



**SEDA-COG JOINT RAIL AUTHORITY
SPECIAL MEETING
WEDNESDAY, JUNE 10, 2015
SEDA-COG, LEWISBURG, PA
9:00 A.M.**

**PRESERVING
RAIL FREIGHT
SERVICE**

serving the counties of

Centre
Clinton
Columbia
Lycoming
Mifflin
Montour
Northumberland
Union

AUTHORITY MEMBERS

Frank Dombroski, Montour County
Russ Graham, Centre County
John Gummo, Clinton County
Tom Herman, Montour County
Rob Postal, Mifflin County
Don Purcell, Northumberland County
John Showers, Union County
John Spsychalski, Centre County
Jerry Walls, Lycoming County

JRA OPERATOR

Todd Hunter, Director of Marketing
Russ Nicodemus, Cost/Budget Accountant
Gary Shields, President
Pete Simcox, Director of Engineering
Jeb Stotter, Vice-President
Diana Williams, Treasurer/Controller

GUESTS

John Ashbridge, Carload Express
Al Bubb, West Shore Railroad
Seth Keller, Staiman Recycling Corporation
Alex Lang, Carload Express
Russ Peterson, Carload Express
Jeff Pontius, Penn Valley Railroad, LLC
Wayne Michel, Reading & Northern Railroad
Mark Rosner, Northern Plains Railroad

LEGAL COUNSEL

Tom Schrack, Esq., McQuaide Blasko Law Offices
Michael Crotty, Esq., Siana, Bellwoar & McAndrew, LLP

JRA CONSULTING PROFESSIONALS

John Conrad, Bridge Engineer
Paul Jannotti, Jannotti Rail Consulting
Dan Mazur, Operating Agreement Consultant

JRA STAFF

Kay Aikey, Program Assistant
Jeff Stover, Executive Director

**SEDA-COG JOINT
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SEDA Council of Governments

CALL TO ORDER

Call to Order

Chairman Walls called the meeting to order at 9:12 a.m.

Pledge of Allegiance

Chairman Walls led the Pledge of Allegiance.

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 stated that the following scoring Board members of the Rail Authority are present: Jerry Walls, John Showers, Dr. John Spsychalski, Frank Dombroski, Don Purcell, John Gummo, Rob Postal and Russ Graham. There are a total of 10 scoring Board members; but Steve Bridy is on vacation and is unable to join the meeting, and Tom Herman is on his way. Tom Herman subsequently joined the meeting.

Chairman Walls stated that the following legal counsel are present: JRA’s solicitor, Attorney, Tom Schrack, and Special Counsel Michael Crotty on behalf of the Pennsylvania Insurance Risk Management Association (PIRMA), being the JRA’s insurance carrier.

Chairman Walls stated that the following JRA staff members are present: Jeff Stover, Executive Director and Kay Aikey, Program Assistant.

Chairman Walls stated that special consultant, Dan Mazur, is also present.

Chairman Walls noted that Mr. Wayne Michel joined the meeting. Chairman Walls repeated the statement regarding use of audio or video recording devices for recording purposes. Mr. Michel of Reading & Northern Railroad stated that he will be recording the meeting.

Public Forum

Chairman Walls asked if there is any comment from any members of the public. No comments from the public.

Review of Phase 2 Proposals

Mr. Stover stated that the scoring Board members received by email and mail various documents relating to the RFP evaluation process. To guide this meeting’s discussion, the spreadsheet prepared by

Mr. Mazur titled "JRA-RFP Proposal Summary" will be used. The comparison spreadsheet is broken down into the following sections:

1. **Commitment to Track Maintenance**
2. **Commitment to Safe Operations**
3. **Soundness and Sustainability of Operating, Marketing and Financial Plans**
4. **Commitment to Public-Private Partnership**
5. **Commitment to Economic Development**

A packet of information was provided to all scoring Board members in the mail as well as handouts at the meeting which included the following:

- JRA RFP Proposal Summary
- Responses from the three proposers to the "common questions"
- Responses to individual from the proposers as needed
- Recent correspondence from Carload Express
- Unsolicited letters received related to two of the proposers
- Analysis of Operating Proposals prepared by Railroad Industries Incorporated (RII)
- Synopsis of the customer survey results prepared by Delta Development

Attorney Schrack stated that the spreadsheet is marked confidential and the only the scoring Board members and staff have a copy. Prior to the meeting, the three proposers were provided with the information that pertained only to their individual proposal to make sure there was no confidential or proprietary information. The proposers each agreed that their information can be discussed in public session. Attorney Schrack stated that the proposers may wish to make comments or clarification to the spreadsheet pertaining to their particular proposal as the spreadsheet is discussed in the meeting.

