



Chautauqua, Cattaraugus, Allegany & Steuben Counties
Southern Tier Extension Railroad Authority

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"This institution is an equal opportunity organization"

William Daly, Chairman
Richard Zink, Chief Executive Officer

Self-Evaluation for STERA for the year ending December 31, 2013

1. Operating railroad providing adequate rail service

Evaluation: The Western New York and Pennsylvania Railroad, LLC. (WNYP) is providing adequate rail service on a cost-effective, as-needed basis on both the Southern Tier Extension (STE) and Buffalo rail lines. STERA is meeting this goal.

2. Increased rail shipping carload volumes

Evaluation: The Southern Tier Extension freight volume in 2013 continued to be down from the historical maximum of 54,000 carloads per year experienced several years prior (up from 75 carloads per year prior to takeover in 2001), and also from levels in recent years. Freight volume increased slightly from 2012 to 2013 on both the Southern Tier Extension and the Buffalo lines.

Total carloads for the entire system:

<u>2012</u>	<u>Carloads</u>	<u>Notes</u>
Overhead Freight	0	(all STE East-West mainline traffic)
Local Freight	4,320	Southern Tier Extension line
	<u>2,153</u>	Buffalo line
	<u>6,473</u>	Total local freight
Total	6,473	Total system
<u>2013</u>	<u>Carloads</u>	<u>Notes</u>
Overhead Freight	0	(all STE East-West mainline traffic)
Local Freight	4,578	Southern Tier Extension line
	<u>2,207</u>	Buffalo line
	<u>6,785</u>	Total local freight
Total	6,785	Total system

Conclusions – Coal and other overhead traffic has been eliminated by Norfolk Southern Corporation. However, local freight traffic has increased somewhat on both the Southern Tier Extension and the Buffalo Lines. Norfolk Southern’s decision to eliminate overhead traffic. The elimination of overhead coal traffic may be attributed to several factors (national economic conditions, the closure

of coal-fired power plants, and the relative price disadvantage that coal occupies relative to natural gas), and as such is beyond the ability of STERA to influence. Accordingly, this does not imply a failure of the authority's performance.

For 2014, overhead coal traffic is projected at 0 carloads and local freight traffic is projected to be substantially above the 6,785 carloads in 2013, largely attributable to the establishment of a new gas line pipe distribution facility, increased aggregate shipping, and frack sand unloading activity along the Buffalo Line.

Between 2012 and 2013, STERA is meeting the overall goal of increased rail carload shipping volumes, but the longer term decrease in total system carload shipping volumes from historical maxima is a shortcoming that STERA hopes can be addressed in coming years.

3. Opportunities for additional business expansion and development based on rail service

Evaluation: There are five types of opportunities for additional business expansion and development based on rail service, as follows:

- 1) Ongoing WNYP marketing efforts
- 2) Economic development community (state and local) marketing and development efforts
- 3) Reutilization of vacant or underutilized rail-served facilities and sites
- 4) Olean BOA site – opportunity for development at this site, located at the junction of the Southern Tier Extension and Buffalo lines
- 5) Transload facility project - STERA has proposed construction and operation of a transload facility in the Olean railroad yards, which should assist businesses throughout the region (especially those not located along the railroad lines) with obtaining rail service at competitive pricing. This should facilitate the retention and expansion of these businesses.
- 6) Site development project - STERA also has worked with the counties to develop an inventory of developable sites along the railroad lines, and in 2014 will continue to work toward encouraging the counties to make these sites shovel-ready and market the sites for business development.

These efforts all are long-term strategies, dependent upon (a) financial resources available to STERA and its local partners and (b) successful identification of a developer or company desiring to locate or expand operations in part as a consequence of rail service availability.

4. Documentation of rehabilitation efforts and functional performance of the railroad line

Evaluation: Rehabilitation projects on the STERA railroad system are either STERA-sponsored or WNYP sponsored.

STERA-Sponsored Rehabilitation Projects

STERA's line rehabilitation and improvement activities and other capital investment projects are limited by funding constraints at the state and federal government levels, and by matching funds availability. Matching funds for construction projects typically are provided to STERA by WNYP. However, during calendar year 2013, STERA was able to commence two rehabilitation projects that had been funded in a prior year.

The first rehabilitation project that STERA commenced in 2013 was a track realignment and bridge repair project in Chautauqua County, on the Southern Tier Extension line. This project was funded by NYS DOT, with matching funds provided by WNYP. This project was completed in late 2013. This project also is part of an overall initiative to make the Southern Tier Extension line capable of carrying 286,000 pound cars, the federal standard. Some project funds remain from this project, and in 2014 STERA will investigate using these funds for other needed rehabilitation or improvement projects.

The second rehabilitation project that STERA commenced in 2013 was a project involving the rehabilitation of five (5) bridges in Allegany and Cattaraugus County on the Southern Tier Extension line. This project was funded by NYS DOT, with matching funds provided by WNYP. This project should be completed in 2014.

As of the end of 2013, STERA also continued to work toward closing out a FEMA project involving the repair and remediation of eleven (11) locations in Allegany County where the Southern Tier Extension Line had suffered storm damage in April and May of 2011. This project was funded by FEMA (federal) grant funding, New York State Emergency Management Office (NYS EMO) grant funding, and local share grant funding from WNYP. Funding for the project was obtained in 2011. Construction on this project had been completed in late 2012, but STERA has had some difficulties obtaining promised funds from FEMA and NYS EMO. STERA hopes to close this project out in 2014.

Additionally, in 2013, STERA applied for and was approved for funding from NYS DOT, with matching funds provided by WNYP, for another rehabilitation project. This project will involve the Buffalo rail line, and will consist of the repair of four grade crossings and the installation of 8,000 railroad ties. This project will commence in 2014, and should be completed in 2014.

WNYP-Sponsored Rehabilitation Projects

WNYP has participated financially in State-funded and Federally-funded projects over the years and has self-funded a limited number of rehabilitation projects when State and Federal funds have not been available. Penn DOT has funded a number of rehabilitation projects in Pennsylvania in combination with WNYP with no STERA involvement.

Conclusions – Although the railroad line continues to experience deterioration with the passage of time and exposure to weather, and especially as the prior owner Conrail had deferred any maintenance on the line (and in fact had removed line assets for use elsewhere in its system) for over 25 years, and as heavy Norfolk Southern coal trains place a heavy stress on the rail lines, the net effect has been placing all of the railroad line back in service, and increasing traffic speeds toward 25 miles per hour on all of the line (exceptions being areas that occasionally are flagged for 10 mile service until repairs can be made), with some sections at 40 miles per hour.

STERA is meeting this goal.

5. Clean audit report and NYS ABO compliance report

Evaluation: On March 10, 2014, STERA received a clean audit report for the year ending December 31, 2013. The auditor found no instances of significant or material internal control deficiencies.

STERA's self-evaluation is that it remains in compliance with the PAAA, the PARA, the Public Authorities Law, and other laws and regulations. STERA has not undergone a NYS ABO compliance and performance field audit since its inception in 2000.

STERA is meeting this goal.

Summary: Overall Self-Evaluation

On the whole, STERA is achieving its purpose and meeting its goals. Once macroeconomic conditions improve, STERA expects rail traffic volumes to grow once again. As additional NYS DOT funds become available, STERA anticipates undertaking ongoing rehabilitation activities.

Adopted by the STERA
Board of Directors on
May 5, 2014



Thomas M. Barnes
STERA Corporate Secretary