Port Terminal Railroads

Public Private Partnerships

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Text “strategicrail” to 27126
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
600+

Class II and III Railroads
3000+

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
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Business Development
Return on Investment

- Financial Returns
- Market forces define
- Equity
- Hybrid
- Debt
- No-go zone
- Risk

Programmatic Returns

T-Bills

12-15%

Zero risk

Investment grade
Return on Investment—the Third Dimension

Financial Returns

- Market forces define
- Public interest define

Equity

- Debt

Hybrid

- Subsidized Debt

Programmatic Returns

- Grants and Tax Credit Equity

No-go zone

Risk

Limits of Politics and Prudence
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

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

12-15%  
T-Bills

Financial Returns

Zero risk  
Investment grade  
Equity  
Hybrid  
No-go zone

Risk

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
2. Leadership to guide strategy for effective capital deployment
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
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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