

## **Preliminary Performance Review**

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# **West Virginia State Rail Authority**

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**The State Rail Authority's Operating Losses  
Fell During FY 2002, But Still Exceeded  
Operating Loss Levels Identified In the  
Previous Report**

**Insurance Losses Suffered By the State Rail  
Authority Were Substantially Lower During  
the Last Two Years, With No Losses Suffered  
During FY 2003**

**The State Rail Authority Continues to Have  
Limited State-Wide Activity to Promote  
Rail Service**



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John Sylvia  
Director

January 12, 2004

The Honorable Edwin J. Bowman  
State Senate  
129 West Circle Drive  
Weirton, West Virginia 26062

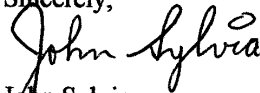
The Honorable J.D. Beane  
House of Delegates  
Building 1, Room E-213  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Sunset Law, we are transmitting a Preliminary Performance Review of the *West Virginia State Rail Authority*, which will be presented to the Joint Committee on Government Operations on Monday, January 12, 2004. The issues covered herein are "The State Rail Authority's Operating Losses Fell During FY 2002, But Still Exceeded Operating Loss Levels Identified In The Previous Report;" "Insurance Losses Suffered By The State Rail Authority Were Substantially Lower During The Last Two Years, With No Losses Suffered During FY 2003;" and "The State Rail Authority Continues to Have Limited State-wide Activity to Promote Rail Service."

We transmitted a draft copy of the report to the West Virginia State Rail Authority on December 16, 2003. We held an exit conference via telephone with the Authority on December 23, 2003. We received the agency response on December 29, 2003.

Let me know if you have any questions.

Sincerely,  
  
John Sylvia

JS/wsc

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*Joint Committee on Government and Finance*

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# Executive Summary

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## **Issue 1: The State Rail Authority's Operating Losses Fell During FY 2002, But Still Exceeded Operating Loss Levels Identified In the Previous Report.**

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*Since FY 1997, the State has increased operating subsidies to the Authority nearly every year. Clearly, the Authority's operating revenues continue to be inadequate to permit it to be self-sustaining.*

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At the time of the December 2001 Performance Evaluation of the State Rail Authority, the Authority's operating losses had reached a high of \$1,186,589 in FY 1999. The Authority's operating losses have since grown to a new high of \$2,225,960 in FY 2001. Total revenues for the Authority have fluctuated during recent years, but have not exceeded the FY 1997 level of \$1,755,506. Operating expenses, on the other hand, have grown on a fairly consistent basis, and have exceeded \$3,000,000 annually since FY 2001. Operating assistance provided by the State to compensate for operating losses increased from FY 2001 to FY 2003, with a high of \$3,995,081 in FY 2002. Since FY 1997, the State has increased operating subsidies to the Authority nearly every year. Clearly, the Authority's operating revenues continue to be inadequate to permit it to be self-sustaining.

Capital expenditures are a large cost associated with the operation of railroads. Related costs include expenditures on stone ballast, bridge inspections and equipment purchases and rental. Any discussion of the operating efficiency of a capital-intensive operation such as a railroad, must consider these costs. Capital improvement and related expenditures currently total over \$2 million annually.

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*While the number of passengers has more than tripled since 1999, the small amount of freight traffic on the West Virginia Central Railroad continues to limit its potential profitability.*

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The volume of passenger traffic on the three excursion trains active on the West Virginia Central Railroad (WVCR), which is operated by a private contractor, the Durbin & Greenbrier Valley Railroad (D&GVR), has increased since the last report in December 2001. Freight traffic on this line has fallen since then. While the number of passengers has more than tripled since 1999, the small amount of freight traffic on the WVCR continues to limit its potential profitability.

In PERD's 2001 report, the Legislative Auditor's Office requested that the Authority complete an analysis of the economic benefit of continuing operations on the WVCR. Recommendation 1 of the report stated:

*The State Rail Authority should provide an analysis to the Joint Committee on Government Operations that demonstrates the economic benefit is greater than the cost to the State of continuing operations on the West Virginia Central Railroad.*

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The Authority has not provided the requested analysis and is, therefore, not yet in compliance with this recommendation. It is, however, in planned compliance.

Recommendation 2 of PERD's 2001 report required a report to the Joint Committee on Government Operations regarding freight traffic on the South Branch Valley Railroad (SBVR).

