



Chautauqua, Cattaraugus, Allegany & Steuben Counties
Southern Tier Extension Railroad Authority
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"This institution is an equal opportunity organization"

Terry Everetts, Chairman
 Richard Zink, Chief Executive Officer

STERA Operations and Accomplishments Report
Prepared for the year ending December 31, 2015

Description of the Authority's Operations

The Authority Board of Directors met 3 times in calendar 2015, in March, June and December. At all Board meetings, the Authority receives a report on railroad operations from the rail operator Western New York and Pennsylvania Railroad LLC (WNYP). The March Board meeting included (a) a comprehensive review of all reports and organizational policies, (b) a review of Authority structural, governance and operating policies and activities, (c) a comprehensive compliance review, and (d) the review and acceptance of the audit and management letter that had been prepared for calendar 2014. The June Board meeting was the annual meeting, which included election of Board and Corporate Officers. The STERA Audit Committee met in June and October. The STERA Governance Committee met in March, June, and December.

Rail Freight Traffic Volume

With respect to rail operations on the two lines with which STERA is actively involved, mainline (through) and local freight volume on the Southern Tier Extension line in 2015 each continued to be down from their historical maxima (combined maximum of 54,000 carloads per year experienced several years prior, which was up from 75 carloads per year prior to takeover in 2001). Coal and other overhead traffic have been eliminated by Norfolk Southern Corporation. Norfolk Southern's decision to eliminate overhead coal traffic may be attributed to several factors, including national economic conditions, the closure of coal-fired power plants, and the relative price disadvantage that coal occupies relative to natural gas. In 2015, freight carload volumes on STERA's two rail lines increased almost 5% from 2014. However, carload volumes remained below historical maxima (both pre-STERA and during STERA's ownership periods), because of national economic conditions and conditions of certain markets (coal and shale gas). There are some indications that traffic in 2016 will increase from 2015 levels, largely attributable to the establishment of a new gas line pipe distribution facility, increased aggregate shipping, increased frack sand unloading activity along the Buffalo Line, and growth of wax refinery traffic along the Buffalo Line.

Total Freight Volume for the Entire STERA Railroad 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
	7,846	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
	8,206	Total local freight
Total	8,322	Total system

Capital Construction Projects Completed in 2015

A. Bridge Repair Project

STERA received NYS DOT 2005 Bond Act funds for the repair of four railroad bridges located in Allegany County (three in Alfred/Alfred Station and one in Belvidere) and one railroad bridge located in Salamanca (Cattaraugus County), all on the Southern Tier Extension Railroad Line. WNYP provided the required matching funds. The project involved the repair and/or replacement of steel-work on girder bridges and the rehabilitation of masonry, piers, abutments and wing-walls on these and on other masonry-faced bridges over streets and highways, the rehabilitation of timber bridge decks, and the rehabilitation or replacement of rail and ties on bridge approaches as required. The goal of the project was to improve safety and track speeds, which would further improve competitiveness of rail service. Further, the project was part of an overall strategy to raise the entire Southern Tier Extension Railroad line to a 286,000 lb. capacity specification for 4-axle rail cars. WNYP provided engineering, construction, and construction inspection services on this contract (augmented by engineering review and inspection review by NYS DOT). The project began in 2014, and all work was completed in 2015.

B. FEMA Project

As a result of a May 2014 storm event. STERA sustained storm damage at 47 locations in four New York State counties on the Southern Tier Extension railroad line. FEMA had declared a disaster in these counties (FEMA-4180-DR-NY), which made STERA eligible for funding from FEMA and the NYS Department of Homeland Security and Emergency Services (DHSES) to assist in the repair of these damages, and to assist in the mitigation of additional damages that might be caused by future storm events at certain specific locations. WNYP provided the remaining required matching funds. The project began in 2014, and all work was completed in 2015. As of December 31, 2015, STERA is in the process of closing this project out.

Capital Construction Projects Active as of December 31, 2015

A. Bridge Rehab and Track Realignment Project

STERA has received NYS DOT 2005 Bond Act funds for the realignment of track from a bridge that in recent years had been in service to an adjacent bridge that in recent years had not been in service. WNYP provided the required matching funds. This project is located in the Falconer area in Chautauqua County on the Southern Tier Extension line. The goal of the project was to improve safety and track speeds, which would further improve competitiveness of rail service. Further, the project was part of an overall strategy to raise the entire Southern Tier Extension Railroad line to a 286,000 lb. capacity specification for 4-axle rail cars. The project replaced a bridge in need of major repair that had only a 273,000 pound per carload weight capacity with a bridge (the bridge placed back into service) that has a 315,000 pound per carload weight capacity (above the industry standard of 286,000 pounds); it was the last remaining 273,000 pound-per-carload bridge in the line. The project began in 2013. The project's primary objectives have been completed; the realigned route and bridge crossing were placed back in service in November 2013. Secondary goals of installation of additional welded rail and 1,200 ties and the improvement of a switch serving the RHI Monofrax siding in Falconer also subsequently have been completed. Additional remaining work includes installation of 5,000 ties and ballast. The project should be completed in 2016.

