



STRATEGIC RAIL FINANCE

FOR SUSTAINABLE INDUSTRIAL DEVELOPMENT

Perspectives on Railroads for Port Commissioners

June 18, 2019



STRATEGIC RAIL FINANCE

FOR SUSTAINABLE INDUSTRIAL DEVELOPMENT

John Elliott, Senior Vice President
jelliott@strategicrail.com

Strategic Rail Finance

1700 Sansom Street, Suite 500
Philadelphia, PA 19103
(215) 564-3122

strategicrail.com
ontracknorthamerica.org

Established in 1995 in Philadelphia to advise short line railroads and companies in the rail industry, SRF has advised on projects in 43 US states and Canadian provinces

Currently advising on \$1.4B in port-rail projects

- 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

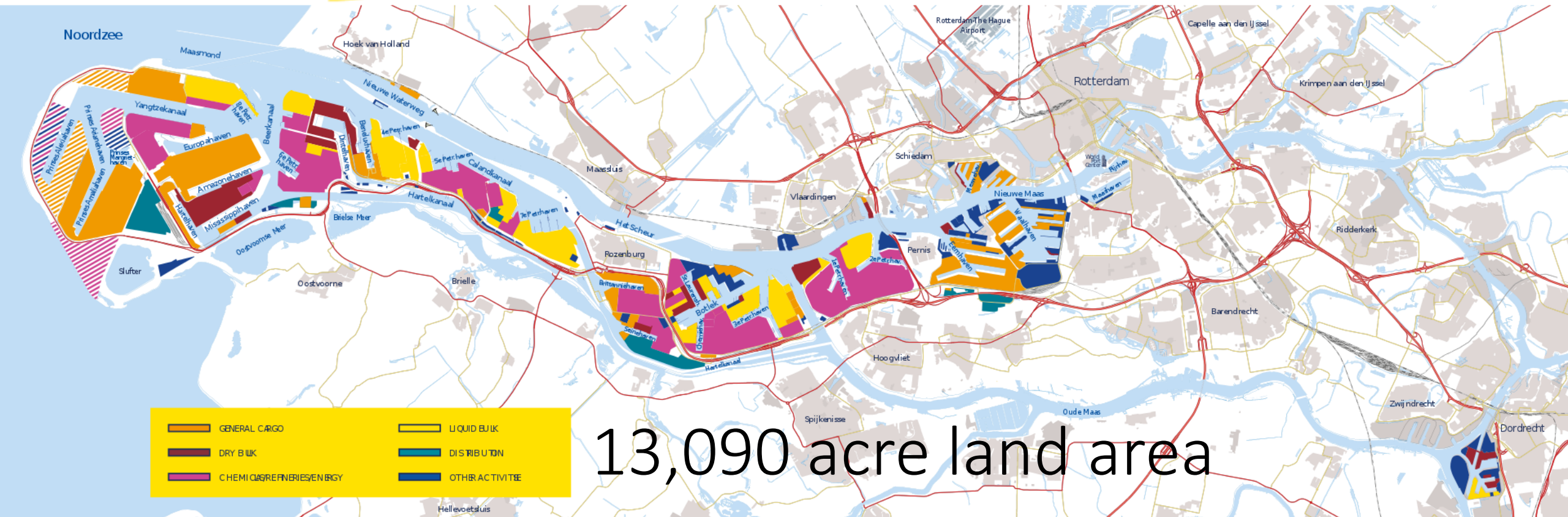
Two foundations

Railroad industry as context

Port-Rail opportunities for partnership



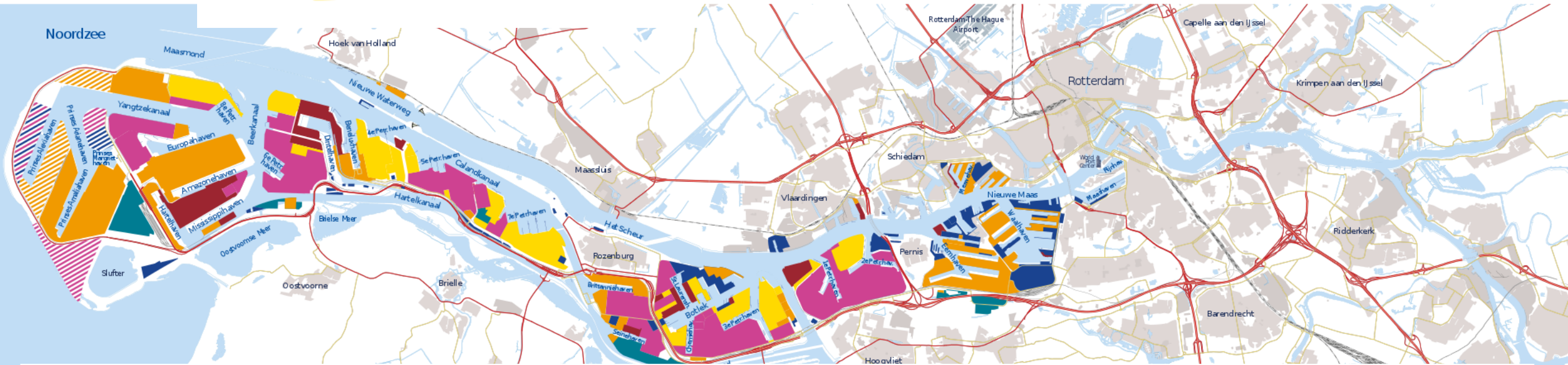
385,000 people working in and for the port



13,090 acre land area



385,000 people working in and for the port



We think about the port authority as a

“Freight-Based Industrial Development Agency”

