



Port Terminal Railroads

Public Private Partnerships

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STRATEGIC RAIL FINANCE

GROWING NORTH AMERICAN INFRASTRUCTURE

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Established in 1995 in Philadelphia to advise short line railroads and companies in the rail industry, SRF has advised on projects in 42 US states and Canadian provinces

- Public and private finance
- Business sales and acquisitions
- Transportation planning and policy
- Business development and site selection

Created OnTrackNorthAmerica in 2007, a 501c3 non-profit advancing sound transportation policy and collaborative, holistic growth of the rail industry

Presentation Outline

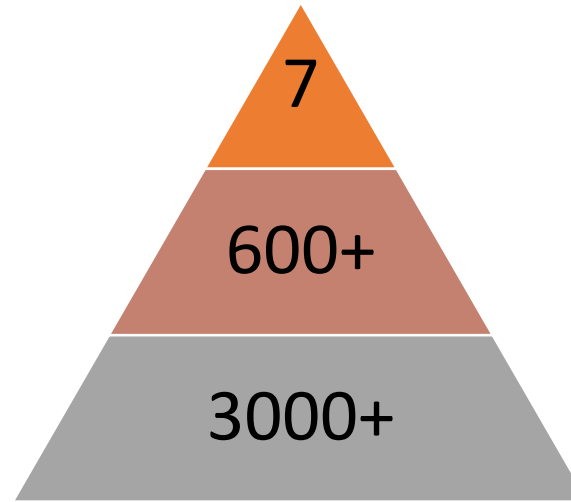
Railroad industry as context

Menu for hybrid public-private terminal railroads

Financial and “Programmatic” return on investment

Case Study: “To 3P or not to 3P. That is the question”

Structure of the North American Rail Industry



Class I Railroads

Class II and III Railroads

Industrial Rail Shippers



Comparison of Railroad Types

Class I and Regional Railroads

- Long-haul carriers
- The railroads are “public” like a utility but without price controls
- Railroads privately fund the infrastructure and locomotives
- Railroads maintain exclusive operational control over tens of thousands of route miles

Terminal Railroads


- Last-mile carriers
- Typically operate a few miles of track and switching yards
- **Many public, private and hybrid ownership / operation models**
- Perform the blocking and interchange for Class Is and switching for customers

Menus for Hybrid Ownership



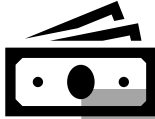
Ownership

- Land
- Repair facilities
- Locomotives
- Mainline and yard tracks
- Structures
- Industrial tracks
- Rolling stock
- Leasing options



