



SEDA-COG JOINT RAIL AUTHORITY SPECIAL MEETING
WEDNESDAY, JULY 22, 2015
BAYLOR ROOM
BEST WESTERN/COUNTRY CUPBOARD INN
LEWISBURG, PA
12:30 P.M.

**PRESERVING
RAIL FREIGHT
SERVICE**

serving the counties of

Centre
Clinton
Columbia
Lycoming
Mifflin
Montour
Northumberland
Union

AUTHORITY MEMBERS

Stephen Bridy, Northumberland County
Frank Dombroski, Montour County
Russ Graham, Centre County
John Gummo, Clinton County
Scott Harvey, Lycoming County
Tom Herman, Montour County
Rick Jenkins, Columbia County
Brent Jones, Clinton County
Michael Krentzman, Mifflin County
Dave Park, Columbia County
Rob Postal, Mifflin County
Don Purcell, Northumberland County
John Spychalski, Centre County (via speaker phone)
Jerry Walls, Lycoming County
Eric Winslow, Union County

JRA OPERATOR

Tom Avery, Director of Operations
Nate Blanchard, Customer Service Manager
Loni Briner, Local Customer Service Rep/Media Manager
Todd Hunter, Director of Marketing
Joe Kantz, Marketing Rep
Gary Shields, President
Jeb Stotter, Vice-President
Diana Williams, Treasurer/Controller

GUESTS

John Ashbridge, Carload Express
John Blaschak, Fisher Mining
Al Bubb, West Shore Railroad
Rick Dandes, The Daily Item
Tom Ferencs, Standard Steel
Bob Garrett, Greater Susquehanna Valley Chamber of Commerce
Stephen Hall, Esq., Burns, White, LLC
Mike Hawbaker, Glenn O. Hawbaker
Fred Heimbach, PA Rail Transload, LLC
John Hilton, Standard Steel
Lisa Hoover, Anthracite Industries
Matt Keller, Universal Well Services
Ernie Larson, Lycoming County Commissioner

**SEDA-COG JOINT
RAIL AUTHORITY**

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Affiliated with
SEDA Council of Governments

Don Lundy, Lundy
Randy McKillop, PA Transload, LLC
Wayne Michel, Reading & Northern Railroad
Mark Murawski, Lycoming County Planning Commission
Craig Olson, Drug Plastics
Russell Peterson, Carload Express
Jeff Pontius, Penn Valley Railroad, LLC
Al Rutz, Koppers Inc.
David Schultz, Jersey Shore Steel/South Avis Realty
Jack Schultz, Jersey Shore Steel/South Avis Realty
Pete Schultz, Jersey Shore Steel/South Avis Realty
Dennis Shaffer, Reading & Northern Railroad
Jeff Snyder, Clinton County Commissioner
Pete Smeltz, Clinton County Commissioner
Richard Staiman, Staiman Recycling
Jennifer Wakeman, WKOK Radio
Josh Yagel, Universal Well Services

LEGAL COUNSEL

John Bee, Esq., McQuaide Blasko
Tom Schrack, Esq., McQuaide Blasko
Michael Crotty, Esq., Siana, Bellwoar and McAndrew, LLP

JRA CONSULTING PROFESSIONALS

Dan Mazur, Operating Agreement Consultant

JRA STAFF

Kay Aikey, Program Assistant
George Fury, Property & Maintenance of Way Manager
Jeff Stover, Executive Director

CALL TO ORDER

Call to Order

Chairman Walls called the meeting to order at 12:30 p.m.

Pledge of Allegiance

Chairman Walls led the Pledge of Allegiance.

Introduction of Board members, JRA staff and guests.

Welcome – Chairman’s Statements

Chairman Walls stated that the use of audio or video recording devices at the public meeting is permitted. The Authority does not require pre-registration for recording purposes; however any individual intending to record all or any part of the meeting must notify the Chairman or the

Executive Director in advance of such recording. If the Authority recesses to Executive Session, no recording of that session shall be permitted.

Chairman Walls asked if anyone would be recording the meeting. Mr. Michel of Reading indicated that he will be recording the meeting.

Chairman Walls stated that the purpose of the meeting is to discuss the RFP process and to address concerns that any number of parties may have.

ADMINISTRATIVE ITEMS

Public Forum

Chairman Walls opened the floor for public comment.