Five “Ps” of Board Good Governance

An Executive’s Perspective

1. Planning
2. Policy
3. Parameters
4. Pneumatics
5. Political Support



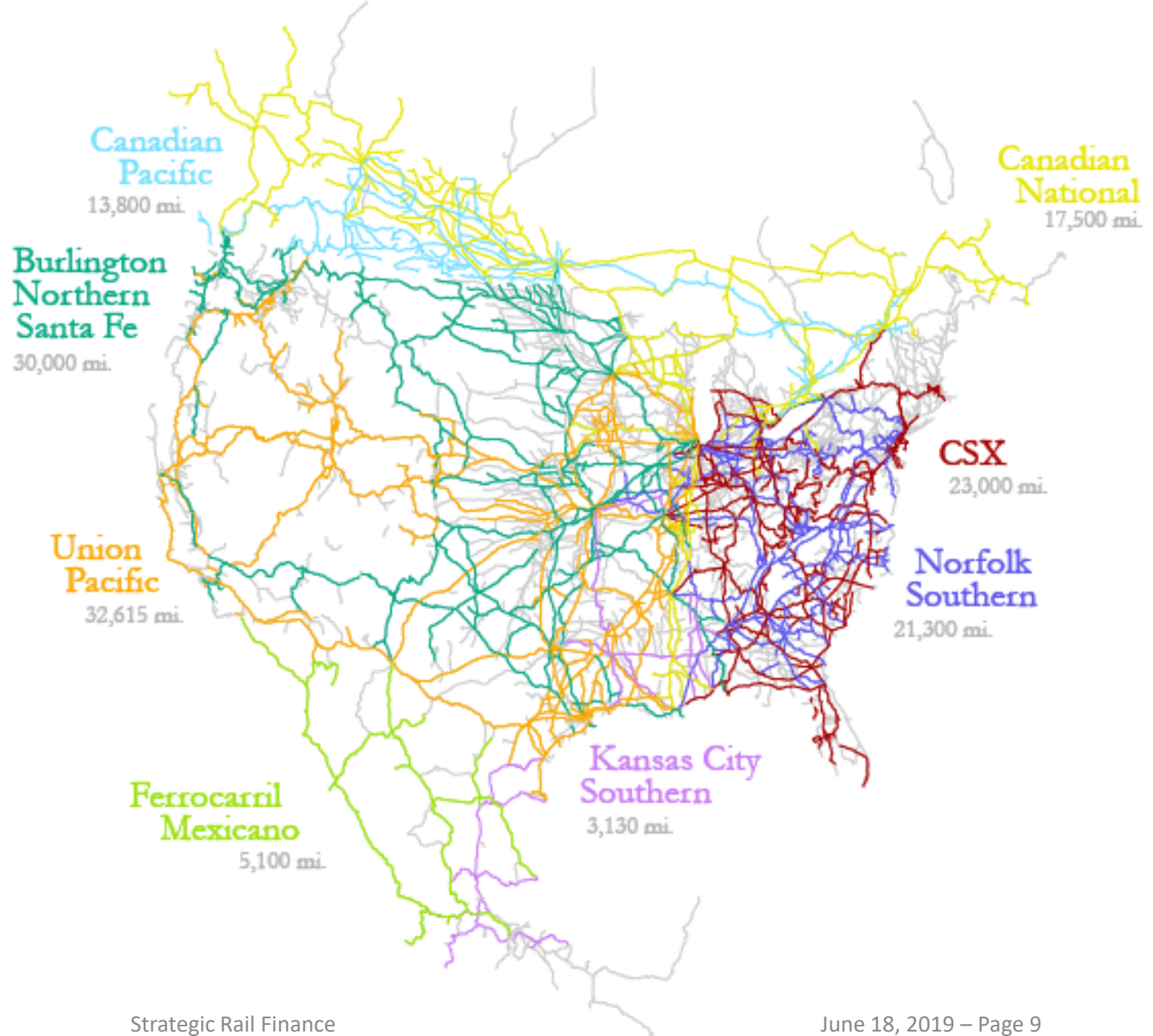
Five “Ps” of Board Good Governance

An Executive’s Perspective

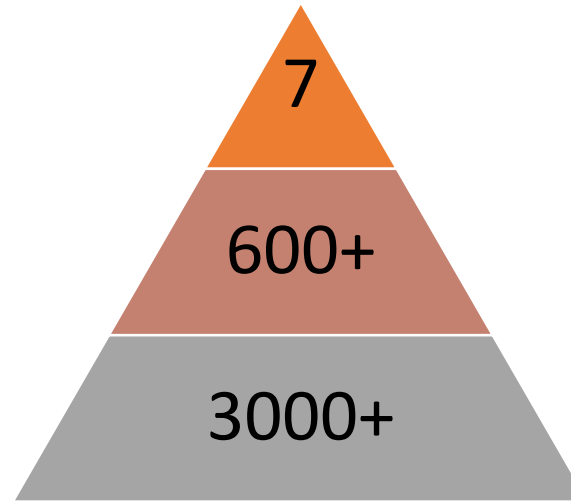
1. Planning – where can we go with our rail relationships?
2. Policy – what should we require in rail partnerships?
3. Parameters – how does this effect our executive’s boundaries?
4. Pneumatics – how are the winds blowing in the rail industry?
5. Political Support – what should the public hear about port-rail?