Operations

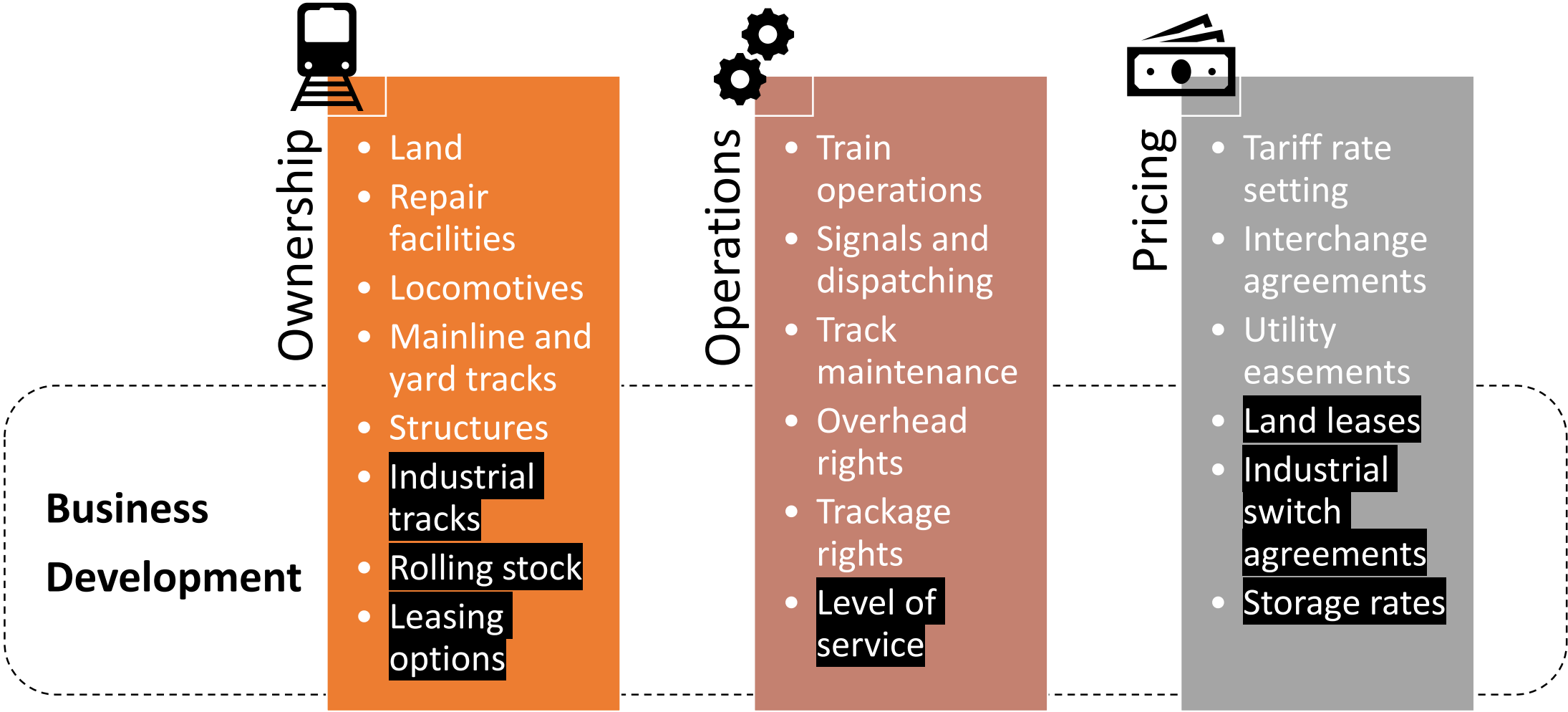
- Train operations
- Signals and dispatching
- Track maintenance
- Overhead rights
- Trackage rights
- Level of service



