the Governor and the General Assembly as part of House Document No. 12 during the 1998 session.

Publicly Funded Short-line Rail Programs

Virginia's Rail Preservation Program - The mid 1980's marked thirty years of change in modal choices for the transportation of goods and services. Containerization and short/long haul trucking had proven itself as a new way to handle finished and some raw products. Most short-line railroads remained due to the unique transportation service that only a railroad could provide. Bulk tonnage and heavier than truckload shipments would be the new mainstay to short-line operations in Virginia. Many short-lines provided the only means for industry to receive or ship products to market. Without the rail service, the loss of industry could prove fatal to the local economies of Virginia's communities. Maintaining an effort to promote economic stability through its transportation initiatives in Virginia, the Commonwealth Transportation Board (CTB), on December 21, 1989, directed the now Department of Rail and Public Transportation to develop a comprehensive policy for the purchase, rehabilitation, and preservation of rail corridors potentially subject to abandonment or vital to the economic stability of an area. In the establishment of the Rail Preservation Program, policies and procedures were developed. In keeping with the comprehensive rail planning process established nationally during the 1970's, a benefit-cost analysis was incorporated as part of rail line evaluation for Rail Preservation funding. A benefit-cost ratio is calculated and compared along with the impact on the local economy provided rail service ceases, is sold/leased, or becomes marginally profitable. A benefit-cost ratio of greater than 1.0 for a light density line indicates that the line is a candidate for rail assistance. Rail lines that cannot achieve a benefit-cost ratio of greater than 1.0 are not recommended for funding. Virginia's Rail Preservation short-lines average a benefit-cost ratio of 2.05. Funding for the Rail Preservation Program provides a 70% state and 30% local match for each grantee. Following the establishment of policies and procedures, the Rail Preservation Program was funded in the 1990 Acts of the General Assembly. The Rail Preservation Program began with a fund balance of $500,000 (FY91) and was increased to an annual allocation of $3,000,000 in the 1998 Acts of the General Assembly. Over time, Rail Preservation funds have been provided to perform rehabilitation and deferred maintenance on short-line track, bridges, and ancillary facilities. On a case-by-case basis, Rail

Preservation funds have been provided to assist in other capital improvements to the railroad. Following Hurricane Fran, Rail Preservation funds were used as emergency relief to re-establish rail service to 29 miles of track and lost service to shippers that may have otherwise not been rebuilt. The Rail Preservation Program has and continues to be a model for other states. A summary table of Rail Preservation Program funding over time is contained in the Appendix, Table 1.

Virginia's Industrial Access Railroad Tracks Program - Under Section 33.1-221.1:1 of the Code of Virginia, 1987, the General Assembly authorized the Industrial Access Railroad Tracks Program (RIA). RIA was established to encourage industrial or commercial development in the Commonwealth by offering a transportation mode presence for certain businesses that could not otherwise locate in an area without rail service. In the development of the policies and procedures of the program, a scoring system was set to evaluate all potential projects. Scoring of potential projects calls for evaluation of the number of carloads generated, capital investment in Virginia, jobs created, comparative unemployment rate of the locating area, location on a main or short-line, and inclusion of the project as an initiative of the Governor to promote industrial development in Virginia. RIA has been a successful tool in promoting economic development in Virginia and rail access to areas otherwise not served. Each funded project allows for the first $100,000 of state participation to be unmatched with the following $50,000 of state participation matched dollar-for-dollar by the industry. RIA funds are restricted to no more than $300,000 within each jurisdiction annually. From FY 1987 to FY 1998, $12,138,601 of RIA funds have been used to help spur $3,195,347,767 of private capital improvement. For every dollar of RIA funding, Virginia has seen a return of $263 of private capital improvement. A summary table of the RIA program over time is contained in the Appendix, Table 2.

Federally Funded Rail Programs – Several programs were created at the federal level promoting the preservation of freight rail corridors. Until 1994, Virginia utilized federal funds under the Local Rail Freight Assistance Program (LRFA). Allocated since the 1970's through Virginia by the FRA, LRFA funds were used by DRPT to rehabilitate the sections of the Eastern Shore and the Shenandoah Valley Railroads and construct a coal unloading facility for Virginia State University when it lost direct rail service. LRFA funds could be matched with Virginia Rail Preservation funds which increased public resources and reduced local burden for large projects otherwise not achievable by the railroads themselves without federal and state assistance. Under the Federal Transportation Efficiency Act for the 21st century (TEA 21), a new federal rail assistance short-line pilot grant and loan program was identified; however, FRA policies and procedures are still in the development stages.