Discussion of Comparison Spreadsheet Items

Mr. Mazur reviewed the JRA RFP Proposal Summary spreadsheet that he had prepared from the three proposals. He stated that he organized the spreadsheet into the five items that are the basis for the scoring of the Phase 2 process. He recommended that the scoring Board members go back and review the three original proposals submitted by each of the three individual companies as well as the information provided at the meeting and not rely entirely on the proposal summary when doing the scoring of each of the proposals. The data on the summary spreadsheet was taken directly from each of the proposals.

Commitment to Track Maintenance

- Year 1 and 5 Projected Total Maintenance of Way Expenses
- Year 1 and 5 Projected Maintenance of Way Ratio

Mr. Mazur stated that the projected maintenance of way ratio is percent of revenue is the operator spending on maintenance of way – fixing the railroad. The JRA set a target of about 21%. Chairman Walls directed a question to North Shore and asked why their proposal has a Projected Maintenance of Way ratio of 18% when the JRA's target is 21%. Mr. Stotter of North Shore replied that the rate of 18% was initially put out by the Rail Authority in the first draft of the Operating Agreement.

Mr. Mazur stated that this number has ranged under 18% to 26-27% over the last seven years. He also stated that the JRA track standards are higher than the FRA standards.

- JRA Consultants Report on Current Track and Bridges:
Track Condition

Mr. Mazur stated that some of this data was provided by Paul Jannotti, the JRA's track consultant as well as from the individual proposals.

Chairman Walls stated that on the spreadsheet under the North Shore column, it is noted in the track condition section that the information is highlighted and documented in the Jannotti Yearly Track Inspection Reports. Chairman Walls asked that Mr. Jannotti expand upon the entry and summarize a statement on what the past annual reports reveal.

Dr. Spychalski stated that it would be helpful to indicate who prepared the information on the spreadsheet. Mr. Stover stated he would add a column titled "source" to indicate who provided the information and where the information was found.

Chairman Walls asked if that kind of work would be regarded as capital or maintenance. Mr. Jannotti responded that it would primarily be capital; but has a maintenance component too.

Dr. Spychalski stated that the track consultant has repeatedly pointed out that there are certain conditions that may need to be addressed with undercutting and blanketing, particularly on the Nittany Main. He asked going forward over the next 5-7 years, how does that work relate back to the operator's responsibility to perform that work and how will it relate to the maintenance of way ratio.

Chairman Walls asked that Mr. Jannotti explain what the inspection reports have generally revealed for North Shore Railroad system-wide. Mr. Jannotti responded that the inspection reports reveal that there is a lot of fouled ballast on the Nittany. He also added that each railroad is different.

Attorney Schrack stated that there are specific statements about the track conditions of the other two proposers, but the section for North Shore only incorporates the information in past reports, but the information isn't set forth at length on the spreadsheet. He stated that a summary of this information is needed on the spreadsheet.

Mr. Jannotti stated that all categories of track maintenance on all the JRA's railroads, except for the Carbon Run Branch, meet or exceed the JRA standards and that is in every category of work.

Mr. Stover stated that the intent is to determine if the three proposers are professional in terms of track maintenance. The Operating Agreement calls for the JRA's track consultant, Mr. Jannotti, to guide the Maintenance of Way Program. Regardless of who the proposer is, track maintenance is going to be done the way the JRA and Mr. Jannotti want it. Mr. Stover said all three proposers are qualified in terms of track maintenance.