The following guests were recognized by the Chairman and rose to make comments:

Mr. Jack Schultz from Jersey Shore Steel/South Avis Realty: Mr. Shultz stated that Jersey Shore Steel is located on the Lycoming Valley Railroad and has a steel re-rolling mill that is served by rail and also a business that was developed several years ago that serves the Marcellus Shale industry. Jersey Shore Steel is a fairly substantial user of the Lycoming Valley Railroad and received in excess of 3,000 cars a year ago for the two companies. Mr. Schultz stated that he served on the JRA Board several years ago and recognizes the difficult decisions that need to be made. Mr. Schultz wanted to reinforce their very strong satisfaction with the services provided by the North Shore Railroad and Lycoming Valley Railroad. They are very pleased with the relationship currently and are a strong supporter of the continuation of the service to be provided by the incumbent North Shore Railroad.

Mr. John Hilton of Standard Steel: Mr. Hilton stated that Standard Steel is located in Burnham and is serviced by the Juniata Valley Railroad. Mr. Hilton echoed some of the same comments made by Mr. Schultz and stated that Standard Steel is extremely satisfied and happy with the service provided by North Shore Railroad. Standard Steel has been around since 1795. This year Standard Steel will probably ship 300,000 railroad wheels and 85,000 railroad axles to its customers, and will receive approximately 275,000 tons of scrap that will be used to make the wheels and axles. Standard Steel's competition for wheels is well outside the boundaries of Pennsylvania; one competitor has five locations – four in the U.S. – Ohio, Iowa, Kansas City and one in Canada. The biggest concern that Standard Steel has is significant revenue growth and significant spending on the railroads. Obviously if that revenue growth comes from new business and new customers, that is one thing, but if that revenue growth and the money spent to upgrade services and tracks comes from increased rates to existing customers, that is a big issue and problem for Standard Steel. Rate increases will make Standard Steel less competitive. The customers of Standard Steel are forcing Standard Steel to equalize freight to the competition which could mean as much as a \$20-25 increase cost to every railroad wheel that is shipped by rail. This will make Standard Steel less competitive, potentially cost Standard Steel business and if business is lost, it will affect the employment level. Standard Steel strongly supports the service and the continuation of North Shore Railroad to serve the longest probably operating company represented today.

Chairman Walls asked Mr. Hilton to explain the term "equalize freight". Mr. Hilton stated that Standard Steel has a customer in Portland, Oregon and in Mexico and Standard Steel's closest wheel

competitor that is located near this customer is in Iowa. If the customer would ask Standard Steel that to remain competitive the freight must be equalized from Burnham, PA to Iowa and the customer would only pay the freight from Iowa to the locations. That would mean that Standard Steel would pick up the freight cost from Burnham, PA to that location in Iowa which could be \$20-25 a wheel and then that customer would pay for the freight from Iowa to his location.

Mr. Bob Garrett, Greater Susquehanna Valley Chamber of Commerce (GSVCC): Mr. Garrett stated that he serves as the President/CEO of the GSVCC. The GSVCC is pleased to be among the many supporters of the North Shore Railroad. Over the years, the Chamber was one of the inaugural supporters of the creation of the SEDA-COG Joint Rail Authority. The GSVCC has applauded the forward-looking decisions and investments that the Authority's Board and staff have made that have resulted in the preservation of the area's rail service. These actions have played a key role in the economic development and economic prosperity of the entire region. For well over a decade, the North Shore Railroad and its subsidiary rail lines have been the Chamber's critical partners. The Chamber has worked alongside North Shore's staff and management in an effort to recruit and retain businesses in the valley as well as overall transportation-improvement efforts. The JRA provides critical "last mile/first mile" connectivity for rail-dependent businesses in the valley and, through its investments, has helped make the valley highly attractive to companies who are always looking for the most-efficient and lowest-code mode of transportation, that being rail freight, to be available and accessible. Having an exceptional operator, such as the North Shore Railroad, with its clear understanding of business needs along with its proven, and continually-demonstrated commitment to strong customer service is a key ingredient for the entire region's long-term economic growth. North Shore is defined by its "customer service" and has set the "gold standard" upon which all transportation service providers seek to achieve. Mr. Garrett stated that as the Chamber's top officer, he is personally committed to continuing to work closely with the SEDA-COG JRA and the North Shore Railroad's staff and management in advancing the prosperity of commerce, culture and citizens of the region. The Board members of the GSVCC will continue to be ardent supporters and congratulate the JRA in opening up the selection process for its operator to competitive bid, and at the end of the process, will find the best possible operator to be the incumbent North Shore Railroad.