Private and Public Economic Development Initiatives for Short-lines

Class I Short-line Support – Class I railroads realize the importance of short-line railroads. They generate longer haul traffic and can carry out expensive switching operations at the beginning or the end of the line haul. Uniquely, due to the nature of short-lines, a more effective contact is maintained with the shippers served. As a result, both CSX Transportation and Norfolk Southern have established short-line support services to assist short-lines in negotiating rates, contracts, service options, and act as an overall liaison between the Class I railroads and the short-line operators. Part of each Class I short-line program includes an annual meeting of all short-line customers. These separate annual meetings allow for dialogue between the short-lines and the Class I. Marketing and other operation seminars are held during the annual meetings. A positive aspect of this support program is that Class I railroads have a better understanding of the needs of the individual short-line customers enabling them to make better judgement in times when special needs or circumstances arise.

Norfolk Southern's Long Lease Program Provides Viability to its Marginal Branch Lines - During the 1980's the Class I railroads began to assess the operation of its branch line rail sections. The analysis identified that certain branch lines, although a vital asset in generating traffic for main line service, were costly to operate. One Class I railroad, Norfolk Southern (NS), adopted an operating plan of converting identified marginally viable branch lines into short-line operations through a lease to operate program. This program resulted in NS retaining ownership of the rail line with another private operator operating the line under a long-term lease agreement. The structure of this lease program allowed for marginally profitable lines under Class I operations to be operated by short-line operators at a lower overhead rate. Short-line operators, for the most part, do not pay union wages and operate generally at a lower overhead burden than that of a Class I operation. A long-term lease agreement with a short-line operator provides for extended rail service for the corridor.

Public Initiatives – Virginia's Rail Industrial Access Program and The Virginia Economic Development Partnership and The Virginia Department of Business Assistance – Attracting industry to Virginia is the key to economic development. Providing modal choices is a key base for economic development for all areas of Virginia. Many times, economic development professionals at the state level are the first line of contact in bringing rail served industry into Virginia. Short-lines lack the resources to market their rail services and developable properties along their lines. Bringing rail service providers to the negotiating table of new industry is essential for rail served industrial development in Virginia. Resulting from this study process, DRPT has initiated an effort to list all of the developable parcels and short-line industrial sites with the Virginia Economic Development Partnership's database. The Virginia Economic Development Partnership, through its database, maintains a record of all existing or potential industrial sites located on short-lines.

DRPT, through its Rail Industrial Access Program, works aggressively with all railroads and the Virginia Economic Development Partnership to attract new industry requiring rail service. DRPT also works to retain and expand existing industry through its RIA efforts in conjunction with the Virginia Department of Business Assistance. Through project selection and evaluation, the RIA program assesses 10 additional points to an industry's score that is locating on a short-line. DRPT will continue to assist its Rail Preservation short-lines in maintaining an accurate listing of properties in this database.

CONCLUSION OF STUDY FINDINGS

Virginia's short-lines are a viable asset to the Commonwealth's transportation network. Through the services they provide, Virginia's mining, chemical, timber, agriculture, electrical power, and other heavy industry flourishes in areas where it would otherwise not be sustained.

Virginia, through DRPT's rail programs, has established priorities to enhance or retain service where justifiable, provide financial assistance where feasible, and to assist short-lines in achieving the optimum level goal of becoming private ownership-private operation without public assistance.

Under the current ownership and operating classification, Virginia's privately owned and operated short-lines maintain operational condition due to good operating practices and public assistance provided through DRPT's rail programs. The Rail Preservation Program has been a lifeline to short-line operations as they try to maintain a service level with an aging infrastructure. Only three of the eight short-lines operate at above Excepted FRA safety class trackage. The benchmark established for the Rail Preservation Fund is to bring all preservation short-lines to a FRA Class II safety standard. The Rail Industrial Access Program has provided a conduit to establish rail service to industrial sites along short-lines. The Federal LRFA Program, now under redevelopment, has been a vital source of funding in re-establishing rail service on the Shenandoah Valley Railroad. The ESHR, Virginia's only public owned and privately operated short-line, which receives State assistance, has recently restructured its management and board leadership. ESHR at this time is not self-sufficient and will need financial assistance from the State until there is either an increase in traffic or a reduction in its financial obligations. An increase in traffic will come through a cooperative Class I effort following the Conrail Acquisition. ESHR could be marginally self-sufficient with the continued assistance of the Rail Preservation Program. Through the interview process, DRPT found that short-line operators were successful in operating a railroad but lacked the time and resources to promote and attract new shippers to their rail lines. In addition, rail operators face new challenges daily through deferred maintenance, preventative maintenance, and working to improve their rights-of-way and structures to meet the new 286,000 pound car weight standards being established by the Class I main line railroads. Most bridges on Virginia's short-lines are rated at 235,000 pounds or below.

