



Chautauqua, Cattaraugus, Allegany & Steuben Counties
Southern Tier Extension Railroad Authority
 Center for Regional Excellence, 4039 Route 219, Suite 200, Salamanca, New York 14779
 TEL (716) 945-5301 FAX (716) 945-5550 TDD (716) 945-5301

"This institution is an equal opportunity organization"

Terry Everetts, Chairman
 Richard Zink, Chief Executive Officer

Self-Evaluation for STERA for the year ending December 31, 2015

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 2015 continued to be down from the historical maximum of 54,000 carloads per year experienced several years prior but has begun to trend upward from levels in recent years. Freight volume increased significantly from 2014 to 2015 on the Buffalo line due to growth in aggregates and substantial growth of fracking sand related to the Marcellus and Utica Shale plays. With the exception of this fracking sand traffic traversing a small portion of the Southern Tier Extension Line (14 miles), freight traffic along the Southern Tier Extension Line continues to decrease. However, total cumulative annual freight traffic on both lines taken together increased by 396 carloads from 2014 to 2015, which is a 5% increase in freight carload volume in the past year.

Total carloads for the entire system:

<u>2014</u>	<u>Carloads</u>	<u>Notes</u>
Overhead Freight	80	(all STE East-West mainline traffic)
Local Freight	4,592	Southern Tier Extension line
	<u>3,254</u>	Buffalo line
	<u>7,846</u>	Total local freight
Total	7,926	Total system
<u>2015</u>	<u>Carloads</u>	<u>Notes</u>
Overhead Freight	116	(all STE East-West mainline traffic)
Local Freight	3,524	Southern Tier Extension line
	<u>4,682</u>	Buffalo line
	<u>8,206</u>	Total local freight
Total	8,322	Total system

Conclusions – Coal and other overhead traffic has been eliminated by Norfolk Southern Corporation. Local freight traffic has decreased on the Southern Tier Extension and increased on the Buffalo Line. Norfolk Southern’s decision to eliminate 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 2016, overhead coal traffic is projected at 0 carloads and local freight traffic is projected to be somewhat above the 8,322 carloads in 2015, attributable to business to the gas line pipe distribution facility, increased aggregate shipping, increased frack sand unloading activity, and growth of wax refinery traffic along the Buffalo Line.

Between 2014 and 2015, 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 maximums 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) 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.
- 5) Site development project - STERA also has worked with the counties to develop an inventory of developable sites along the railroad lines, and in 2016 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.

During calendar year 2015, STERA completed two rehabilitation projects that had been funded in a prior year, continued three projects that had been funded in a prior year, and was able to commence one additional rehabilitation project.

The first rehabilitation project that STERA completed in 2015 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. All contractually funded work was completed as of the end of 2015; however, the contractor WNYP will continue to invest some of its own (non-project) funds to provide additional supporting work to the project.

A second rehabilitation project that STERA completed in 2015 was a FEMA project involving the repair and remediation / mitigation of forty-seven (47) locations in Allegany, Cattaraugus, Chautauqua, and Steuben Counties where the Southern Tier Extension Line had suffered storm damage in April and May of 2014. This project had been funded by FEMA (federal) grant funding, New York State Emergency Management Office (NYS EMO) grant funding, New York State Division of Homeland Security & Emergency Services (NYS DHSES) grant funding, and local share grant funding from WNYP. Construction on this project was completed in 2015, and as of the end of 2015, STERA is nearing receipt of all funding from these two sources and closing this project out.

The first rehabilitation project that STERA continued in 2015 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. All of the work on this project has been completed as of the end of 2015; however, additional project funds remain, and STERA has received approval to extend the project deadline through the end of 2016 and complete additional project work elements to better serve rail shippers on the line. 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.

The first rehabilitation project that STERA continued in 2015 was project that involved the repair of four grade crossings and the installation of 8,000 railroad ties on the Buffalo Rail Line. All of the work on this project has been completed as of the end of 2015; however, additional project funds remain, and STERA has received approval to extend the project deadline through the end of 2016 and complete additional project work elements to better serve rail shippers on the line. 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.

In 2014, STERA was awarded funds by NYS DOT for the repair of track on the Southern Tier Extension Rail Line in Cattaraugus County between Killbuck and Olean, plus additional work in the Olean Yard. Local match funding will be provided by WNYP. This project commenced in 2015 and should be completed in 2016.

In August 2015, STERA submitted an application to NYS DOT for \$1,600,000 of PFRAP grant funds, to be matched by \$400,000 of WNYP funds. The project would involve replacing 8,000 linear feet of welded rail in Carrolton in Cattaraugus County, and repairing three bridges in Jamestown, one bridge in Salamanca, and one bridge in Olean. All work except the Olean bridge is to be done on the Southern Tier Extension; the Olean bridge is on the Buffalo line. As of the end of 2015, funding awards had not yet been announced.

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 ongoing 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, the cumulative effect of STERA’s and WNYP’s ongoing repair / maintenance / mitigation / improvement program has been to restore all of the Southern Tier Railroad Line to service, to make needed repairs to enable the two lines to carry commercial freight in a safe and commercially viable fashion, to work toward increasing (and maintaining) traffic speeds toward 25 miles per hour on all of the line (with some sections at 40 miles per hour, and also with exceptions being areas that occasionally are flagged for 10 mile service until repairs can be made), and working toward developing a standard car weight capacity of the line at 286,000 pounds, the federal standard.

STERA is meeting this goal.

5. Encouragement of safe railroad operations

Evaluation: During 2015, STERA’s progress on rail rehabilitation projects helped to contribute to safe railroad operations on the two rail lines that STERA owns. STERA’s application for funds for another rail rehabilitation project also is intended to encourage safe railroad operations. STERA also encouraged Operation Lifesaver training in communities in which it owns rail lines.

STERA is meeting this goal.

6. Clean audit report and NYS ABO compliance report

Evaluation: On March 7, 2016, STERA received a clean audit report for the year ending December 31, 2015. 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
March 7, 2016



Thomas M. Barnes
STERA Corporate Secretary