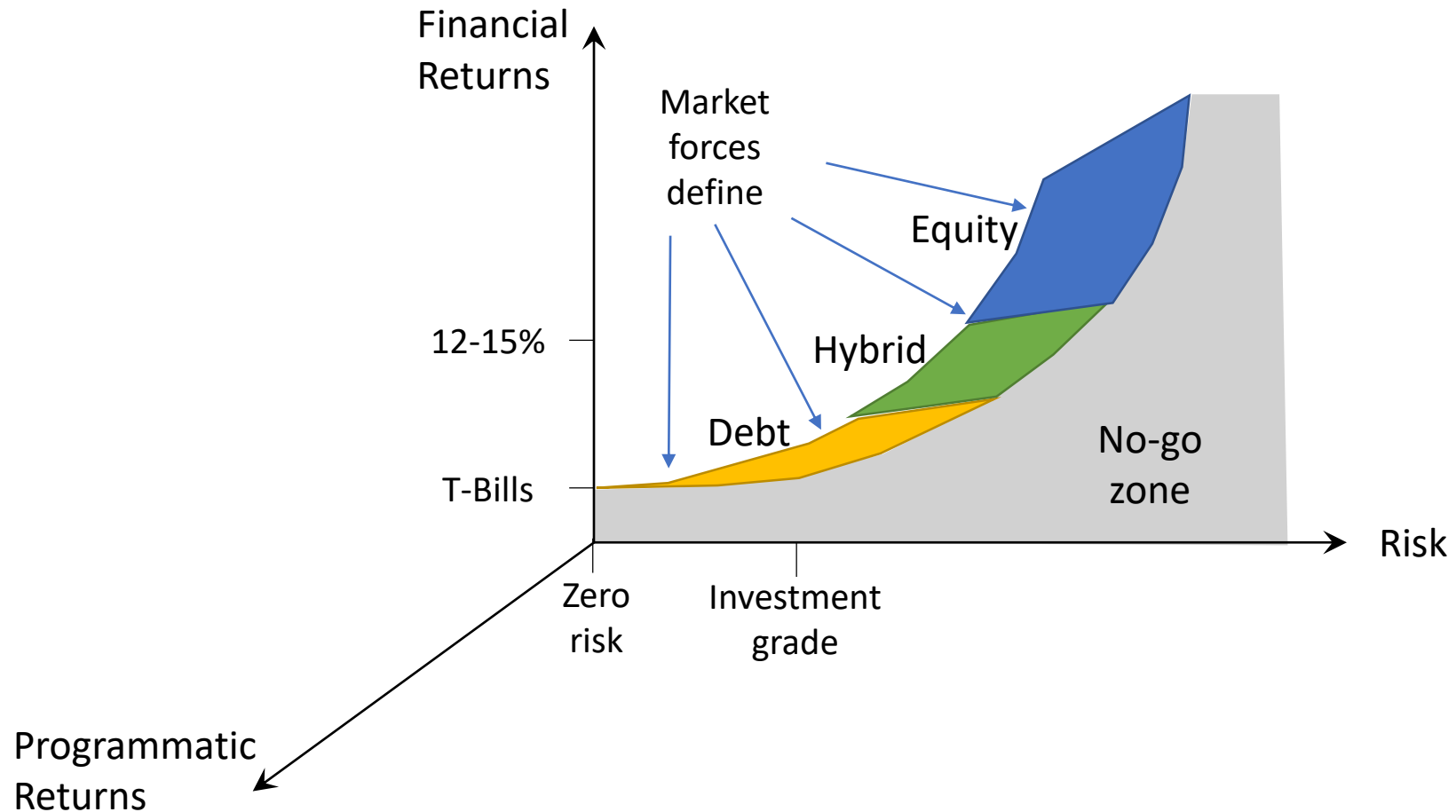
Pricing

- Tariff rate setting
- Interchange agreements
- Utility easements
- Land leases
- Industrial switch agreements
- Storage rates

