



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

Self-Evaluation for STERA for the year ending December 31, 2017

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 2017 continued to be down from the historical maximum of 54,000 carloads per year experienced several years prior due to the permanent loss of overhead unit coal train traffic. Freight volume increased over 14% from 2016 to 2017 across the system due to robust gas well fracking in Pennsylvania and some improvements in on line customers. Of particular note is an increase of 556 carloads of petroleum distillates destined to WNYP's largest customer, International Wax Group. In 2016 this customer faced serious feed stock issues which they have now overcome. Two anchor customers for the WNYP showed significant increases year-over-year, Bush Industries with an additional 24 carloads and Monofrax with an additional 53 carloads. However, Cuba Cheese was down 40 carloads. Overhead freight increased as WNYP and NS continued to divert 286K loads from a direct NS Meadville routing to an NS Salamanca-Olean-Meadville routing due to a deficient bridge on NS in western PA.

Total carloads for the entire system:

| <u>2016</u> | <u>Carloads</u> | <u>Notes</u> |
|------------------|-----------------|--------------------------------------|
| Overhead Freight | 156 | (all STE East-West mainline traffic) |
| Local Freight | 1,598 | Southern Tier Extension line |
| | <u>5,202</u> | Buffalo line |
| | <u>6,800</u> | Total local freight |
| Total | 6,956 | Total system |
| | | |
| <u>2017</u> | <u>Carloads</u> | <u>Notes</u> |
| Overhead Freight | 254 | (all STE East-West mainline traffic) |
| Local Freight | 1,563 | Southern Tier Extension line |
| | <u>6,124</u> | Buffalo line |
| | <u>7,687</u> | Total local freight |
| Total | 7,941 | Total system |

Conclusions – Coal and other overhead traffic has been eliminated by Norfolk Southern Corporation, with the exception of some overhead traffic diverted onto the line on a temporary

basis by Norfolk Southern. Local freight traffic has increased on both the Southern Tier Extension and on the Buffalo Line.

For 2018, Buffalo Line local freight traffic is projected to exceed to 2017 levels, attributable to increased aggregate shipping to Machias, NY. Frack sand unloading activity and the wax refinery traffic along the Buffalo Line is expected to stay level with 2017 volumes. Due to the restricted NS bridge mentioned above, the carrier will continue to change the routing of certain segments of traffic enroute to Meadville, PA so that it will traverse the Southern Tier Extension Line. This should add approximately 200 car loads across the Extension Line.

STERA believes its overall goal of increased rail carload shipping volumes by all indications will be continued in 2018. 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 2018 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 / Construction 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 2017, STERA continued closeout activities on the following projects that had been completed in a prior year:

- **FEMA Project (Southern Tier Extension Line)**
STERA is awaiting project closeout from FEMA.
- **NYS DOT 2005 Bond Act Bridge Rehab and Track Realignment (Falconer) Project (Southern Tier Extension Line)**
STERA is awaiting project closeout from NYS DOT.
- **NYS DOT PFRAP Tie Replacement and Grade Crossing Repair Project (Buffalo Line)**
STERA is awaiting project closeout from NYS DOT.
- **NYS DOT PFRAP Cattaraugus Rail Rehabilitation Project (Southern Tier Extension Line)**
STERA is awaiting project closeout from NYS DOT.

In 2016 and 2017, STERA received funding for the following two projects that either commenced in 2017 or will commence in 2018:

- **STERA Track and Bridge Rehabilitation Project (Southern Tier Extension Line and Buffalo Line)**

In November 2016, STERA received a contract for \$1,600,000 of NYS DOT PFRAP grant funds, to be matched by \$400,000 of WNYP funds. The project involves 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. The three cities had indicated that they will contribute traffic control. All work except the Olean bridge is to be done on the Southern Tier Extension; the Olean bridge is on the Buffalo line. The Olean bridge (Queen Street) will now involve a deck replacement. STERA executed a contract with WNYP for contractual services in support of the project in 2017. Unfortunately, due to NYS's subsequent delay in reviewing project plans, the actual construction work will not commence until the spring of 2018. WNYP will install the rail, with contractors to weld it in place. Contractors will do the bridge work. The project is scheduled to be completed in 2018.
- **Olean Enginehouse and Yard Improvement Project**