*The State Rail Authority should report to the Joint Committee on Government Operations in January of 2003 whether the Authority's goal to begin running 90 car trains to the Pilgrim's Pride facility with a 24-hour turnaround has been achieved and, if so, whether this has increased the Authority's efficiency in operating the SBVR.*

The SRA is in planned compliance with this recommendation, contingent upon the successful implementation of a revised plan to increase freight traffic to the Pilgrim's Pride Facility.

Recommendation 4 of PERD's 2001 report stated the need to maintain financial statements that monitor losses separately for different railroad projects. The recommendation also called for an evaluation of the efficiency of alternative modes of transportation for SBVR customers.

*The Authority should have its financial statements present total losses as well as dividing losses between each rail project. If losses were to increase substantially for the SBVR, the Authority should conduct appropriate research to determine the cost-benefit to the state and examine alternative modes of transportation for SBVR customers to determine if the companies served by SBVR can operate profitably under alternative transportation.*

The Authority contends, as it did at the time of the 2001 report, that it should not maintain separate financial statements for each railroad. The Authority has contacted customers to determine the feasibility of shipping by truck. Due to the required volume of truck traffic and the additional cost to customers, the Authority has determined that the most likely transportation alternative to rail is impractical. The Authority is, therefore, in partial compliance with Recommendation 4 of PERD's 2001 report, in that it has evaluated the feasibility of alternate forms of transportation, but still does not maintain separate financial statements for the two railroads in order to reflect their individual losses.



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**Issue 2: Insurance Losses Suffered By the State Rail Authority Were Substantially Lower During the Last Two Years, With No Losses Suffered During FY 2003.**

Recommendation 3 of PERD's 2001 report stated the following:

*The State Rail Authority should consider proposing to the Legislature a financial benefit plan which would reward the Authority's employees for reducing or eliminating the Authority's losses while also reducing the number of derailments on the South Branch Valley Railroad.*

An Authority representative stated that while the Authority has taken no new safety initiatives, its long-term upgrade of track, bridges and equipment, as well as employee training, have served this purpose.

During the last several fiscal years, the Authority's only insurance losses have been one mine subsidence claim accounting for all losses during FY 2001 in addition to one property and one automobile insurance claim during FY 2002. The SRA experienced no insurance losses during FY 2003. Clearly, the Authority has been able to substantially reduce insurance claim losses during the last three years through its own training and maintenance programs.

**Issue 3: The State Rail Authority Continues to Have Limited State-wide Activity to Promote Rail Service.**

Recommendation 5 of PERD's 2001 report stated:

*The State Rail Authority should update and implement a statewide proactive plan with the intent to:*

- 1) anticipate rail abandonments;*
- 2) react to unanticipated rail abandonments*
- 3) identify struggling rail lines that can be strengthened , including the effort to obtain new rail service customers for underutilized rail lines;*
- 4) obtain and maintain knowledge of the status of rail lines, the use and changes in the use of rail line services, and possibly the financial conditions of railroad companies;*

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5) *perform other activities necessary to promote and support a strong, safe, efficient and adequate railroad industry as authorized by statute.*

The Authority is still responsible for promoting the rail industry throughout the State, not simply operating the SBVR and WVCR. The State Rail Plan, or an updated equivalent would be a valuable planning tool in accomplishing this task. The Authority has not completed an up-to-date equivalent to the State Rail Plan and is, therefore, not yet in compliance with this recommendation. An Authority representative commented on the Authority's reasons for failing to complete a plan for rail service. The Authority feels that its ability to collect the necessary data from private corporations is a limiting factor in completing such a plan. The Authority, in effect, feels that it completes all of the tasks that such a plan would include, through its present activities.

## **Recommendations**

1. *The State Rail Authority should present the economic impact analysis of the West Virginia Central Railroad, upon its completion, to the Joint Committee on Government Operations.*
2. *The State Rail Authority should report to the Joint Committee on Government Operations to indicate when it has attained the revised goal of running 65 car unit trains to the Pilgrim's Pride facility, with a turnaround of 36 hours.*
3. *The State Rail Authority's financial statements should provide separate operating losses for each railroad, in order to present data on the relative efficiency of each.*
4. *The State Rail Authority should continue to emphasize maintenance and safety training, monitoring insurance claims losses, in order to sustain the current trend towards decreased losses.*
5. *The State Rail Authority should continue to focus on anticipating changes that affect the rail industry in the State.*

# Review Objective, Scope and Methodology

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This is a Preliminary Performance Evaluation on the West Virginia State Rail Authority, as required by West Virginia Code §4-10-5. The State Rail Authority is responsible for the “establishment, funding, construction, reconstruction, acquisition, repair, replacement, operation and maintenance of railroad projects”, as well as other activities that promote efficiency and safety within the rail industry of the State.