STUDY RECOMMENDATIONS

Virginia, by law, cannot dictate the ownership of railroads; however, the state can work collectively with the short-line owners and operators to achieve optimum efficiency through its rail programs and economic development initiatives. Through this study report, DRPT has noted that the most efficient short-line is one of total private ownership and operation without public assistance. Resulting from analysis and interviews from the railroads, the highest level of ownership many short-lines in Virginia could achieve would be total private ownership and operation with some state or public assistance. With this theory, the following recommendations can be made.

Rail Preservation

The DRPT Rail Preservation Program should be continued to preserve rail corridor service and allow for the economic growth of the regions these short-lines serve. Rail Preservation has established priorities to retain service where justifiable, provide financial assistance where feasible, and to assist short-lines in achieving the optimum level goal of becoming a private ownership-private operation without public assistance. Each individual short-line should be evaluated individually. After analysis, if long-term viability or a benefit cost greater than 1.0 is determined not to be achievable, then the short-line should not be funded using public funds. At its current rate of $3.0 million per year, the Rail Preservation Program will fall short $1.6 million annually when compared to the needs of the ten-year short-line planning horizon. As noted, the Rail Preservation Program is a 70/30 match program. The study's on-site interview process found short-line operators comfortable with matching the annual $3.0 million. The current $3.0 million funding level will extend the program over time as DRPT works with the short-lines to move them towards optimum efficiency.

Rail Industrial Access

Economic development is critical to Virginia's growing economy. The DRPT Rail Industrial Access Program should be continued to foster growth and industrial opportunity for otherwise non-accessible rail areas. With competition for industry among states so intense, offering rail access funding to new industry entices new development and fosters growth to the railroad, the locality, and the State. RIA also assists in retaining industry in Virginia by allowing for the upgrade or extension of existing rail sidings to enable rail access to established and growing industry. DRPT will continue to work closely with other State agencies to prepare benefit packages to attract new industry or encourage growth of current industry into the Commonwealth. This program is helpful to Virginia's short-lines. DRPT will continue to work to bring rail to the negotiating table in attracting new business and industry in Virginia through its contacts and meetings with economic development professionals.

Rail Marketing

Resulting from the on-site interviews of short-line operators, it was found that short-line operators do not have the time or resources available to appropriately market their rail line to new shippers. Class I railroads should continue their efforts to train the short-line operators they serve through marketing training seminars held at the annual Class I short-line meetings. DRPT will continue its efforts to assist the Class I, II, and III railroads in their quest to market their facilities in the economic development arena.

During this study period, DRPT began working with the Virginia Economic Development Partnership, Virginia Department of Business Assistance, local industrial development authorities and economic development corporations, and the short-line operators to identify developable parcels of land that could have rail access. The parcels identified along short-lines were entered into the statewide database of rail served parcels maintained by the Virginia Economic Development Partnership. DRPT will continue its efforts to support rail development through the periodic Virginia Railway Association meetings and its constant contact with state and local agencies supporting the economic development of Virginia and its many local jurisdictions.

APPENDIX

TABLES 1and 2

TABLE 1

RAIL PRESERVATION PROGRAM
FUNDING BY FISCAL YEAR
1991-1999

FISCAL YEAR	FUND AMOUNT
1991	500,000
1992	250,000
1993	500,000
1994	1,000,000
1995	1,000,000
1996	1,500,000
1997	1,500,000
1998	1,500,000
1999	3,000,000

TABLE 2

RAIL INDUSTRIAL ACCESS PROGRAM
FUNDING BY FISCAL YEAR
1987-1998

FISCAL YEAR	PRIVATE INDUSTRY CAPITAL OUTLAY	RAILROAD CARLOADS GENERATED	CTB ALLOCATION
1987	$115,900,000	1,089	733,408
1988	97,300,000	922	726,500
1989	76,467,000	4,037	1,060,000
1990	229,980,000	5,157	882,907
1991	660,847,000	9,952	943,250
1992	383,500,000	11,290	400,000
1993	127,600,000	5,880	402,900
1994	128,200,000	9,120	753,445
1995	504,250,000	25,835	2,172,195
1996	624,665,000	8,110	1,944,000
1997	199,571,100	9,705	1,021,400
1998	47,067,667	11,500	1,098,596