

RAIL ANALYSIS FOR OPERATIONS OF THE SJVR IN FRESNO COUNTY

**PRESENTED TO THE
FRESNO COUNCIL OF GOVERNMENTS**



Fresno Council
of Governments

RAILROAD INDUSTRIES INCORPORATED

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THANK YOU AND WELCOME

Railroad Industries Incorporated (RII) is pleased to give this presentation to and on behalf of the Fresno Council of Governments. RII was contracted to perform this study and develop a report on the rail situation with SJVR in southern Fresno County. This presentation summarizes the research and findings of that report.



RII is a rail and multimodal transportation consulting firm, specializing in short line operations, evaluations and rail traffic development for over 27 years.

Gary V. Hunter, Chairman and CEO of RII, and Project Manager for this project, has 34 years of experience in hands-on rail management and consulting.

We welcome questions and comments at the end of this presentation.

PRESENTATION OUTLINE

Introduction

History

Physical Inspection

Rehabilitation Costing

Market Analysis

Customer Surveys
Potential Traffic

Operations Analysis

Operating Plan
Return on Investment

Net Liquidation Value

Conclusions

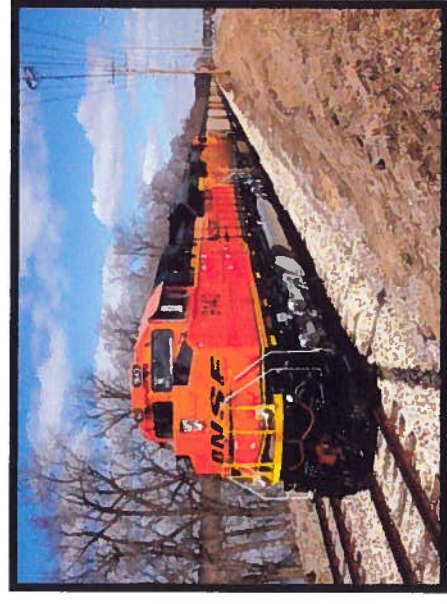
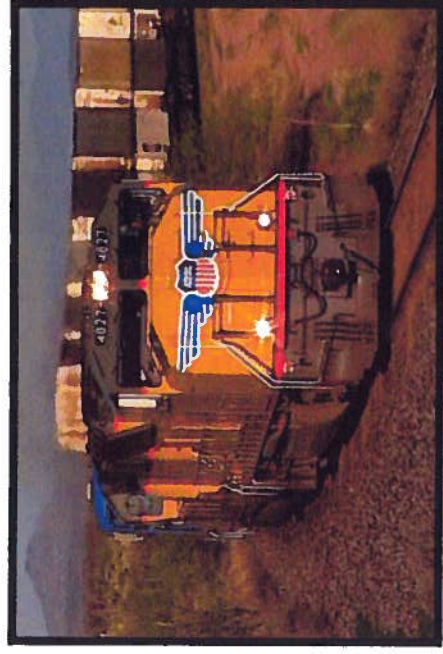
Recommendations

Questions and Comments?

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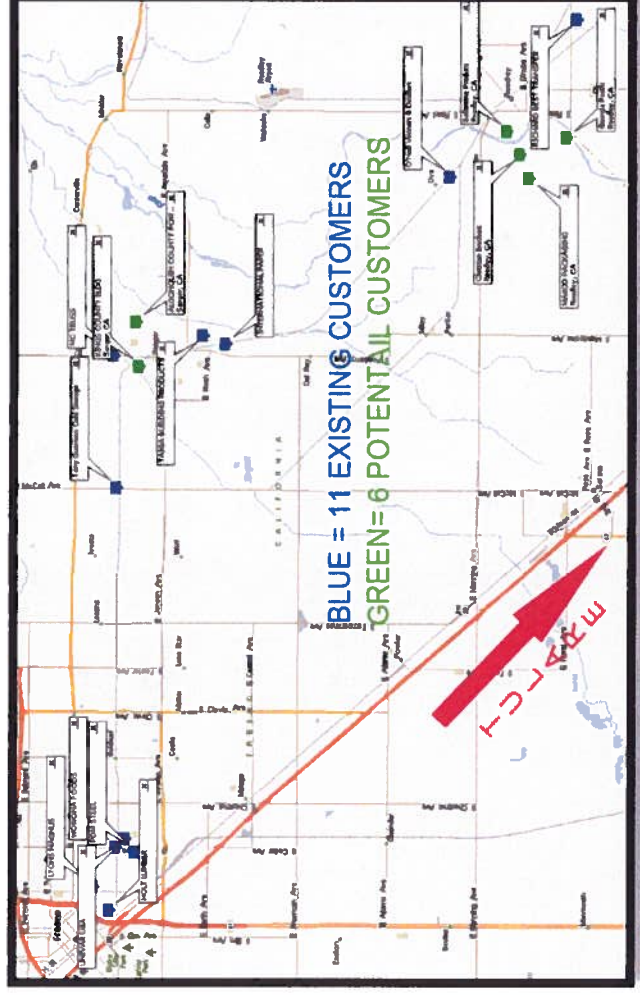
ACCESS RIGHTS