## Objective

This report updates the issues originally reported in December 2001. The December 2001 report discussed the following issues:

*Issue 1: The State Rail Authority’s Operating Losses have Increased.*

*Issue 2: Train Derailments Suffered by the Authority, which cost the State over \$100,000 Annually, have been Substantially Reduced Since FY 1997, but still Present a Serious Safety Risk.*

*Issue 3: The State Rail Authority does not Perform a Statewide Proactive Function for the Promotion of Rail Service as Authorized by Statute.*

*Issue 4: Updated Information on Issues from the 1999 Preliminary Performance Evaluation.*

The 2001 report contained the following recommendations:

- 1. The State Rail Authority should provide an analysis to the Joint Committee on Government Operations that demonstrates the economic benefit is greater than the cost to the State of continuing operations on the West Virginia Central Railroad.*
- 2. The State Rail Authority should report to the Joint Committee on Government Operations in January of 2003 whether the Authority’s goal to begin running 90 car trains to the Pilgrim’s Pride facility with a 24-hour turnaround has been achieved and, if so, whether this has increased the Authority’s efficiency in operating the SBVR.*
- 3. The State Rail Authority should consider proposing to the Legislature a financial benefit plan which would reward the*

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*Authority's employees for reducing or eliminating the Authority's losses while also reducing the number of derailments on the South Branch Valley Railroad.*

4. *The Authority should have its financial statements present total losses as well as dividing losses between each rail project. If losses were to increase substantially for the SBVR, the Authority should conduct appropriate research to determine the cost-benefit to the state and examine alternative modes of transportation for SBVR customers to determine if the companies served by SBVR can operate profitably under alternative transportation.*
5. *The State Rail Authority should update and implement a statewide proactive plan with the intent to:*
  - 1) *anticipate rail abandonments;*
  - 2) *react to unanticipated rail abandonments;*
  - 3) *identify struggling rail lines that can be strengthened, including the effort to obtain new rail service customers for underutilized rail lines;*
  - 4) *obtain and maintain knowledge of the status of rail lines, the use and changes in the use of rail line services, and possibly the financial conditions of railroad companies;*
  - 5) *perform other activities necessary to promote and support a strong, safe, efficient and adequate railroad industry as authorized by statute.*

## **Scope**

The scope of this report focuses on the period from Fiscal Year 2001 to Fiscal Year 2003, updating information provided in the December 2001 report. Developments related to the above issues that have taken place during this time period are compared to previous years; therefore, some historic data is provided.

## **Methodology**

Data for this report was primarily provided by the Authority, with data on the Authority's insurance losses provided by the Board of Risk and Insurance Management. The private contractor who directly operates the West Virginia Central Railroad, the Durbin & Greenbrier Valley Railroad, provided data on freight and passenger traffic. The report updates developments related to the five recommendations given in the December 2001 report and the Authority's present compliance status with these recommendations.

# Background

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The West Virginia Railroad Maintenance Authority was created in 1975. A 1994 amendment re-designated it as the West Virginia State Rail Authority. In 1989, the Authority was reorganized under the Department of Transportation. The Authority, generally speaking, is empowered to oversee and prepare plans, as well as provide funds and coordination for the operation of rail transportation in the State. It has the power to make loans and grants to governmental agencies and persons for carrying out railroad projects. Railroad projects may also be operated by the Authority itself. The Authority owns two railroads: The West Virginia Central Railroad and the South Branch Valley Railroad. The Authority may also issue railroad maintenance bonds and notes. The Authority may own, acquire, and sell property. It may receive grants for railroad projects or research and development from any state or federal agency.

Until recently the Authority also owned the 2.9-mile Wheeling Terminal Railroad that connected CSXT with a large industrial facility. Both the facility and the rail line are not currently in use. The Authority sold the facility to the City of Wheeling since the release of PERD's 2001 report. The Authority owns other railroad projects and also participates in the Maryland Rail Commuter (MARC) service to Washington, D.C., by maintaining three stations in the Eastern Panhandle.

The Authority consists of seven members. The Secretary of the Department of Transportation was made the chairman by House Bill 2791 in 1999. Previously, the Secretary was an ex officio member. The other six members are appointed by the Governor, by and with the advice and consent of the Senate, for a term of six years.

