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
Railroad Annual Revenues

<table>
<thead>
<tr>
<th>Railroad</th>
<th>Operating Revenue ($B)</th>
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<tbody>
<tr>
<td>UP</td>
<td>$7</td>
</tr>
<tr>
<td>BNSF</td>
<td>$600+</td>
</tr>
<tr>
<td>CSX</td>
<td>$3000+</td>
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<tr>
<td>NS</td>
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<tr>
<td>CN</td>
<td>$10.0</td>
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<tr>
<td>CP</td>
<td>$15.0</td>
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<td>KCS</td>
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</tbody>
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Ports

Seven Railroads

- UP
- BNSF
- CSX
- NS
- CN
- CP
- KCS
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

Source: Association of American Railroads
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
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

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

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