SJVR is the owner and operator of the track from Fresno County line at Ivory to City of Fresno, while UP owns the real estate in the right of way. BNSF also has rights to serve these customers over the track if it chose to do so.



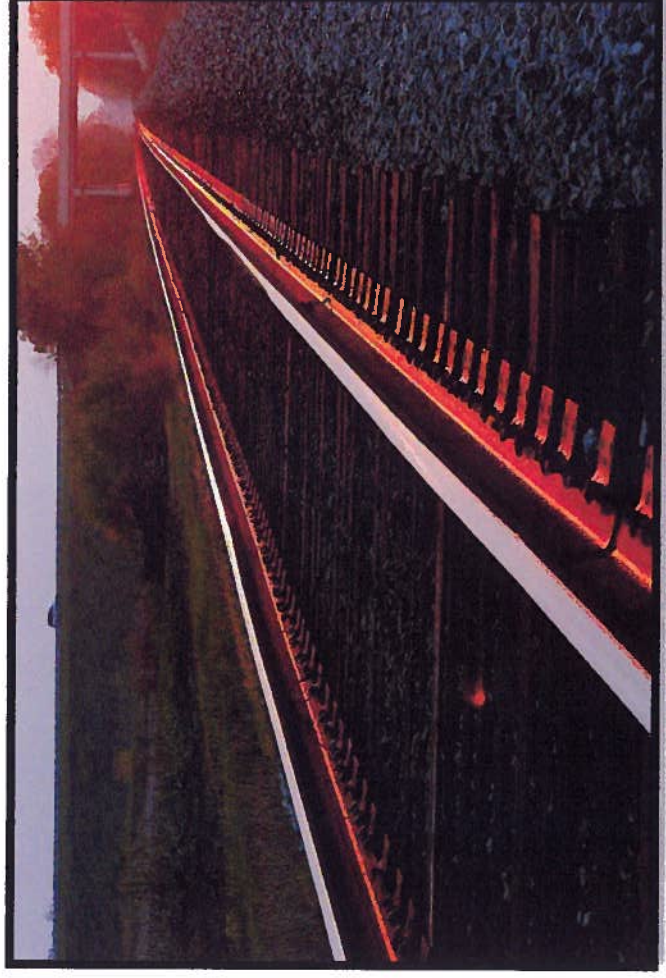
HISTORY

Over the last 3 years, SJVR has systematically sought to abandon several segments of its rail lines in Fresno, Tulare and Kern counties. The branch line running parallel to the UP main line from Jovista at its south point all the way to Fresno at its north point has been one of these segments. This branch line serves customers in the eastern parts of Tulare and Fresno counties, and has already been partially abandoned. Tulare County has been fighting the abandonments and attempted to negotiate a purchase of the segments at risk from SJVR, but has been thus far unsuccessful.