In 2017, STERA received a contract for \$1,542,240 of NYS DOT PFRAP funding cycle grant funds, to be matched by \$385,560 of WNYP funds. The project involves improvements to the enginehouse in the Olean yard, installation of a yard video security system, the installation of 6,000 6x8 ties in the Olean yard, and the replacement of 8 switches in the Olean yard. The work would be done on the Southern Tier Extension Line. STERA executed a contract with WNYP for contractual services in support of the project in 2017. Yard tie installation was completed in December. Switch installation, enginehouse work, and security system purchase and installation will occur in 2018. Enginehouse work will be bid shortly. The project will be completed in 2018. The project will come in under budget, and STERA will request a change order from NYS DOT for the underage amount, with work to be done in the Olean Yard.

In 2017, STERA approved submission of a funding application to NYS DOT for a PFRAP grant, to be matched by WNYP funds, for the following project:

- **Proposed STERA Tie and Rail Replacement PFRAP Project (Southern Tier Extension Line)**

This project would involve a \$1,120,000 NYS DOT PFRAP grant, to be matched by \$480,000 of WNYP funds. The proposed project would involve replacement of 10,000 ties, replacement of some worn rail, and surfacing between Steamburg (Cattaraugus County) to Waterboro (Chautauqua County), between MP SA-14.00 (west of Steamburg) to MP SA-23.00 (Waterboro). The work would be done on the Southern Tier Extension Line. All of the work would be bid by WNYP. The 2017 NOFA for NYS DOT PFRAP funding had not been issued as of December 31, 2017. If the NOFA is issued in early 2018, and NYS DOT approves an award, the project could be commenced and completed in 2018.

In 2017, STERA had discussions with the City of Salamanca and the Seneca Nation of Indians regarding the following project:

- **Proposed Bridge NY Project (Salamanca Main Street Bridge Replacement and Track Realignment, Southern Tier Extension Line)**

The project would involve replacement of the Salamanca Main Street rail bridge (replacing the 6 lane rail bridge with a two lane bridge, with higher clearance for Main Street underpass traffic) and the realignment of track just to the west of the bridge (re-routing of the main line in this area to remove the curvature of the line, which is a safety issue and which keeps train speeds down). Such a project (or at least the bridge replacement component) would be eligible for NYS DOT Bridge NY funding. The project grant application would not be submitted until 2018. The Seneca Nation of Indians representatives indicated that there would have to be approval by the Seneca Nation of Indians for both the bridge and track realignment projects to move forward.

In 2017, STERA continued exploration of the following project:

- **Proposed Multi-Modal Freight Transfer Facility and Manufacturing Center Project (Olean)**

This project would involve phased construction of a multi-modal freight transfer facility in Olean adjacent to the Olean railyard. The facility would provide freight loading, unloading and storage for area companies that are not located adjacent to one of STERA's two rail lines. As of December 31, 2017, STERA has been unsuccessful in obtaining first phase construction funds, but continues to seek funding.

WNYP-Sponsored Rehabilitation / Construction 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 2017, 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 also worked with WNYP and the Emergency Management Offices of Chautauqua and Cattaraugus Counties, resulting in classroom and hands-on training on railroad safety for emergency responder trainings being held in Jamestown and Olean in 2017.

STERA is meeting this goal.

6. Clean audit report and NYS ABO compliance report

Evaluation: On March 26, 2018, STERA received a clean audit report for the year ending December 31, 2017. 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. Rail traffic is increasing somewhat, and as macroeconomic conditions improve, STERA expects rail traffic volumes to continue to increase. As additional NYS DOT funds become available, STERA anticipates undertaking ongoing rehabilitation activities.

Adopted by the STERA
Board of Directors on
March 26, 2018



Thomas M. Barnes
STERA Corporate Secretary