Mr. Don Lundy, Lundy Industrial Realty: Mr. Lundy stated that Lundy is serviced by the North Shore Railroad, and inside of about 18 months, became North Shore's second largest customer. He stated that one of his concerns in this selection process is the increased rail demurrage that will cost Lundy's operations an additional \$1,109,220 annually and another estimated \$80,525 in additional charges for rail switches. Lundy spent \$400,000-\$500,000 on doing hazmat translation and again will be turned around and told that the costs are going to go up \$500 for no reason. No additional services will be received and these are punitive costs against Lundy because Lundy has nowhere to run.

Mr. Matt Keller, Universal Well Services: Mr. Keller stated that Universal Well Services has the ability to deal with a multitude of short lines and can say that North Shore Railroad is Universal's best short line. North Shore has the most competitive pricing and are a true partner in working with Universal. The only reason that it is economically feasible for Universal to be able to bring cars through Williamsport and utilize Lundy's facility is the fact that Universal has cheaper rail rates into there. Universal knows that any punitive raises are going to limit the ability to utilize Williamsport. North Shore is a valued partner and their service has been top notch.

Mr. Al Bubb, West Shore Railroad: Mr. Bubb stated that as a representative to the original JRA Board of Directors, he recalls that all Board members, including those employed by rail users, voted to select

the operator to provide the rail service. Mr. Bubb believes the rail users are the most important stakeholders of the rail service provided to them. They should certainly have the opportunity to participate in the selection process and final vote. Mr. Bubb further believes that to exclude those members employed by rail users amongst the Board would be an injustice. An initial proposer apparently anticipated those members employed by rail users could be biased and support the present operator. It was requested that those members be excluded from the selection process. This has apparently backfired, as the remaining Board members failed to come to a majority vote to select an operator. There is an old axiom: "If it isn't broken, don't fix it!" Is the present operator's service provided to the rail users on the JRA's rail lines broken? Mr. Bubb thinks the answer is negative.

Mr. Jeff Snyder, Clinton County Commissioner: Commissioner Snyder stated he is in opposition and somewhat angered at the fact that six Board members were told they could not vote on a very important matter that has been brought before the JRA. When the JRA was put together two representatives from each county – one being a rail user and one for the general public – was appointed to the Board to represent the counties. When the six Board members agreed to remove themselves from this type of important decision you are not representing your county. Not only do you have a right but an obligation to represent your county and I ask that you participate in this. County commissioners support the businesses. When a county commissioner runs for election, the first thing they are asked is what are they going to do to keep jobs and how more jobs will be brought into the area. The JRA was created for a purpose and it has done what it needed to do over the years to support the area businesses. It's working, don't change it! Continue to do what you have been doing. Do not sit here silent, exercise your right and obligation to be heard.

Mr. Pete Smeltz, Clinton County Commissioner: Mr. Smeltz confirmed the remarks made by Commissioner Snyder. Mr. Smeltz stated he recalls when the rail lines that served the area were abandoned and the impacts of many years later of what has been seen in economic growth through the areas served by the North Shore Railroad in the Bald Eagle Valley between Lock Haven and Bellefonte. It's about jobs and economic growth. Mr. Smeltz stated he consulted with Mike Flanagan of the Clinton County Economic Partnership and rehearsed the history of what has been accomplished in partnership between the JRA and the North Shore Railroad and the positive feedback received over the years. When the Marcellus shale industry came into the area, the North Shore Railroad was very accommodating in bringing in sand shipments into the South Avis area so that sand could be transferred for the purpose of accommodating the Marcellus shale industry.