Railroad Industry Context

Structure of the North American Rail Industry



Structure of the North American Rail Industry



Class I Railroads

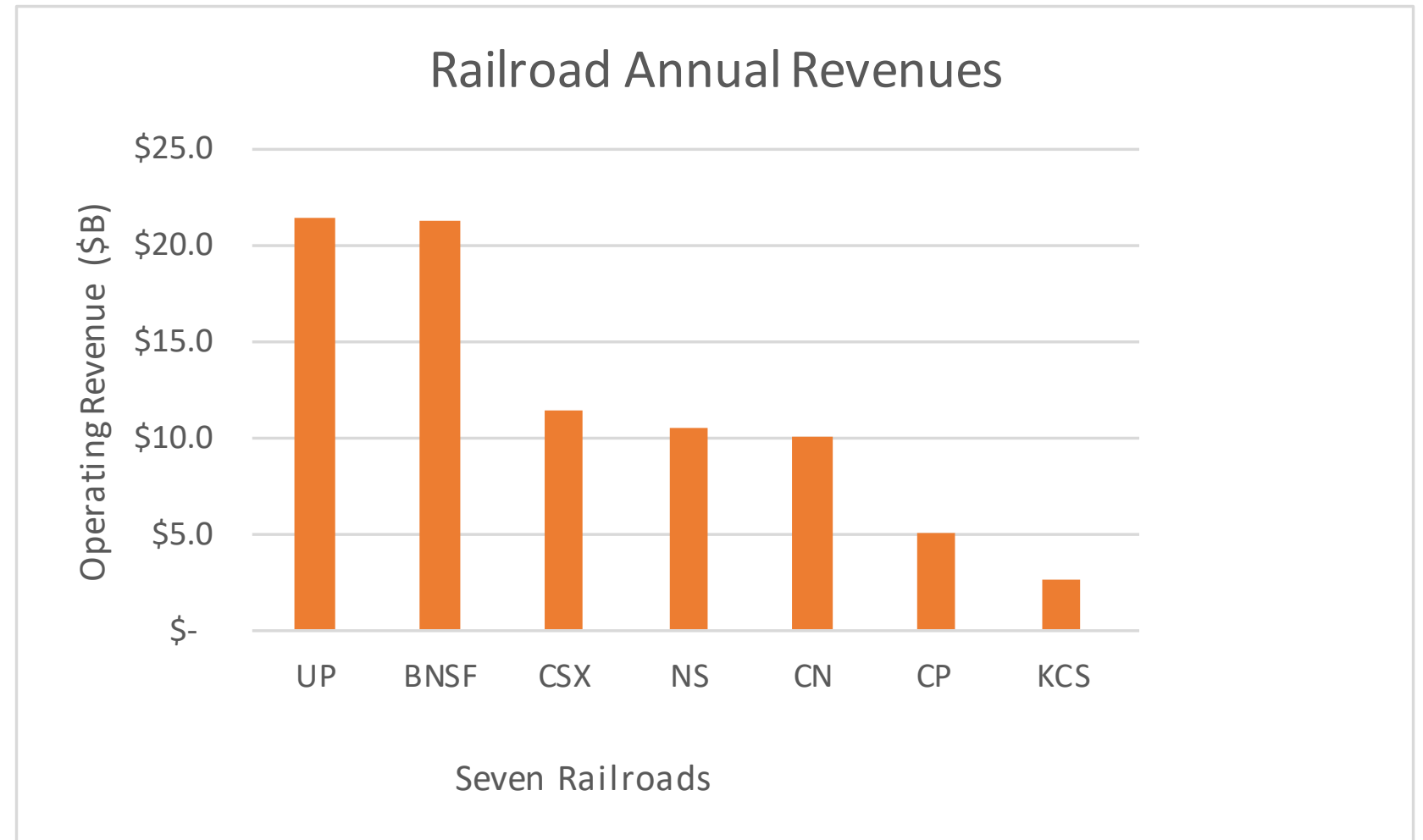
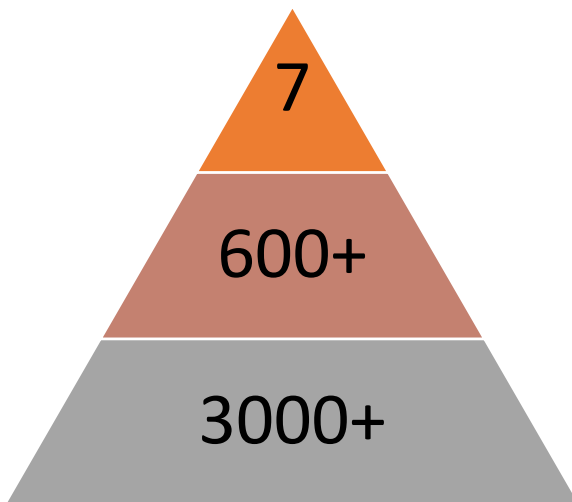
Class II and III Railroads