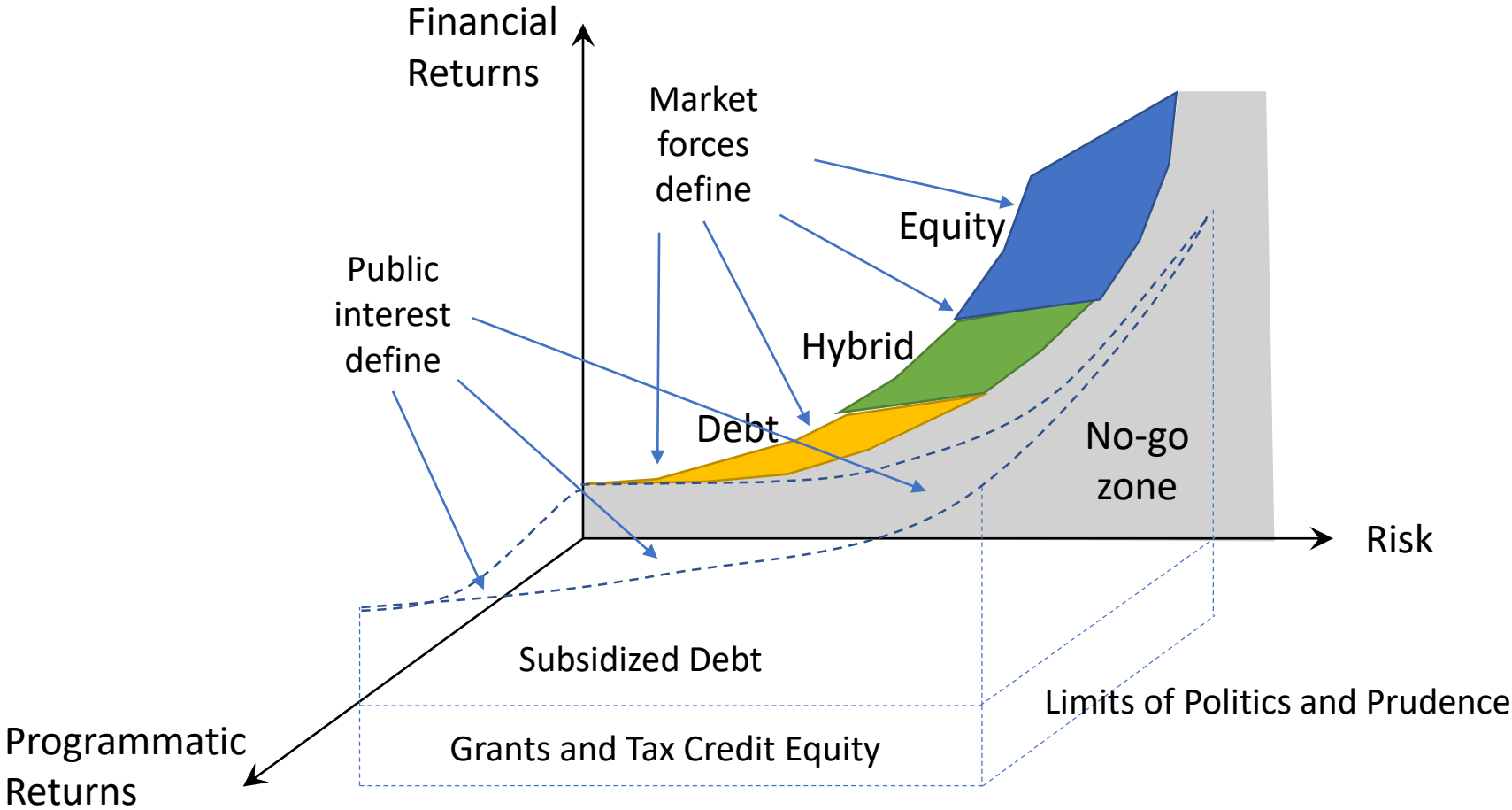
Menus for Hybrid Ownership



Return on Investment



Return on Investment—the Third Dimension

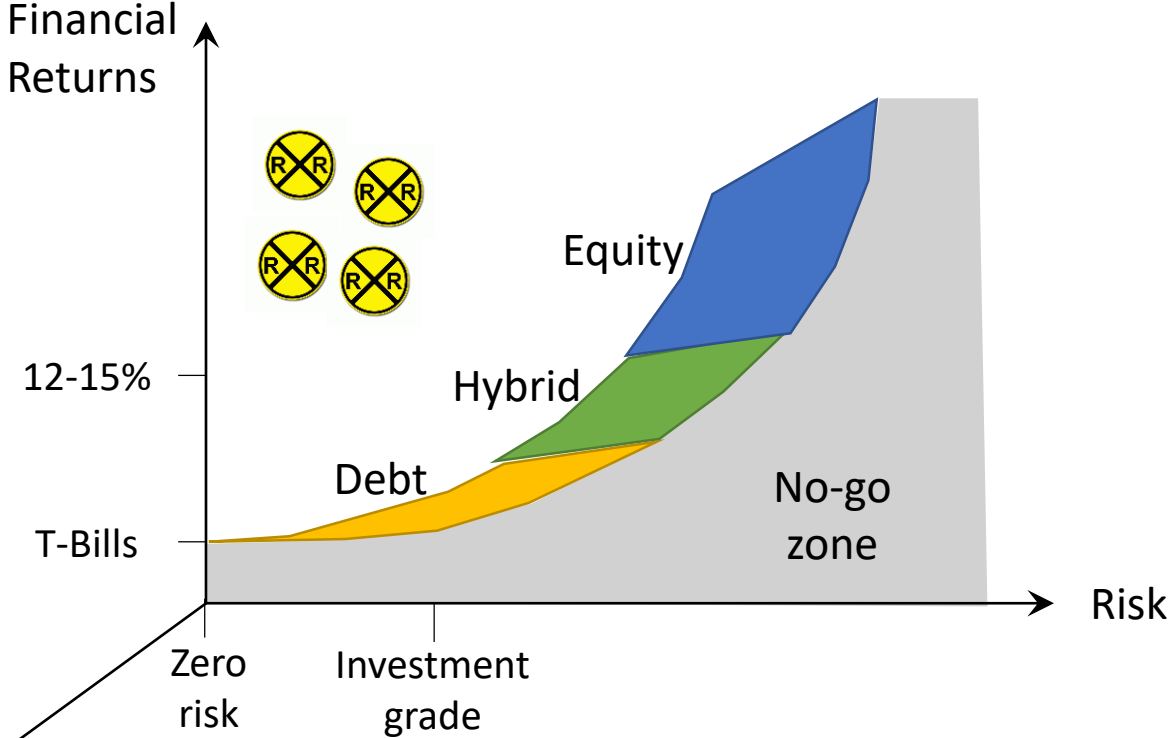


20 Examples of Programmatic ROI

- Export promotion
- Agricultural development
- Rural development
- Small business growth
- Air quality
- Highway congestion relief
- Brownfield redevelopment
- Investment in poorer places
- Immigration of richer persons
- Job creation
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Return on Investment – Class I Railroads