The Authority also operates the Rails to Trails program, *“the purpose of which is to acquire or assist with the acquisition of, and to develop or assist with the development of, abandoned railroad rights-of-way for interim use as public non-motorized recreational trails.”* A 1995 amendment to the West Virginia Code continued the West Virginia Rails to Trails Program within the State Rail Authority instead of within the Division of Tourism and Parks, as it was previously. The Authority has certain powers and duties associated with this program. The Authority is authorized to enter into agreements on behalf of the State *“to acquire an interest in any abandoned railroad right-of-way, to develop, maintain, or promote rail trails.”* The Authority evaluates abandoned railroad rights-of-way to identify suitable property for rail trails. The Division of Natural Resources actually operates rail trails while the property remains unused for its original purpose.



# Issue 1

## The State Rail Authority's Operating Losses Fell During FY 2002, But Still Exceeded Operating Loss Levels Identified In the Previous Report.

At the time of the December 2001 Performance Evaluation of the State Rail Authority, the Authority's operating losses had reached a high of \$1,186,589 in FY 1999. Operating losses fell to \$1,163,717 in FY 2000. Table 1 shows that the Authority's operating losses have since grown to a new high of \$2,225,960 in FY 2001. Total revenues for the Authority have fluctuated during recent years, but have not exceeded the FY 1997 level of \$1,755,506. Operating expenses, on the other hand, have grown on a fairly consistent basis, and have exceeded \$3,000,000 annually since FY 2001. Operating assistance provided by the State to compensate for operating losses increased from FY 2001-FY 2003, to a high of \$3,995,081 in FY 2002. While state-provided operating assistance did decrease by over \$500,000 during FY 2003, the State increased operating subsidies to the Authority nearly every year since FY 1997. Clearly, the Authority's operating revenues continue to be inadequate to permit it to be self-sustaining.

*The Authority's operating revenues continue to be inadequate to permit it to be self-sustaining.*

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Freight Revenue	\$1,731,581	\$1,514,677	\$1,565,686	\$1,610,476	\$1,494,192	\$1,538,689	\$1,717,117
Misc. Revenue	\$23,925	\$64,902	\$39,453	\$92,697	\$86,262	\$162,265	\$180,723
Total Revenue	\$1,755,506	\$1,579,579	\$1,605,139	\$1,703,173	\$1,580,454	\$1,700,954	\$1,897,840
Operating Expenses	\$2,696,303	\$2,389,366	\$2,791,728	\$2,866,890	\$3,806,414	\$3,352,533	\$3,370,877
<b>Operating Loss</b>	<b>\$940,797</b>	<b>\$809,787</b>	<b>\$1,186,589</b>	<b>\$1,163,717</b>	<b>\$2,225,960</b>	<b>\$1,651,579</b>	<b>\$1,473,037</b>
State of West Virginia Operating Assistance	\$482,112	\$858,408	\$1,140,505	\$1,090,361	\$2,637,190	\$3,995,081	\$3,451,519

*Source: Gibbons & Kawash, Audited Financial Statements, FY 1997-FY 2000 and Suttle & Stalnaker, Audited Financial Statements, FY 2001-FY 2003.*

Capital expenditures are a large cost associated with the operation of railroads (see Table 2). Related costs include expenditures on stone ballast, bridge inspections and equipment purchases and rental. Any discussion of the operating efficiency of a capital-intensive operation such as a railroad, must consider these costs. Capital improvement and related expenditures currently total over \$2 million annually.

<b>Table 2</b>			
<b>State Rail Authority Capital Improvement and Related Expenditures: FY 1996-2002</b>			
	FY 2001	FY 2002	FY 2003
Capital Improvement Expenditures	\$4,026,994*	\$2,058,866	\$2,580,276
Related Expenditures	\$105,610	\$463,311	\$153,610
Total Expenditures	\$4,134,605	\$2,522,177	\$2,733,886

*Source: SRA*  
*\*Includes \$2,251,832 in Federal Funds.*

### **The West Virginia Central Railroad**

The volume of passenger traffic on the three excursion trains active on the WVCR, which is operated by a private contractor, the Durbin & Greenbrier Valley Railroad (D&GVR), has increased since the last report in December 2001 (see Table 3). Table 3 also illustrates that freight traffic on this line has fallen since then. Freight traffic in 2002 fell to its lowest level since 1998, the first year of freight service on the WVCR. While the number of passengers has more than tripled since 1999, the small amount of freight traffic on the WVCR continues to limit its potential profitability. As Table 1 illustrates, freight revenues account for the vast majority of operating revenues received by the Authority, totaling over \$1.5 million of the \$1.7 million in total revenues for FY 2002. The South Branch Valley Railroad accounts for most of the Authority's freight traffic.