Industrial Rail Shippers



CANADIAN
PACIFIC





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

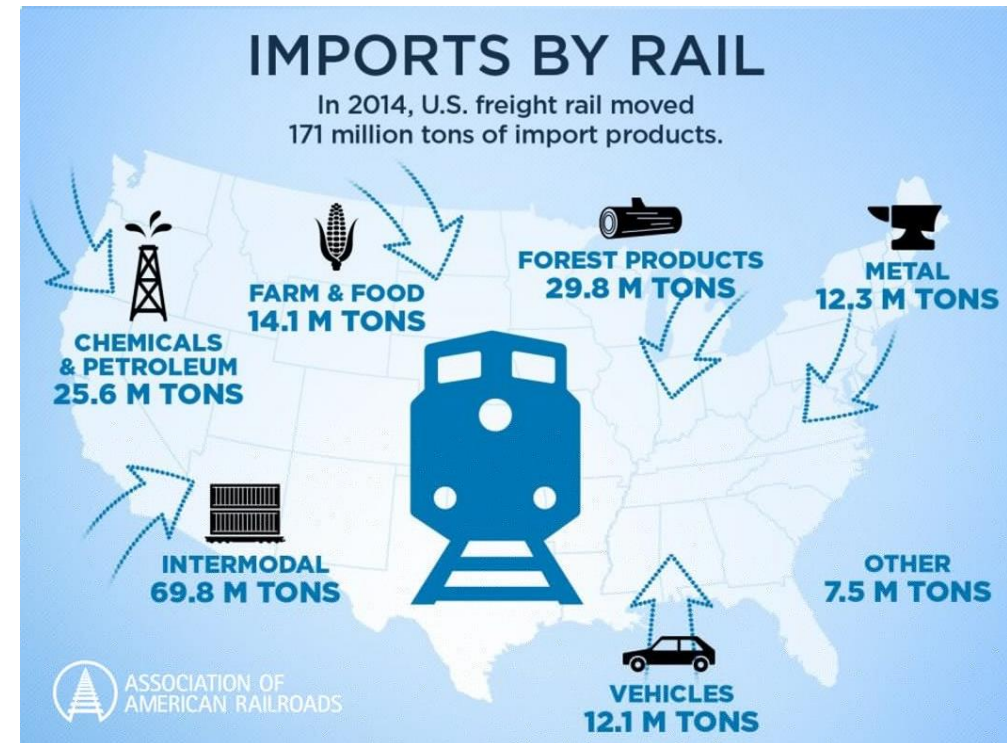
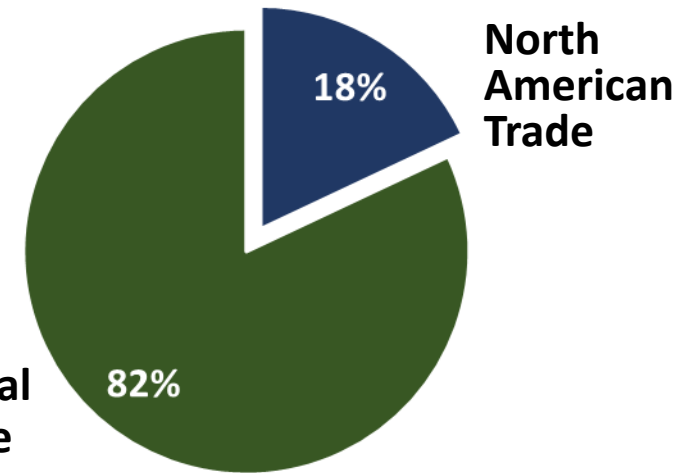
Terminal (Class III) Railroads

- 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

Import-Exports moved by Rail

500M+ tons, \$178B last year

Global Trade



Source: Association of American Railroads

Precision Scheduled Railroading

Precision Scheduled Railroading makes railroads run more like airlines: on a set schedule

- ↑ Increase reliability
- ↑ Lower operating cost
- ↓ Decrease customized service