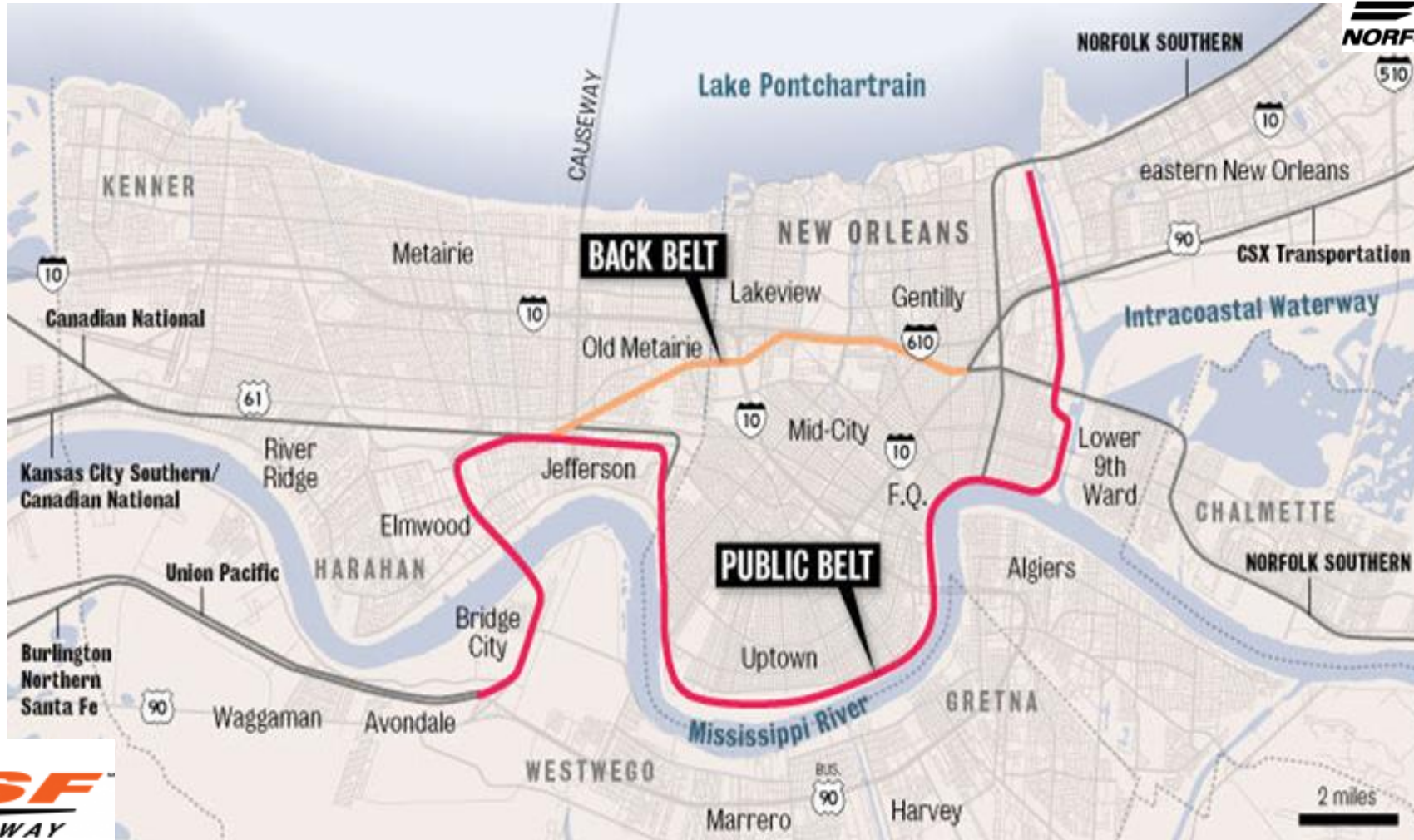
Hurdle rates of 25-30+%
 NO appetite for risk
 NO programmatic consideration
 Complex bureaucracies
 Operational protectionism



Programmatic Returns

Case Study

New Orleans Public Belt Railroad – “To 3P or not to 3P. That is the question.”