It was noted that under the column for Carload Express that some sand cars were leaning in the Buncher Yard. Mr. Stover stated that a letter from Carload Express stated that this was a customer track. Mr. Peterson replied that the first written documentation of the track inspection that came to

Carload's attention was this document and Carload's comment made was specific to this document. All of the tracks other than the main track are operated and owned by the Buncher Railcar Service in Youngwood, Pennsylvania. The only track owned by Westmoreland County Industrial Development Corporation, Carload's landlord, is the main track. The turnout in the main track is the Westmoreland County turnout. All of the remaining turnouts are the turnouts owned by the Buncher Railcar Service.

Chairman Walls asked what the division of responsibility is between Westmoreland County Industrial Development Corporation and Carload Express as it relates to maintenance of the track. Mr. Peterson replied that it is Southwest Pennsylvania Railroad's obligation to maintain the main track which is owned by Westmoreland County Industrial Development Corporation. Yard tracks owned by the customer are the responsibility of Buncher Rail Car Services. Carload Express spent over a million dollars on undercutting, ballasting, and improving the drainage facilities on that segment of main track running through Youngwood adjacent to the Buncher Rail Car Services only a year before the inspection. There is a dramatic difference between the main line and the adjacent tracks and the adjacent tracks are in horrific condition and Buncher Rail Car Services just announced that they are going out of business in August. Mr. Lang added that the overall relationship between Westmoreland County Industrial Development Corporation and Carload Express is outlined in their proposal documents. Mr. Peterson stated that the operating agreement with Westmoreland County Industrial Corporation is similar to the operating agreement with the JRA and the current operator.

- Experience Maintaining high tonnage, high speed (40 mph) railroad
- Bridge Observations
- Bridge Maintenance Plan in Proposal

Mr. Mazur stated that the bridge data was provided by John Conrad, the JRA's bridge engineer as well as from the three individual proposals.

Mr. Conrad discussed the bridge management program. He stated that as a requirement of the FRA mandates for all railroads – its primary focus is the safety of the structure. The second requirement of the bridge management mandate is to rerate all bridge structures by September 2016. All three railroads are in the process of doing this. One of the components of this is to confirm that all the drawings in the files are consistent with the structures in the field. At the end of this process there will be an inventory of drawings for all of the bridges and an inventory of safe load capacity.

Mr. Conrad then discussed the bridge maintenance program. The first thing a bridge crew does when they go to a bridge is to lay out a safe site to do the work so that trains can pass while the work is being done. The second thing they do is bridge maintenance. They clean the wingwalls of any brush, cut the shrubbery from right-of-way edge to right-of-way edge, clean the bridge seats of any stone and ballast, look at handrail on the walkways and the distance from the step from the walkway down to the ballast on and off the structure. This is done for any bridge structure. The bridge crew looks for capital improvements and maintenance improvements.

Mr. Conrad stated that the only proposer with a bridge maintenance program in place is North Shore Railroad as their tasks were identified in their proposal. All three proposers further detailed their bridge management program.

Commitment to Safe Operations

- Risk and Safety Management Plans and Programs
- 2006-2015 Accidents/Derailments/Incidents with Reportable Damage to FRA
- Train Accidents per 1,000,000 train miles (FRA standard metric)
- Total Accidents/Derailments/Incidents
- Total Damage
- Total Accidents/Derail/Incidents excluding Other Category (Floods, storms, etc.)
- Total Damage excluding Other Category (Floods, storms, etc.)
- 2006-2015 Total FRA-reportable Employee Injuries
- 2006-2015 FRA-reportable Employee Injuries (cases with days absent from work)
- 2006-2015 FRA-reportable Employee Injuries Rate per 200,000 hours worked

Mr. Mazur stated that the data shows that North Shore is lower in the accident rates and lower in the injury rates than the other two proposers. Mr. Stover reviewed a handout provided to Board Members which showed data of the three proposers from 2006-2015; the data was extracted from the FRA Database Office of Safety Analysis.

Mr. Rosner stated that Northern Plains instituted a safety management system several years ago and have some notable improvements.