FRESNO COUNTY INTERESTS

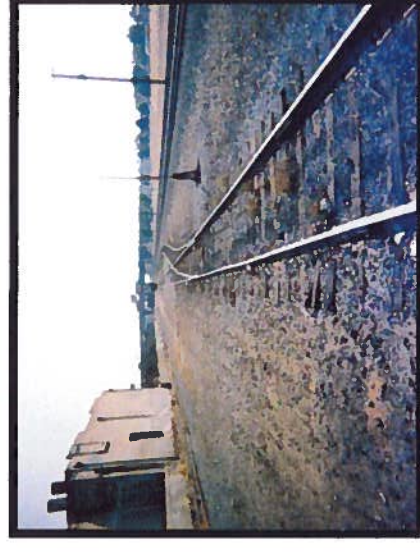
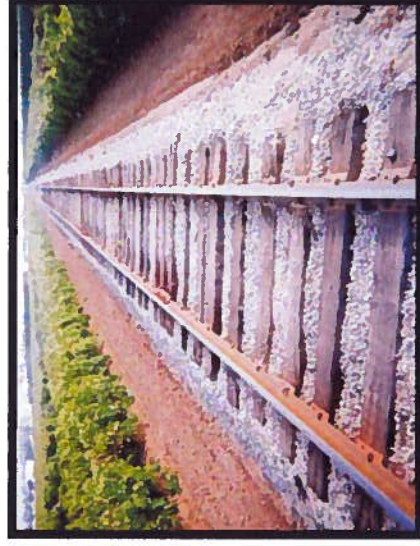
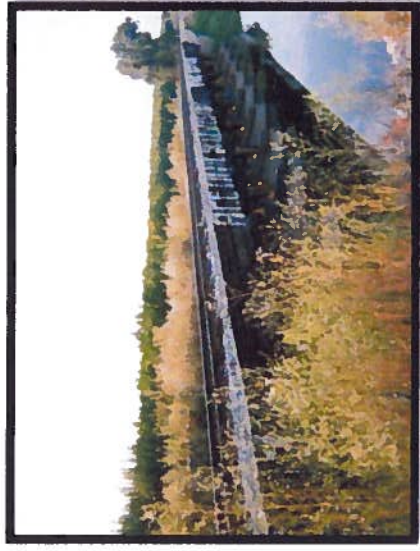
Fresno County has a vested interest in the future of this branch line, which currently serves several of its own shippers. Fresno County has decided to be proactive in its efforts to prepare for threats to its rail service and examine traffic, track conditions and operational feasibility for this portion of the line before potential abandonment threats. The purpose of the study was to analyze the rail situation in Fresno County, and evaluate the rail line in Fresno County for potential purpose in case of continued service decline or abandonment by SJVR.



PHYSICAL INSPECTION

A physical inspection of the line was performed by spot checking random sections along the line.

The line was found to be 80% heavy rail in overall average to good condition. However, there is about 5.7 miles of light weight rail, 75 lb. and 90 lb. rail which is in condition ranging from fair to poor. The annual maintenance expenditures should be about \$6,370 per mile, or about \$165,000 per year under a good operating plan for the 26.8 miles of this line in Fresno County.



REHABILITATION COSTING

Most of the line was in average to good condition. However, 5.7 miles were found to have light weight rail. Although operations can be performed on this track with the expected traffic as is, RII recommends some replacement to keep maintenance costs down and ensure optimum efficiency in the operating plans suggested. The recommendations are presented in 3 scenarios, beginning with the lowest cost scenario.

Scenario 1: Replace 10,000 ties on the entire line:
Approximately \$1,500,000

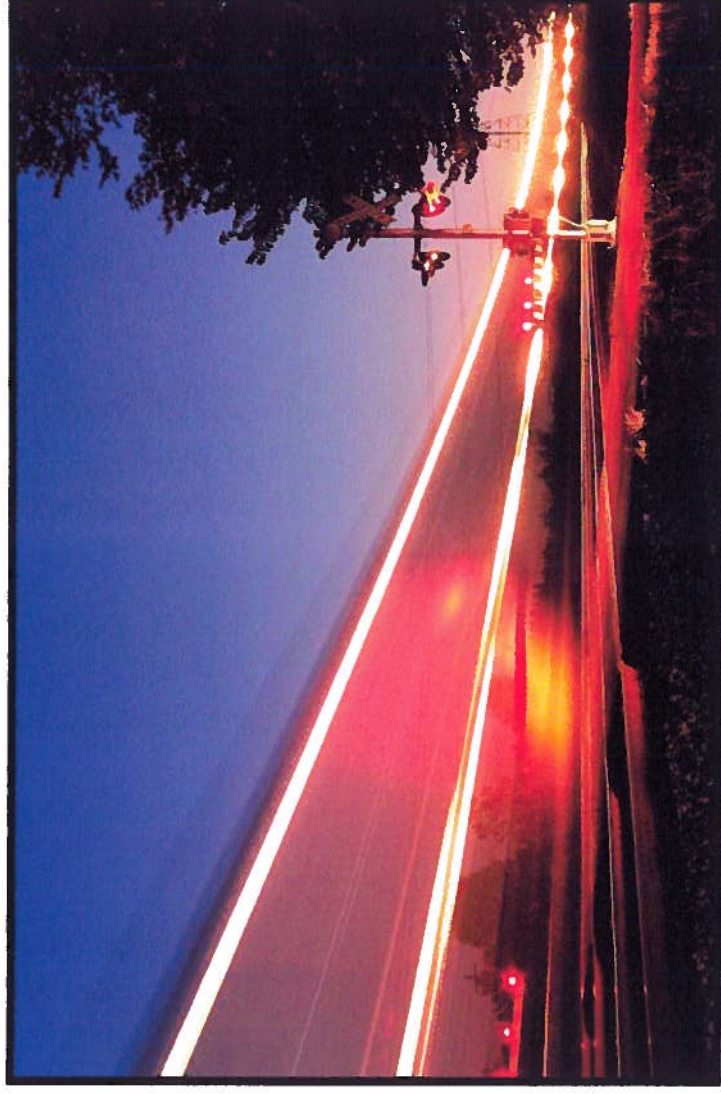
Scenario 2: Additionally replace 2 miles of 75 lb. rail
with 112 lb. rail:
\$2,418,400 - \$2,498,400

