

UPDATE ON ORDC INVESTIGATIONS INTO THE POSSIBLE SALE OF THE PANHANDLE RAIL LINE

October 22, 2003

Introduction: Over the past 1½ years, ORDC has begun preliminary investigations into the possible sale of the Panhandle. This update provides a brief review of the State of Ohio's dealings with the Panhandle in the last 15 years, and an update on the recent investigations ORDC has undertaken.

BRIEF RECENT HISTORY

Conrail Attempt to Abandon Line: The "Panhandle" Rail Line is comprised of 160 miles of track running from Columbus to near the Ohio River at Mingo Junction through Franklin, Licking, Muskingum, Coshocton, Tuscarawas, Harrison, and Jefferson Counties, and the cities/towns of Newark, Coshocton, Newcomerstown, and Dennison/Uhrichsville. The line includes branches to Hebron and Cadiz/Georgetown.

In the late 1980's and early 1990's, the fate of the Panhandle line was in doubt. The owner of the line at that time, Conrail, had filed to abandon a 24 mile section of the eastern part of the line, and the writing was on the wall that Conrail would eventually abandon the entire eastern half of the line between Coshocton and Mingo Junction. In an effort led by dedicated local officials from Tuscarawas County, and joined by other local officials and the State of Ohio, the proposed abandonment was vigorously fought. In the end, the Interstate Commerce Commission (ICC), the predecessor agency to today's Surface Transportation Board, denied Conrail's petition to abandon the 24 mile long section.

Conrail responded to its defeat at the ICC by offering to sell the entire Columbus to Mingo Junction line to a short line railroad. The State partnered with Conrail to help conduct a competitive bid process. The winning bidder was the Ohio Central Railroad, then a small operation serving the about 100 miles of track.

When Ohio Central was unable to obtain private bank financing for the purchase of the line, the State stepped in and acquired the line for \$7.3 million through a complex transaction using Certificates of Participation, or COPs. The newly formed Ohio Central affiliate, the Columbus & Ohio River Railroad (C&OR), began operating on the Panhandle as the State's contract operator on April 7, 1992. The C&OR's responsibilities included the repayment of the State's COPs debt in addition to running the railroad. (The COPs debt is scheduled to be paid off in 2012 but can be paid off any time before that date without penalty.)

State Stewardship of Line: The State's operating agreement with the C&OR was for a 5 year period. In 1996/97, ORDC decided to conduct a competitive selection process to determine which railroad would operate the line for the next 5 years, from 1997 to 2002. The two tiered competitive selection process resulted in a hotly contested battle for operating rights between the C&OR and the Wheeling & Lake Erie Railway (W&LE). The C&OR won and was awarded another 5 years as operator of the Panhandle. The W&LE subsequently brought suit charging that the ORDC process was biased and that W&LE should have been awarded the operation of the line. The courts upheld ORDC's selection of the C&OR.

In 2002, ORDC renewed C&OR's Operating Agreement providing the C&OR with operating rights for another 5 years. The renewal was based on the C&OR meeting each and every requirement for effective operation of the Panhandle line specified in the 1997 - 2002 Operating Agreement. Requirements included shipper satisfaction, financial stability, effective maintenance of track, and other related factors.

STATUS OF PANHANDLE RAIL LINE

Panhandle Line, 1993: When the State of Ohio first took ownership of the Panhandle Line, the line generated about 10,000 carloads per year. The line east of Newcomerstown was not in service. Track speeds on the east end of the line were 10 to 25 MPH.

Panhandle Line, 2003: After 10 years of State ownership, and C&OR operations, the Panhandle line now generates over 20,000 cars per year. The east end of the line has new customers and is regularly served. Track speeds on the entire line are generally 40 MPH. The C&OR has made every required COPs payment in full and on time since it began operations.

RECENT ORDC ACTIONS

With the Panhandle Line doing very well, ORDC Commissioners are debating whether continued State ownership is needed for the public good. Clearly if State ownership is not needed, the proceeds from a sale could be put to good use for other purposes.

ORDC has not made any decision as to whether or not to sell the Panhandle Line. It has not debated how such a sale would take place if indeed a sale is warranted. ORDC has, however, begun to investigate a possible sale. Here are actions taken to date:

- * On March 14, 2002, the Commission formally passed a motion for ORDC staff to begin examining the “framework” of a potential formal investigation of the sale of the Panhandle.
- * From November, 2002 to February, 2003, staff met with or otherwise contacted many of the local government bodies, companies, and others who had been instrumental in saving the Panhandle from abandonment. In addition, staff talked to others who expressed a desire to comment on the possible sale of the Panhandle. The purpose of these informal investigations was to find out what those close to the Panhandle thought about a sale, and to determine what codicils or covenants ORDC would need to place on any possible sale to ensure that public interest is preserved.
- * On January 9, 2003, the Commission passed Resolution 03 -1 which instructed staff to “select appraisal and appraisal review services to prepare for a potential Panhandle Rail Line sale.”
- * On September 11, 2003, staff informed Commissioners that a two tiered competitive selection process had resulted in the selection of a team headed by ME Companies to appraise the line, and Continental Appraisal Company to perform appraisal review.
- * On October 8, 2003, ORDC and Continental executed a contract for appraisal review work.
- * Negotiations on final price and scope with ME are in progress and expected to be completed soon. Appraisal work is expected to begin in December and take four to six months to complete.