Mr. Mike Hawbaker, Glenn O. Hawbaker: Mr. Hawbaker stated that Glenn O. Hawbaker has been a shipper on the Nittany & Bald Eagle Railroad since 1994. Glenn O. Hawbaker started off not knowing anything about rail, but with the help of SEDA-COG JRA, the North Shore Railroad and the Nittany & Bald Eagle Railroad, they helped Glenn O. Hawbaker know what they needed to know. Most recently they helped in finding equitable car assets that were needed to support the business. The rail is highly competitive. Glenn O. Hawbaker has a concern over some of the punitive charges with the demurrage and switching fees. Most of Hawbaker's work goes to PennDOT and that is a low bid market. Hawbaker ships material from Central Pennsylvania, basically the Bellefonte/Pleasant Gap area, to the Northern tier – up around Port Allegheny. It is very competitive because there are local resources up there, but of lower quality. Glenn O. Hawbaker is trying to move quality in a manner that it can get there at a competitive price and be a competitive company. Some of the maintenance aspects are of great concern. Mr. Hawbaker stated that he is concerned where the maintenance of way cost is going to go other than it will fall back to the users in paying more per rail mile to move freight. Glenn O. Hawbaker hauls in a lot of inbound salt and that haul is very tight with trucking. Many times orders

have been cut because the rail was not competitive. Mr. Hawbaker said his level of concern is like that of Mr. Lundy – the charges are going to be punitive; they may seem like small dollars, but they are not and they will take you out of business. The service received from North Shore Railroad and the Nittany & Bald Eagle entities throughout the years has been a very positive relationship; they have helped Glenn O. Hawbaker look at other aspects on how to transload more aggregate by rail. They also were very instrumental and so too, the SEDA-COG JRA, with Act 89 in getting intermodal funding passed as part of the whole transportation bill to support the rail community in equitable movement for the foundation of infrastructure in the Commonwealth. Glenn O. Hawbaker supports the existing operator, the North Shore and Nittany & Bald Eagle Railroad.

Mr. Wayne Michel, Reading & Northern Railroad: Mr. Michel stated that he is mostly going to talk about process. He stated by now anyone who has done the analysis knows that the North Shore actually got more first place votes than Carload Express - 6-4. North Shore wasn't the winner because three Board members black balled it. Do you want a decision that three out of sixteen Board members are making to choose Carload Express? You have a tough decision because you have developed a process that you spoke eloquently two weeks ago about the need to follow your process, your need to support the vote of your colleagues even though it is quite clear from the outpouring that there is overwhelming customer support for the North Shore. This is your fault. You have designed, as stated in Reading & Northern's litigation and have claimed for months, a fatally flawed process. You have designed a process because you decided this time to put it out for bid when you did not put it out for bid in the past. You decided to put it out for bid and you didn't go to the Attorney General as they suggested you do in 2011 to come up with ground rules for how to do a bid. You didn't follow Pennsylvania Procurement Law whereby it states that you put it out for bid to the highest bidder. No, you set up a process that allowed you to let every member who could vote do a purely subjective interpretation of the merits of the different bidders. Nothing objective. You sat here a couple of months ago and said you were not qualified to evaluate the operating plans, the maintenance plans, the bridge maintenance plans, the safety record and yet you took it upon yourself to set up this process to judge the merits of these different bidders, not knowing anything about running a railroad. That is the basic flaw. Putting aside all of this language that Jeff wrote to send to the county commissioners to rebut my letter and to rebut the press articles that are going to start coming out, talking about the benefits of privatization, the fact that you can bring \$80 million to the taxpayers. I am astonished that Clinton County would stand up here and say we don't care about bringing \$80 million back to the taxpayers, and that they would think that the rail operation of the North Shore is by definition different than what private enterprise does, the thing that built this country, the thing that every single shipper who testified uses private enterprise. They're not competing with county owned entities; they compete with other private companies like Reading & Northern Railroad competes with other private companies, but also has to compete with a county-owned entity. There is no reason for it. Reading & Northern Railroad offers a guaranteed two-hour service window to every one of its customers that they meet 98% of the time. Reading & Northern Railroad has a lower demurrage rate than the North Shore. Reading & Northern was charging \$20 until a month ago to their \$30. Reading & Northern Railroad offers excellent switch charges. Reading & Northern Railroad goes out of their way for industrial development and give customers rebate to build sidings or we pay for their sidings. Reading & Northern Railroad went out and bought 1,000 coal cars. Reading & Northern Railroad spent millions of dollars on track. Reading & Northern Railroad built a passenger service that handles 70,000 riders a year. How dare you stand there and tell me that Reading & Northern Railroad are less good than the operation of the North Shore? It is not true, and you owe it to yourselves and now is the chance to look into privatizing and bringing back the \$80,000,000. I welcome Gary Shields to make a bid to buy it. Reading & Northern Railroad would love to see Gary put his own money into the

railroad and be the operator; he deserves that opportunity. Reading & Northern Railroad would love if Carload Express did it. Reading & Northern Railroad has no problem with competition, but this is America and you all, including Clinton County and every county, you owe it to the taxpayers to give this an opportunity with privatization. There is two years left on the operation. There is no need to rush to judgment.