Scenario 3: Additionally replace 2 miles of 75 lb. rail
and 3.7 miles of 90 lb. rail with 112 lb. rail:
\$4,117,440 - \$4,345,440



MARKET ANALYSIS

The current traffic for the Fresno County portion of this line alone accounts for over 4,700 carloads per year. This is significant and sufficient to support an operation profitably. In addition, with a proper marketing plan and focus on customer service, existing customers' reported potential traffic could likely grow to more than double that number. This does not even include numerous additional potential customers in the area that were noted as potential rail shippers who could add traffic to this line. The revenue – current and potential – appears to be substantial for this line.



MARKET ANALYSIS

Customer Surveys

A total of 11 current shippers were interviewed for this study who reported having current traffic on the line.

Based on the interviews, it is evident that SJVR has had little communication with these customers and is doing very little marketing work. Service is declining and the SJVR wants to charge the customers excessive surcharges and fees, which is making the rail service non-competitive. The switch crews are a problem and do not work with the customers. SJVR seems to have little interest in the customers; this is going to make it difficult for the customers in the future and for any economic development efforts.

Fresno Study: Current Traffic		
Customer	Inbound Current	Outbound Current
PDM Steel	60	
Wawona Frozen Foods		100
Lyons Magnus		*
Holt Lumber	18	
International Paper	650	
Taiga Building Products	132	
M. C. Truss	14	
Univar	160	22
Tony Guerriero Cold Storage		
O'Neill Vintners and Distillers	16	92
Richard Best Transfer	3,500	
Total	4,550	214

* Would like to move by rail in the future, but will need the SJVR to work with them.

POTENTIAL TRAFFIC

There is a strong potential for additional traffic on this line if service were improved and customer service were made a priority. Existing customers reported that they could ship substantially more if they could be assured of more consistent and frequent service, as well as cooperation and collaboration from the railroad. With existing customers alone, the traffic could be increased to almost 10,000 carloads per year.

In addition, this does not include any of the additional traffic that new customers bring to the line. There are numerous additional potential customers existing in the area with rail conducive freight that should be approached.

Fresno Study: Potential Total Traffic			
Customer	Inbound current plus potential	outbound current plus potential	
PDM Steel	102		
Wawona Frozen Foods		120	
Lyons Magnus		55	
Holt Lumber	30		
International Paper	813		
Taiga Building Products	360		
M. C. Truss	18		
Univar	300	30	
Tony Guerriero Cold Storage	10	10	
O'Neill Vintners and Distillers	16	92	
Richard Best Transfer	8000		
Total	9649	307	

OPERATION ANALYSIS

An operating plan was developed for handling traffic on just the Fresno County portion of the line from Ivory to Fresno, CA. A scenario was developed for handling the existing 4,700 cars, and a separate scenario was developed for handling the potential traffic (that traffic expected if rail service is improved and expansion plan move forward as expected and reported by the shippers).

Operation Plan and Schedule

The train is scheduled to run from Fresno to Ivory and return each day Monday to Friday. Depending on the traffic, the train may or may not go all the way to Ivory. The traffic of Richard Best Transfer has been included in this analysis.

Ivory Turn

On duty at Fresno Yard at 8:00am
8:00-9:00am switch cars from interchange
9:00am depart for Ivory, switch as necessary along the route
12:00pm arrive Ivory to switch Richard Best Transfer
1:00pm depart for Fresno and switching as necessary along the route
4:00pm return to Fresno, deliver cars and tie up locomotives

The Current Traffic scenario assumes a staff of 11 people, where the Potential Traffic Scenario assumes a staff of 13 people.