Soundness and Sustainability of Operating Marketing and Financial Plans

Operating Plan

- Mancount:
 - Transportation
 - Maintenance of Way (Track and Signals)
 - Maintenance of Equipment
 - Other
 - Total Mancount
- Number of Crew Starts/Week
- Number of Locomotives
- Year 1 and 5 Projected Total Transportation Expenses Including Operating
- Fees
- Year 1 and 5 Projected Transportation Ratio
- Year 1 and 5 Projected Maintenance of Equipment Ratio

Marketing Plan

- Year 1 and 5 Projected Total Revenue
- Year 1 and 5 Projected Demurrage Revenue

Mr. Mazur stated that Carload Express is going to raise the demurrage rates up to the market level with what the Class I railroads charge.

Chairman Walls stated he is concerned about the demurrage rate as it is a factor that makes a difference to customers. Mr. Mazur stated that the demurrage rate is additional monies that the customers would have to pay. The current demurrage rate being charged is \$30.00 per day.

Chairman Walls asked Mr. Mazur to check the demurrage rates charged by G&W's Wellsboro and Corning Railroad.

Mr. Mazur stated that the amount of revenue from demurrage for Carload Express is a significant driver of the revenue. He asked Carload what would happen if that amount of revenue from demurrage doesn't materialize.

Mr. Peterson stated that 47% of the traffic, based on Carload's research and estimation, is in railroad owned cars. The railroad in Western Pennsylvania has 16% of the traffic is in railroad owned cars. He then asked what is the right amount of demurrage to charge? The Class I railroads are charging \$100-\$175 for demurrage; short line regionals \$65-\$90; and Carload currently charges \$75 in western Pennsylvania. Carload has the largest sand franchise in the Norfolk Southern network and for those people who find demurrage a sensitive issue, they can either manage their cars, they can convert to private cars, or build their own facilities to avoid using railroad cars as product storage and spend their capital on their own storage as opposed to using railroad cars. Carload feels that \$75 is market and businesses have a fiscal responsibility to their shareholders to be in or near market. It comes down to how many demurrage days are in the network. Carload is confident, based on their experience with demurrage and the percentage of cars that are in Carload's fleet that are subject to demurrage, that the projection is a sound and sustainable projection.

Mr. Mazur then asked what would happen if the amount of revenue projected doesn't materialize? Mr. Peterson stated it is a business plan and you adjust the accounts to fit expenses with revenue. He also stated that the demurrage charge could be phased in over the seven year period.

Mr. Graham asked if the Operating Agreement allows for a change in the demurrage charge. Attorney Schrack replied that the Operating Agreement does not restrict the demurrage charge. Mr. Stover stated that the transportation rates and other costs are strictly between the operator and the customer. Mr. Graham asked if a change can be made to the proposal. The Authority is going to award the contract based on what is put forth in the proposal. No changes can be made to any numbers in the proposals.

Mr. Lang stated that the proposal is expressed primarily as percentages and Carload believes that their percentages are competitive. Mr. Peterson stated the proposal stands as proposed and Carload has used industry standard practice as Carload is being graded and scored on a sound and sustainable proposal and standard industry practice for a short line regional railroad is in the neighborhood of \$75 per car.

Chairman Walls stated he is registering his concern regarding the increased demurrage charge. Mr. Lang stated that demurrage is a cost that the customer has control over. Customers can maintain and turn their cars quickly and monitor their car supply. Carload works with their customers to do that.

Mr. Graham asked for the number of demurrage days that are being charged per carload. Mr. Lang replied that he doesn't have an answer; it is really different customer by customer. Some customers

have a steady stream that they turn cars quickly and others are choosing to use railcars as rolling warehouses. Mr. Peterson replied that Carload estimated four chargeable demurrage days per railroad car.

