



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, 2016

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 2016 continued to be down from the historical maximum of 54,000 carloads per year experienced several years prior due to the presumed permanent loss of overhead unit coal train traffic. Freight volume decreased 16% from 2015 to 2016 across the system in synch with the national depression in railroad volumes. Of particular note is a reduction of 668 carloads of petroleum distillates destined to the railroad's largest customer, International Wax Group. This was caused by the customer's inability to source needed feed stock due to a large reduction of refining activity in early 2016. Additionally, fracking sand activity was reduced by over 700 carloads due to a pullback of oil and gas well activity in northern Pennsylvania.

Total carloads for the entire 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
<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

Conclusions – Coal and other overhead traffic has been eliminated by Norfolk Southern Corporation. Local freight traffic has decreased on both the Southern Tier Extension and on the Buffalo Line.

For 2017, local freight traffic is projected to be somewhat above the 6,956 carloads in 2016, attributable to increased aggregate shipping, increased frack sand unloading activity, and an already realized rebound of wax refinery traffic along the Buffalo Line. Both Monofrax and Bush Industries in the Jamestown area are projecting strong rail activity in 2017. The carrier is changing routing of certain segments of traffic enroute to Meadville, PA so that it will now traverse the Southern Tier Extension Line. This is caused by a weight restricted bridge on the Norfolk Southern system near Ohio and the need to provide Meadville customers with 286K gross carloadings. This should add approximately 500 car loads across the Extension Line.

While a reduction of carloads was realized between 2015 and 2016, it was in proportionate relation to a national reduction of rail activity. STERA believes its overall goal of increased rail carload shipping volumes by all indications will be restored in 2017. 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 2016, STERA continued closeout activities on a project that had been completed in a prior year, completed three rehabilitation projects that had been funded in a prior year, received funding for a project that will commence in 2017, and submitted a funding application for a project that is projected to commence in 2017.

The project that had been completed in a prior year, but for which STERA continued closeout activities in 2016 was a FEMA-funded project. STERA anticipates final closeout in 2017. This project involved 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.

The first rehabilitation project that STERA completed in 2016 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 remained, and STERA 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. STERA utilized all of the funds remaining that could be used within the geographic bounds of the original project scope. At the end of 2016, STERA is awaiting closeout by NYS DOT.

The second rehabilitation project that STERA completed in 2016 was a 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 had been completed as of the end of 2015; however, additional project funds remained, and STERA 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. STERA used the extension and unspent funds to rehab four additional grade crossings on the Buffalo line north in the Olean area (Back Hinsdale Road, Oregon road, Haskell Road, and Promised Land Road), and install (approximately \$25,000 of) additional ties. As of the end of 2016, all work has been completed, and there should be less than \$15,000 remaining of project funds. At the end of 2016, STERA is awaiting closeout by NYS DOT.

The third rehabilitation project that STERA completed in 2016 was a project that involved 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. The project involved the installation of 10,000 rail ties between Olean and Killbuck (Cattaraugus County), the repair of 11 rail switches, the installation of 12,000 tons of ballast, surfacing and alignment of track and turnouts, the rehabilitation of three at-grade crossings, and the rehabilitation of 11 turnouts. All project work has been completed. At the end of 2016, STERA is awaiting closeout by NYS DOT.

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. STERA received a contract from NYS DOT for the project in late 2016, and will commence work on the project in 2017.

In late 2016, STERA submitted a grant application to NYS DOT for the 2016 PFRAP funding cycle. The project, STERA Olean Enginehouse and Yard Improvement Project, would involve 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. If funded, work would commence in 2017.

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 2016, 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 is working with WNYP and the Emergency Management Offices of Chautauqua and Cattaraugus Counties to schedule railroad safety for emergency responder trainings in Jamestown and Olean in the spring of 2017.

STERA is meeting this goal.

6. Clean audit report and NYS ABO compliance report

Evaluation: On March 27, 2017, STERA received a clean audit report for the year ending December 31, 2016. 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. Although rail traffic is down somewhat, 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 27, 2017



Thomas M. Barnes
STERA Corporate Secretary