Chairman Walls stated that on advice of legal counsel, there is no response to the misrepresentations that have just been made

Mr. Randy McKillop, PA Transload, LLC: Mr. McKillop stated that he is an independent consultant from Harrisburg and speaks on behalf of PA Rail Transloading, LLC, located in Coal Township, on the subject of support of the Shamokin Valley Railroad (SVRR) and the North Shore Railroad. Mr. McKillop stated he has personally been working with PA Rail Transloading LLC and North Shore Railroad for the past 5 years. Their staff and employees have been nothing but professional, courteous and efficient. From the beginning both he and the owners/operators of PA Rail Transloading, LLC were very limited in the knowledge and overall business of a short line and how the railroad system runs itself. Gary, Shields, Jeb Stotter, and Todd Hunter have been very helpful to learn the system and benefits of a short line. When PA Rail Transloading, LLC have asked questions or needed information, he and his company were given the attention and answers every time they asked. PA Rail Transloading, LLC was created and developed along the SVRR for transloading of coal, oil and gas materials and anything else that needed to ship by a short line in the area. North Shore was very supportive and helpful when it came to the design and development of a high wall placed along the SVRR. The hard work and determination will be paying off in the near future with additional rail cars and traffic along the Shamokin Valley Line. Through the years PA Rail Transloading has had numerous meetings on the rail line itself, the future of the gas and oil industry and DEP just to name a few. The site has received a Federal Preemption with the help of all parties. This is very difficult to obtain and DEP was more than satisfied with the level of communication and detail. SVRR, North Shore Railroad and every employee has been a true asset. PA Transloading gives their support now and in the future towards an active short line and rail system through Northumberland County.

Mr. Al Rutz, Koppers: Mr. Rutz stated the Koppers is serviced by the North Shore Railroad/Lycoming Valley Railroad. Koppers gives 100% support to the LVRR/North Shore Railroad. North Shore has done an absolutely tremendous job, work with Koppers daily and Koppers is switched by them three times a day and has never missed a switch in the five years that Mr. Rutz has been with Koppers.

Mr. Richard Staiman, Staiman Recycling: Mr. Staiman stated that Staiman Recycling has been served by the Lycoming Valley Railroad (LVRR) for 25 years and they have served impeccably with fair pricing. Mr. Staiman commends the JRA for its effort to have a fair process. Mr. Staiman encouraged the JRA to look at the process and that whatever led the Board members to recuse themselves they have fiduciary duties and those fiduciary duties should outweigh the need for them to recuse themselves. Everyone has a fiduciary duty to do what is right and that should outweigh where you are at. Mr. Staiman agreed with the previous speakers that said that should be looked at and the people that didn't vote, most or all of them should vote. In the scoring process, perhaps the lowest score and the highest score, not all of the low scores or high scores, perhaps the scoring could be standardized to offset some of the potential for distortion.

OLD BUSINESS

Proposals Submitted in Response to RFP

Chairman Walls stated that much has been tossed around with the word “bidding”. Competitive proposal process is what is involved through the RFP. It is a competitive process and there are a number of categories of information that the selection will be based upon. It is not the same as putting out a defined project with a specific design for construction or putting out a request for supply of certain materials at a defined quantity. Those are competitive bids. While it is not a bid to receive the lowest price or the highest price, it is nonetheless a competitive process where quality of capabilities have to be taken into account as part of the selection process.

Attorney Schrack stated it is a competitive procurement process that relies on the expertise and quality and other factors in addition to just the proposed price.