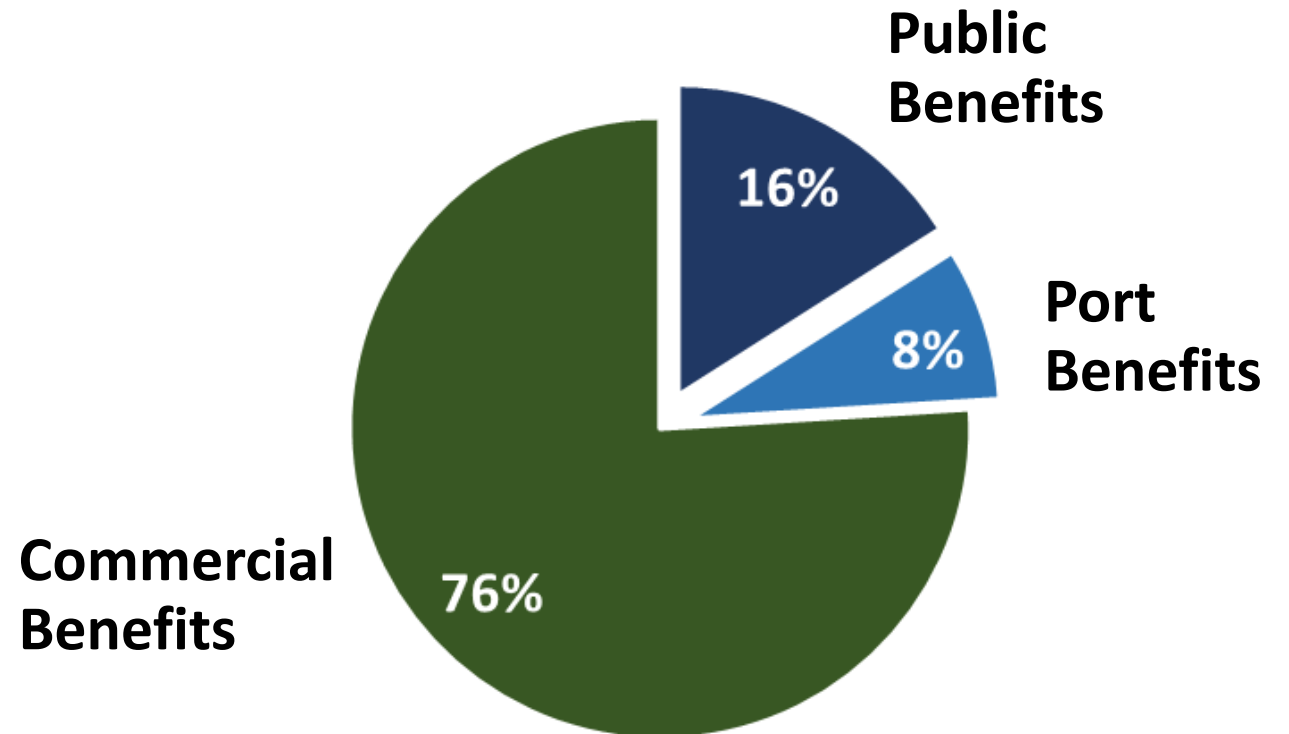


Port - Rail Opportunities

The Challenge: Match the Returns and Investment

3:1

SRF's recent calculation of the ratio between benefits to commercial parties to the benefits accruing to the port and general public from a *100% port-funded rail project*



Two forms of “ROI” Return on Investment



Two forms of Return on Investment

1. Financial returns

2. Programmatic returns

Private entities focus on #1

Public on #1 and #2

Port Hurdle Rate: 5% to 8%

Railroad Hurdle Rate: 25% +

Examples of Programmatic Returns on Investment

- ✓ Job creation
- ✓ Tax base
- ✓ Increasing exports
- ✓ Infrastructure development
- ✓ Attracting investment
- ✓ Congestion reduction
- ✓ Air and water quality

Acquire the Essential Rail Assets

Ensure adequate capital investment

Manage pricing of services

Hold operations accountable

Deliver required switching services

Deliver required support services



Valuation and Acquisition Advisor

CONFIDENTIAL

Create the Required Rail Operation

Ensure adequate capital investment

Manage pricing of services

Hold operations accountable

Deliver required switching services

Deliver required support services



SRF is advising a Development Agency in combining 16 miles of industry track and 1 mile of Class I track to establish a new short line to serve existing industry, improve local rail services, and select a rail operator / business development partner for a 1100+ acre redevelopment area

Develop Your Essential Rail Assets

Create assets required to achieve your Port's goals

Support Port tenant needs, improving attractiveness and competitive position

Deliver public benefits resulting from increased rail traffic

Improve your reach to inland markets



\$870M project to increase on-dock rail percentage, support more and longer intermodal trains, decrease highway and gate congestion, and increase port terminal efficiency.

Invest in Your Essential Rail Assets

Take advantage of the Port's access to low cost capital

Demonstrate patience to achieve returns on investment

Benefit from multiple value streams, like wharfage fees and land rents



\$6M project to increase on-dock rail capacity, provide covered storage for railcar loading. In 2018, Port of Everett received the first ever US DOT Railroad Rehabilitation and Infrastructure Financing loan to a port authority (at 3.32% for 30 years)