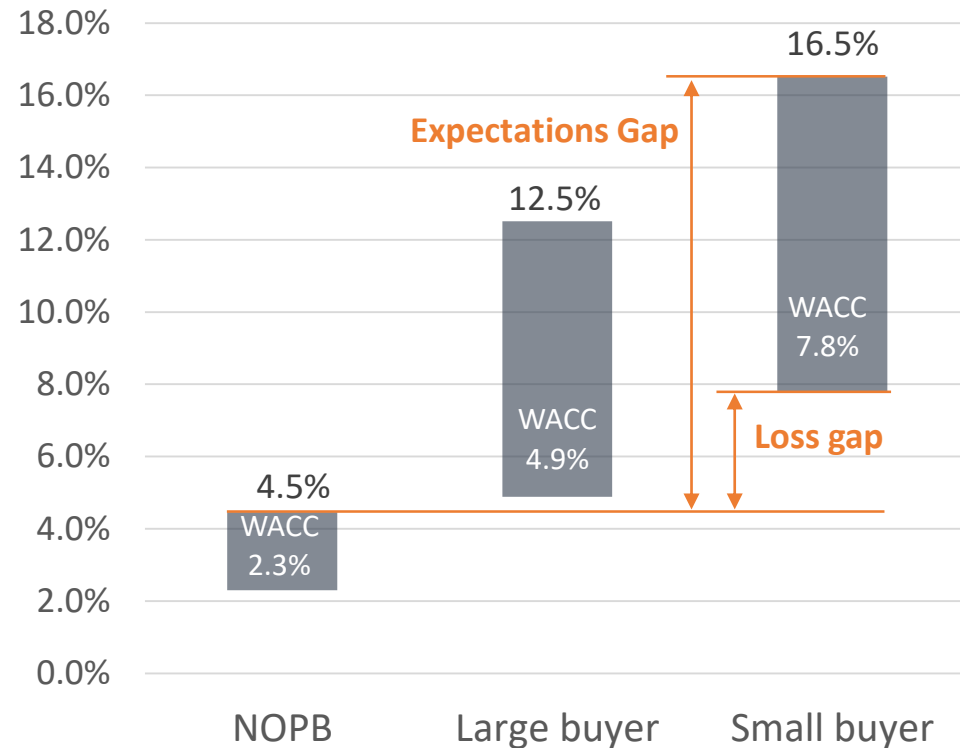
What creates economic Value?

1. Earn returns that exceed your cost of capital

and

2. Leadership to guide strategy for effective capital deployment

Weighted Average Cost of Capital and Return on Invested Capital



How to calculate economic Value?

Free Cash Flow available for distribution. That's it.

NOPB estimated value to a cash investor: \$12 to \$14 million.

Don't get bitten by EBITDA

How DID a big-four accounting firm come up with \$61 to \$196mm value? What the accountants didn't count:

- Capital reinvestment needs
- Fixed labor agreements
- Long-term interchange agreements
- Wind-down of Katrina-recovery grants
- Drop-off in lucrative "recall" car repairs
- Land lease liabilities under the track
- Loss of non-railroad real estate revenues