Mr. Stover stated that the Authority’s operation since 1984 is supported by the operating fees generated by the private operation of a railroad; it is not supported by the taxpayers. The Authority gets grants to do capital projects just like other railroads around the state – both private and public. There is no competitive advantage whatsoever for state grants for infrastructure. As far as operation, it is a privately funded public trust. The Authority has 2 full time persons and 1 part time person as staff and the current freight operator has 90+ employees. In 1984 the railroad was privatized. It is operated efficiently and very well with the testimony that was heard.

Mr. Herman stated that he was here in 1984 and he would like to see the Board follow through in the way it was structured. The JRA has finances so each member of the Board should be appointed as to what they represent in their communities whether it is agriculture, finances, or whatever. The JRA is not doing that and Mr. Herman stated he would like to see that done. As far as Clinton County is concerned Mr. Herman wondered where they were when this was running. Mr. Herman never thought the Board would be sitting here going through this process. Mr. Herman stated he is opposed to this process. The main objective of the Authority when it was formed was to get the traffic off of the road and back onto the rail. He stated he never felt the Authority would have the growth they have today. He is thankful for what the Authority has done as far as economic development.

Chairman Walls called for an executive session.

Attorney Schrack stated that the purpose of the executive session is to hold discussion on existing litigation involving the RFP and also to allow JRA legal counsel to provide confidential legal advice to the Board concerning the RFP.

The Authority recessed to executive session at 1:21 p.m.

Chairman Walls reconvened the special meeting at 2:33 p.m.

Attorney Schrack stated that the JRA recessed to executive session to hold discussion on existing litigation involving the RFP and also to allow for legal counsel to provide confidential legal advice to the JRA Board on further steps to be taken by the JRA Board. There was a recommendation for action by the Board. A motion was sought to authorize legal counsel to commence a declaratory judgment

action in order to resolve the effectiveness of the July 8th vote on the RFP and the voting standard applied by the Board for the award of the Operating Agreement.

Mr. Krentzman made a motion for the Board to authorize legal counsel to commence a Declaratory Judgment Action in order to resolve the effectiveness of the July 8th vote on the RFP and the voting standard applied by the Board for the award of the Operating Agreement; Mr. Jenkins seconded the motion.

A roll call vote was then taken of the full Board:

Centre County
Russ Graham: Yes
Dr. John Spychalski: Yes

Mifflin County
Michael Krentzman: Yes
Rob Postal: Yes

Clinton County
John Gummo: Yes
Brent Jones: Yes

Montour County
Frank Dombroski: Yes
Tom Herman: Yes

Columbia County
Rick Jenkins: Yes
Dave Park: Yes

Northumberland County
Stephen Bridy: Yes
Don Purcell: Yes

Lycoming County
Scott Harvey: Yes
Jerry Walls: Yes

Union County
Eric Winslow: Yes
John Showers (not in attendance)

Motion carried.

Attorney Schrack stated a second motion will need to be sought by the Board to expand Mike Crotty's existing engagement as special counsel to the JRA to represent the JRA in matters relating to the Request for Proposals process including the Declaratory Judgment Action.

Mr. Krentzman made a motion for the Board to expand Mike Crotty's existing engagement as special counsel to the JRA to represent the JRA in matters relating to the Request for Proposals process including the Declaratory Judgment Action; Mr. Gummo seconded the motion.

A roll call vote was then taken of the full Board:

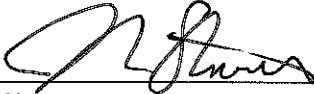
Russ Graham: Yes
Dr. John Spychalski: Yes
John Gummo: Yes
Brent Jones: Yes
Rick Jenkins: Yes
Dave Park: Yes
Scott Harvey: Yes
Jerry Walls: Yes

Michael Krentzman: Yes
Rob Postal: Yes
Frank Dombroski: Yes
Tom Herman: Yes
Stephen Bridy: Yes
Don Purcell: Yes
Eric Winslow: Yes
John Showers (not in attendance)

Motion carried.

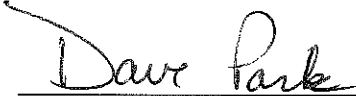
With there being no further business to come before the Board, Chairman Walls adjourned the meeting at 2:42 p.m.

Respectfully submitted,



Jeffery K. Stover, Executive Director

I hereby certify these minutes were approved by the SEDA-COG Joint Rail Authority Board of Directors on August 12, 2015.



Secretary/Assistant Secretary