Manage in Your Leased Rail Assets

**Align interests with collaborative
business development and revenue
sharing**

**Insist upon accountability in service
levels and service charges**

**Beware of very long-term agreements
and automatic extensions**

CONFIDENTIAL



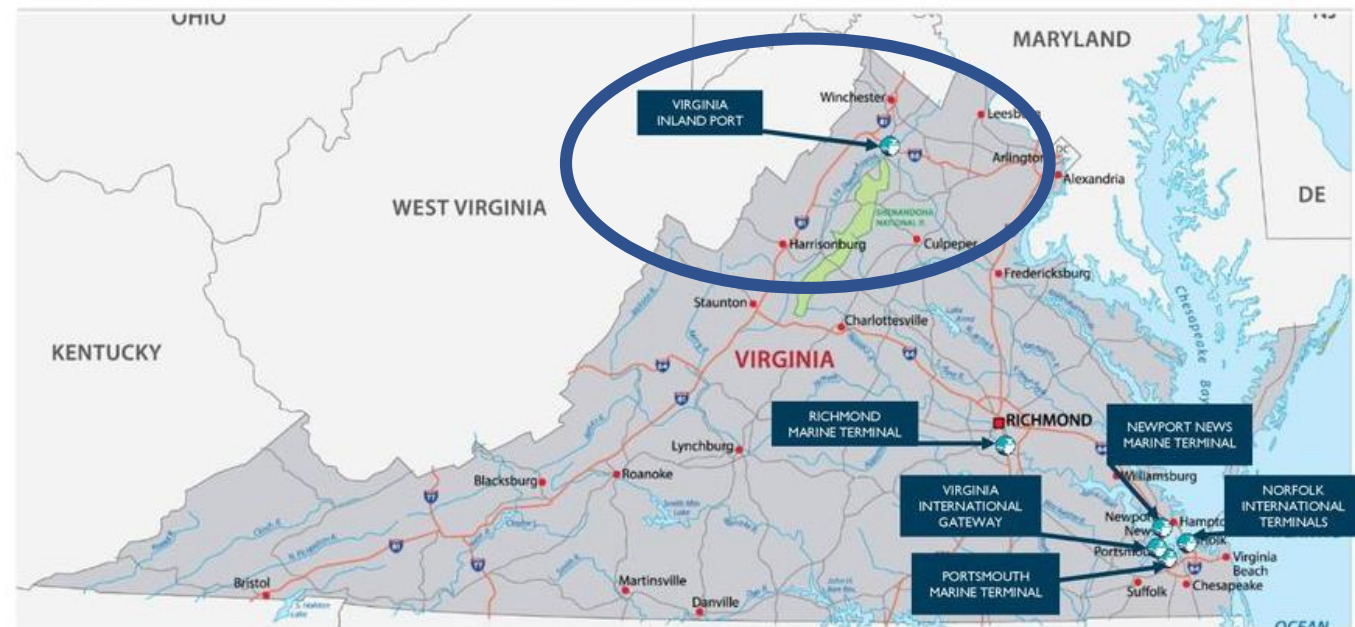
SRF is advising three public agencies on renegotiating or rebidding old rail operating concessions, adding key performance indicators, service accountability, revenue sharing, and creating structures for future capital investment.

Funnel Freight with Your Rail Assets

**Connect the port to industrial sites with
shuttle services**

**Connect the port to lower-cost land
with better highway connections with
an inland port**

Virginia Inland Port at Front Royal



A long-sustained initiative to develop container transfer service 220 miles inland with 5-day intermodal service. 78,000 TEU capacity with FTZ and US Customs port of entry services. Initially moving frozen chicken and logs, it's now also the location of Rite Aid, Dollar General, Home Depot, Kohl's, Red Bull and other DCs and warehouses.

Summary

Concluding where we started...

We're thinking about the port authority as a “Freight-Based Industrial Development Agency”



Five “Ps” of Board Good Governance

1. Planning
2. Policy
3. Parameters
4. Pneumatics
5. Political Support



Five “Ps” of Board Good Governance and Port-Rail Opportunities

1. Planning – every port should have a rail strategy
2. Policy – require rail partner accountability and shared benefit
3. Parameters – empower your executives with rail engagement
4. Pneumatics – operations and finance drive railroad partnership
5. Political Support – benefits the economy, community, environment

Thank You!



John Elliott, Senior Vice President

jelliott@strategicrail.com

1700 Sansom Street, Suite 500

Philadelphia, PA 19103

(215) 564-3122

strategicrail.com