UNIT TRAIN OPERATIONS

Under the Potential Traffic scenario, Richard Best Transfer is able to move unit trains over the line. A separate schedule was developed for the Unit Train operation to move 7,000 cars for Richard Best Transfer.

8:00 am - Depart Fresno

10:00 am - Arrive Ivory

11:00 am - Set out Cars

Crew to be picked up and the three locomotives will be parked on site

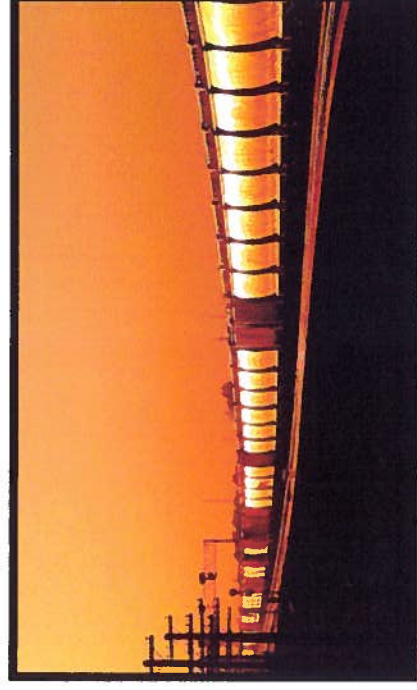
Crew will come back and use the fourth locomotive to switch the other industries as necessary

When the train is empty, the crew will be brought to Ivory at 9:00am after being on duty at 8:00am

Switch and depart Ivory at 10:00am

Arrive Fresno at 12:00pm to deliver train

Crew will switch other industries as necessary



RETURN ON INVESTMENT

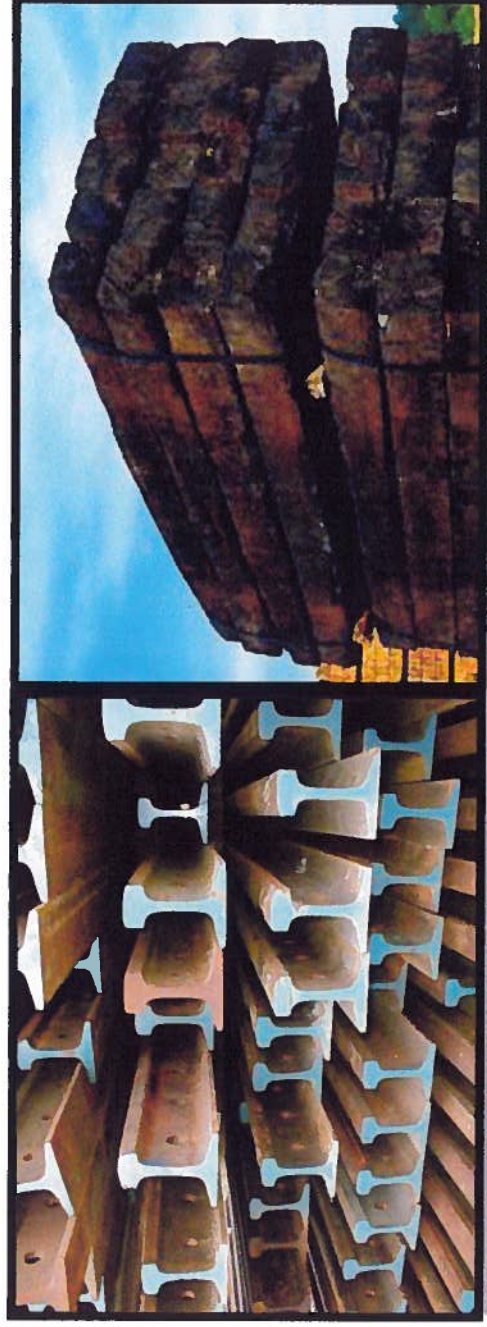
While both scenarios support a profitable operation, the existing traffic yielded a return of 6.9%, while the potential traffic yields a return of up to 27.5%, not counting any additional customers that may come on line with better service and a strong marketing plan.