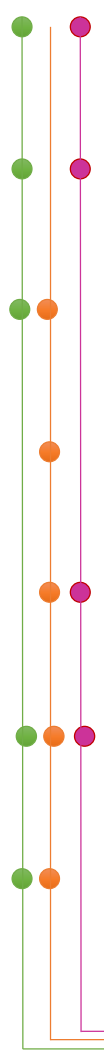


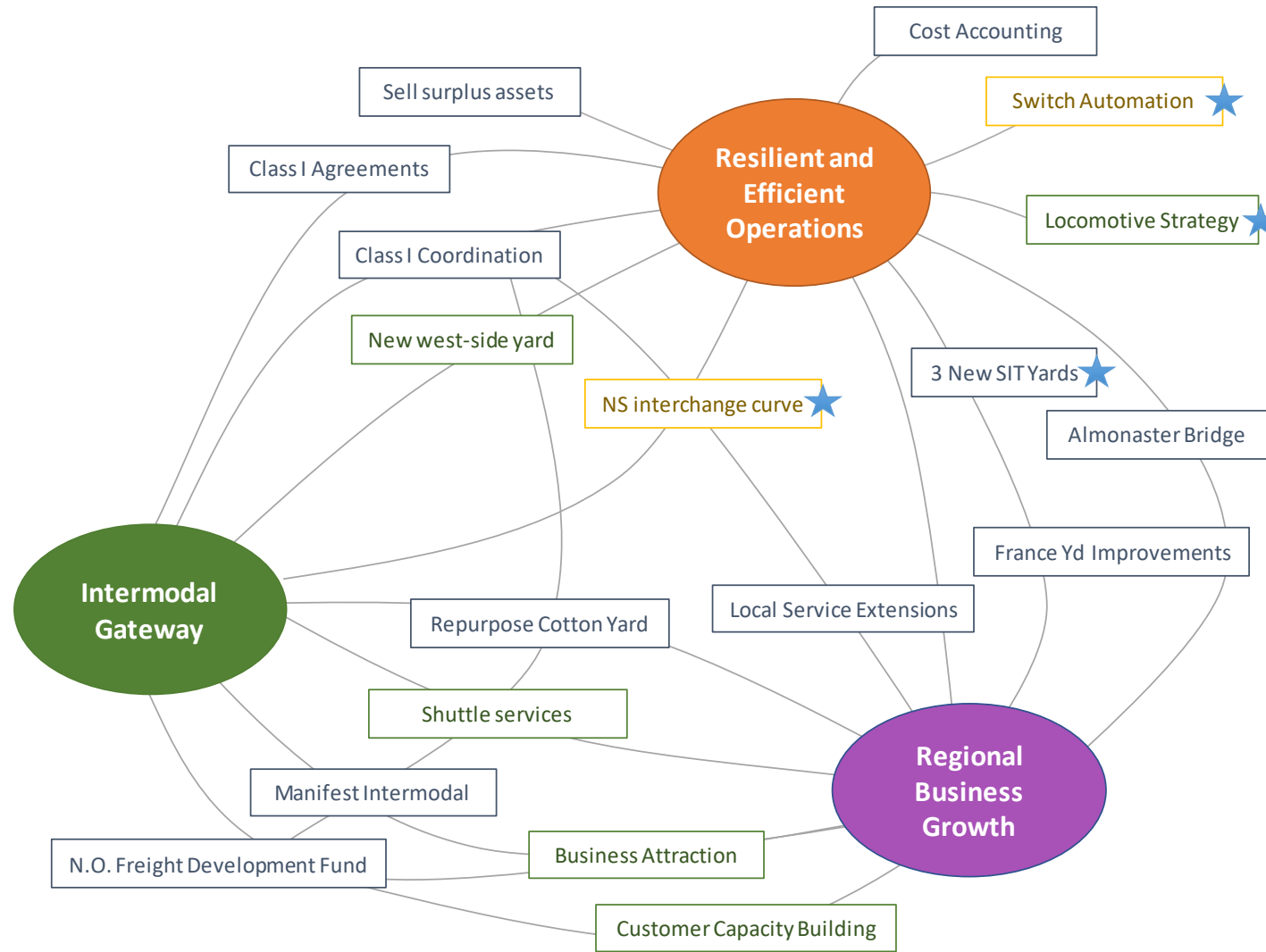
Regional Freight-Based Development Strategy

Intermodal Gateway

Resiliency and Efficiency

Grow Local Business

- 
- ● **Establish and grow the intermodal gateway**, including multiple Class I direct service to Napoleon Avenue Terminal
 - ● **Grow manufacturing, warehousing and distribution businesses** through a regional freight-based economic development strategy
 - ● **De-densify operations** by moving classification activities to the NOPB's west side and east side and free the Cotton Yard for intermodal support and local switching
 - ● **Improve efficiency** across every part of NOPB operations and administration through systematic reform
 - ● **Implement a storage strategy** starting with three new yards providing 500 spaces, and improvement to two more yards
 - ● **Extend local NOPB service** through partnership with the Class Is to potentially operate local yards and trains
 - ● **Reset relations with key partners** starting with Class I collaborations to address operational challenges of the gateway
- Intermodal Gateway** **Resiliency and Efficiency** **Grow Local Business**



Who but the Port could maximize Value?

1. Earn returns that exceed
the cost of capital

and

2. Leadership to guide
strategy for effective
capital deployment



Summary

Railroad Finance

- Railroads offer opportunities to earn significant **“Programmatic Return on Investment”**
- Big railroads are great partners
 - But not always for terminal ops
- Value is created by
 - Returns > Cost of Capital, and
 - Strategy for capital deployment

Hybrid Public-Private Terminal Railroads

- Ownership and capital structures
 - Land
 - Track and structures
 - Locomotives, rolling stock, etc...
- Many operational considerations
- Many pricing considerations
- **Accelerate the Port’s Business Development**

Thank You!



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