- Total Marketing Mancount
- Delta Development Group Survey of Current Customer (Max score-5.0):
 - Communication
 - Dependable and Timely Service
 - Safety
 - Rates

Financial Plan

- Year 1 and 5 Projected G&A Expense
- Year 1 and 5 Depreciation Expense
- Year 1 and 5 Total Operating Expense
- Year 1 and 5 Total Operating Ratio
- Year 1 and 5 Net Income

Commitment to Public-Private Partnership

Fees paid to JRA:

- Year 1 and 5 Total Operating Fees Paid to JRA
- % of Total Gross Freight Revenue
- % of Car Storage Rentals
- Per car fee for cars weighed on JRA's scale in Newberry Yard
- % share of NS Trackage Rights Fees
- PP&L Annual \$25,000 Fee
- % of 45G Tax Credits Paid to JRA
- Experience with Public-Private Partnerships
- Local Management
- Succession Plan for Management
- Support JRA Passenger Excursion Initiatives

Commitment to Economic Development

- Dedicated Industrial Development Manager

Summary of Process and Decision Schedule

Attorney Schrack stated it is anticipated that there will be a July decision by the Board on the award of the Operating Agreement. The individual scoring Board members need to take all the information they received and score the proposals in accordance with what is in the RFP.

The Phase 2 scoring methodology is slightly different than the methodology that was utilized during Phase 1 of the process. In the RFP there is a ranking scoring approach. The scoring Board members will thoroughly review the proposals received in Phase 2 of the RFP. The scoring Board members will then rank each proposal through the use of another scoring system. The scoring system shall be as

follows: Each proposer will receive a single score of between zero and twenty points (twenty being the highest score) in the following categories:

- Commitment to Track Maintenance
- Commitment to Safe Operations
- Soundness and Sustainability of Operating, Marketing, and Financial Plans
- Commitment to Public-Private Partnership
- Commitment to Economic Development

The Operating Agreement will be awarded to the proposer who obtains the highest score in Phase 2 of the RFP process.

The scoring Board members are going to assign numeric scores to each of the five categories up to twenty points for each. That results in a total raw score for each proposal, based on that system. This is the “scoring system” component mentioned in the scoring instructions, for each scoring Board member to assign a numeric score to each proposal.

As the second step, each scoring Board member will then “rank” his raw points scores, based on the total score calculated under the five-category scoring system, by assigning a highest ranking score of 3 points to his top scoring proposal, a second highest ranking score of 2 points to his next highest scoring proposal, and a third and lowest ranking score of 1 point to his third and lowest scoring proposal. This is the “rank” “through another scoring system” component mentioned in the scoring instructions. Then, the ranking scores of 3, 2, and 1 for each scoring Board member will be tallied to determine the overall highest scoring proposal under the Phase 2 ranking methodology. The total score will be provided to the Board at the July Board meeting, and then, after discussion, a motion will be sought from the Board to award the Operating Agreement. As was the case with Phase 1, a passing vote will require nine votes to award the contract.

Mr. Purcell made a motion to change the date to award the contract to the August Board meeting as there is a lot of information to review before the July meeting; Mr. Herman seconded the motion.

Discussion was then held among the scoring Board members. Board members felt that it should be done while the information is fresh in their minds. A voice vote was taken and the motion failed with no ayes in favor of the motion.

Chairman Walls asked that Mr. Stover contact Mr. Bridy to go over the information that was reviewed at the meeting.

Scoring Board members should return their scoring sheets to Mr. Stover by close of business on Thursday, July 2.


Mr. Lang asked if Carload Express could be provided with the comments made in the consultant’s report that pertained to their information. Attorney Schrack stated that typically when requests like this are made they have to be evaluated under the Right-To-Know Law as a first step. Legal counsel will take a look at this and see if there is a reason to withhold this information under the Right-To-Know Law and will then response by email to Carload Express.

Chairman Walls asked that a response be sent to all three proposers.

Mr. Herman stated that a letter was received from Reading & Northern challenging that the JRA has shown mismanagement in order to maintain public ownership of this valuable asset. He stated that he challenges that. If the JRA hadn't taken the move in 1983 of establishing the short lines, no one would be sitting here today. Those lines would have been gone.

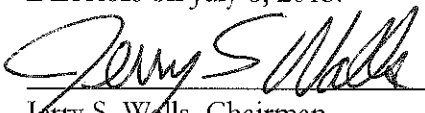
Chairman Walls adjourned the meeting at 12:02 p.m.

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 July 8, 2015.



Jerry S. Walls, Chairman