	Year 1
PROJECTED CARLOADS:	4,764
AVERAGE REVENUE PER CARLOAD:	\$ 350
TOTAL OPERATING REVENUES	\$ 1,667,400
TOTAL OPERATING EXPENSES	\$ 1,552,081
NET INCOME AFTER TAXES	\$ 115,319
NET PROFIT MARGIN	6.9%

	Year 1
PROJECTED CARLOADS:	9,956
AVERAGE REVENUE PER CARLOAD:	\$ 280
TOTAL OPERATING REVENUES	\$ 2,784,600
TOTAL OPERATING EXPENSES	\$ 2,019,856
NET INCOME AFTER TAXES	\$ 764,744
NET PROFIT MARGIN	27.5%

NET LIQUIDATION VALUE

The NLV for the rail materials comes to be **\$2,416,840**. This is the market salvage value of the track assets minus the costs of salvage. The real estate in the right of way is owned by UP. Fresno County may have the option of leasing this land from UP as opposed to purchasing it. If Fresno moves to purchase this real estate as well, an “over the fence value” for the land can be developed (based on values of adjacent land parcels), which is the method used by the STB for determining value of right of way land. The \$2,416,840 is the salvage value SJVR could realize from sale of the track materials it owns. All values were developed as of December 2010.



CONCLUSIONS

The service issues and lack of maintenance on the line have created problems with the customers that have led to traffic being diverted from the railroad, moving to truck or losing market competitiveness. The best news is that all of these items can be easily changed with a new focus on service and marketing to increase traffic and revenue on the line. Changes are needed if this line is going to have a future for economic development in this region.

Special Points of Consideration:

For SJVR:

- 1) Track Maintenance
- 2) Traffic Development
- 3) Customer Service
- 4) Interest in Rail Line

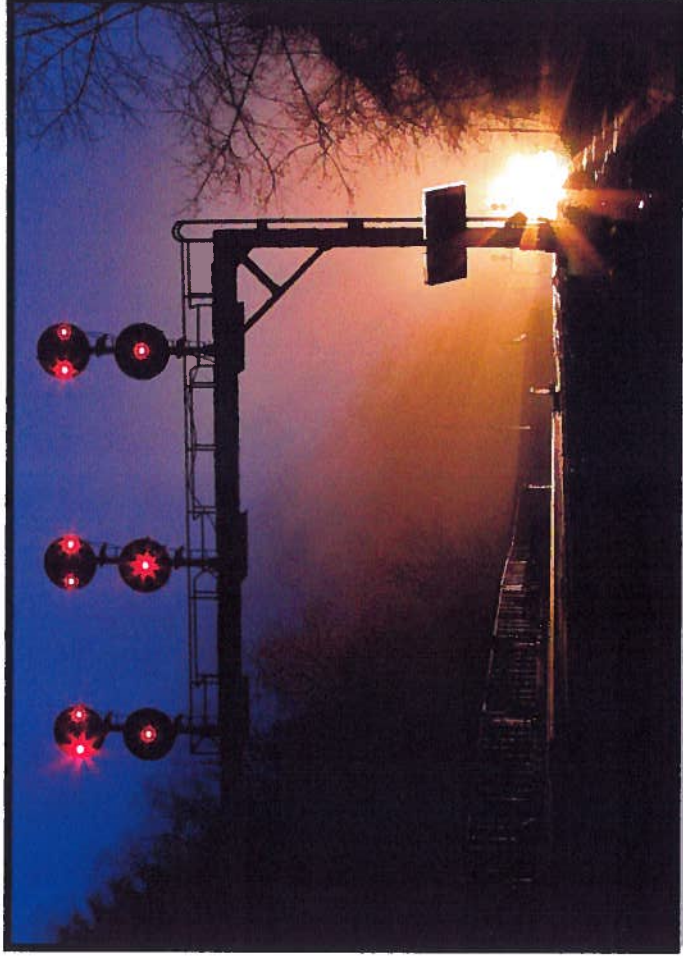
For Fresno County:

- 1) Rail line is profitable
- 2) Rail is needed for the long-term
- 3) Work more closely with SJVR
- 4) Effects of Tulare situation on Fresno

RECOMMENDATIONS

RII's main recommendation coming from this project is for Fresno County to take a proactive role in working with SJVR to prevent the situation as it has developed in Tulare County and develop more traffic on the line, improve relationships and service with the customers, and step in to acquire the line if SJVR is not interested in the same goal.

The key for Fresno County will be to be prepared ahead of time with the details and data it will need to take the immediate next steps.



COMMENTS/QUESTIONS



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