B. Tie Installation and Grade Crossing Repair Project

STERA has received NYS DOT PFRAP funds for the installation of 8,000 ties and the repair of four grade crossings on a section of the Buffalo line located between Olean and Portville (Cattaraugus County). WNYP provided the required matching funds. The goal of the project is to improve safety and track speeds, which would further improve competitiveness of rail service. Further, the project is part of an overall strategy to maintain the Buffalo line at a 286,000 lb. capacity specification for 4-axle rail cars. The project also will serve customers located on the Buffalo line in Pennsylvania. WNYP will provide engineering, construction, and

construction inspection services on this contract (augmented by engineering review and inspection review by NYS DOT). WNYP has engaged one or more third party private sector construction contractor(s) to provide certain construction services under sub-contract to WNYP. The project began in 2014, and should be completed in 2016.

C. Cattaraugus County Rail Rehabilitation Project

STERA has received NYS DOT PFRAP Act funds for tie replacement, track alignment, and grade crossing and turnout rehabilitation between Olean and Killbuck in Cattaraugus County, NY on the Southern Tier Extension Railroad Line. WNYP provided the required matching funds. The project involves the replacement of 10,000 ties, the installation of approximately 12,000 tons of ballast, the raising/surfacing/aligning of track and turnouts, the rehabilitation of three at-grade crossings, and the rehabilitation of eleven turnouts along 12 linear miles of railroad line between Olean and Killbuck. The goal of the project is to improve safety and track speeds, which would further improve competitiveness of rail service. Further, the project is part of an overall strategy to raise the entire Southern Tier Extension Railroad line to a 286,000 lb. capacity specification for 4-axle rail cars. WNYP is providing engineering, construction, and construction inspection services on this contract (augmented by engineering review and inspection review by NYS DOT). WNYP has engaged one or more third party private sector construction contractor(s) to provide certain construction services under sub-contract to WNYP. The project began in 2015, and should be completed in 2016.

Capital Construction Projects Currently Proposed as of December 31, 2015

A. Proposed Track and Bridge Rehabilitation Project

In August 2015, STERA had submitted an application to NYS DOT for PFRAP grant funds, with matching funds to be provided by WNYP. 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. The goal of the project is to improve safety and track speeds, which would further improve competitiveness of rail service. Further, the project is part of an overall strategy to raise the entire Southern Tier Extension Railroad and Buffalo lines to a 286,000 lb. capacity specification for 4-axle rail cars. The bridge repairs specifically are intended to improve safety related to bridge integrity (reducing impacts on pedestrians/highway vehicles). STERA's intention is to contract directly with WNYP for the provision of engineering, construction, and construction inspection services on this contract (augmented by engineering review and inspection review by NYS DOT). WNYP may engage one or more third party private sector construction contractor(s) to provide certain construction services under sub-contract to WNYP; interested potential subcontractors may contact STERA and/or WNYP directly. The proposed timeline for the project is that the project will begin in 2016, and be completed in 2016.

B. Proposed Transload Facility Project

In March, 2006, the Southern Tier West Regional Planning and Development Board, using funding provided by NYSDOT, USDOC EDA, and WNYP, began a feasibility and site selection study relating to the phased construction and operation of rail-highway freight transfer facility to be located somewhere along the NYS portion of the Southern Tier Extension Railroad Line. The first phase was to involve construction of a transload facility, with potential future phases if justified by freight volume and market demand, to involve satellite marine terminal/inland port designation, intermodal container operations, and a nearby business or industrial park development. The study demonstrated commercial viability for the first phase transload facility and also recommended location of the transload facility at the WNYP rail yard in Allegany, New York (Cattaraugus County). This study report is available at www.southerntierwest.org/html/publications.htm. In January 2009, the Southern Tier West RP&DB, as part of the feasibility and site selection study project, undertook a preliminary engineering study for the construction of the proposed transload facility at the Allegany NY rail yard site. This engineering report, along with technical appendices, is available at www.southerntierwest.org/html/publications.htm. Based upon these studies and the express indication by

NYS DOT that it would encourage and help fund the construction of the first phase transload facility, STERA would like to undertake the project, either by (a) constructing and owning the facility, with operation to be leased to a third party private sector company to be selected at a later date, or by (b) work with a private developer that would construct and either own/operate or own/lease the facility to another private sector operator. STERA's strategy is to build the transload facility in phases, as construction funds became available. STERA is currently in the process of seeking funding to undertake the construction of the first phase transload facility. When STERA obtains construction funds, it will procure engineering consulting services, undertake environmental analysis, secure site control, undertake engineering/design, and begin construction. STERA will not issue RFP's for any project-related services until funding is in hand for this project.

Discussion of Any Material Changes in Authority Operations and Programs

Other than capital rehabilitation projects either commenced or completed in 2015 (discussed above), there were no material changes in STERA operations and programs during 2015.