*While the number of passengers has more than tripled since 1999, the small amount of freight traffic on the WVCR continues to limit its potential profitability.*



**Table 3  
Durbin and Greenbrier Valley Railroad  
Activity Measures**

Year*	Contractor's Total Revenue	Revenue to the State	Freight Carloads	Freight Cars Per Mile**	Number of Excursion Passengers
1997	\$0	\$0	0	0	0
1998	\$3,450	\$23,785	21	0.73	0
1999	\$97,158	\$17,269	233	8.17	7,949
2000	\$211,281	\$27,520	98	3.43	14,423
2001	\$291,908	\$26,294	89	3.12	19,709
2002	\$351,499	\$41,448	37	1.29	29,212
2003	N/A	\$84,918	N/A***	N/A	28,033***

Source: SRA

\*Contractor's revenue and freight data is organized by calendar year. Revenue to the State is organized by fiscal year.

\*\*Data current as of October 2003.

\*\*Based on 28.5 miles of rail line used for freight traffic. There is a total of 132.1 miles of track on the WVCR.

\*\*\*The D&GVR handled 482 CSXT freight cars for storage.

In PERD's 2001 report, the Legislative Auditor's Office requested that the Authority complete an analysis of the economic benefit of continuing operations on the WVCR. Recommendation 1 of the report stated:

*The State Rail Authority should provide an analysis to the Joint Committee on Government Operations that demonstrates the economic benefit is greater than the cost to the State of continuing operations on the West Virginia Central Railroad.*

*The Authority has not provided the requested economic analysis and is, therefore, not yet in compliance with this recommendation.*

The Authority has not provided the requested analysis and is, therefore, not yet in compliance with this recommendation. It is, however, in planned compliance. An Authority representative stated:

*We are having a consultant produce an economic impact analysis of this rail line and we will present it to the Joint Committee on Government Operations when it is complete.*

### **The South Branch Valley Railroad**

Recommendation 2 of PERD's 2001 report required a report to the

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Joint Committee on Government Operations regarding freight traffic on the SBVR.

*The State Rail Authority should report to the Joint Committee on Government Operations in January of 2003 whether the Authority's goal to begin running 90 car trains to the Pilgrim's Pride facility with a 24-hour turnaround has been achieved and, if so, whether this has increased the Authority's efficiency in operating the SBVR.*

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*The Authority has not provided the requested report on its plan to increase freight traffic to the Pilgrim's Pride facility, and is, therefore, not yet in compliance with this recommendation.*

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The Authority has not provided the requested report, and is, therefore, not yet in compliance with this recommendation. An Authority representative explained the reasons why the report has not been completed.

*The State Rail Authority did not report to the Joint Committee on Government Operations about the "Pilgrim's Pride Express Trains" because the scenario was still in the negotiation stages and Pilgrim's Pride's facility was not upgraded to handle the faster unload. The SRA has had numerous meetings and conference calls with CSXT and Pilgrim's Pride to get this express unload underway. We are currently in the last phases of testing for this project. The final outcome will be 65 car unit trains with a turnaround of 36 hours. Pilgrim's has updated their facility and the SRA has acquired two additional locomotives in order to make this turnaround a reality. The SRA will be able to bring the entire 65 car train into Moorefield in one cut. We are testing different spotting scenarios with Pilgrim's in order to accomplish the 36 hour turnaround. We have established a letter agreement with CSXT that will give us 36 hours of car hire relief. This turnaround will result in increased revenue to the SBVR of \$2,405 per train or nearly \$100,000 a year. This increase in revenue will more than double once CSXT begins shipping 286,000 pound cars instead of the 263,000 pound cars.*

The SRA is, therefore, in planned compliance with this recommendation, contingent upon the successful implementation of the revised plan with the Pilgrim's Pride Facility.

Table 4 illustrates that freight and passenger traffic on the SBVR have increased somewhat during the period from FY 2001 to FY 2003, after experiencing a sizeable decrease during FY 2001.

**Table 4  
South Branch Valley Railroad  
Activity Measures**

Fiscal Year	Freight Carloads	Freight Cars Per Mile*	Number of Excursion Passengers
1980	1,421	27.33	--
1981	1,255	24.13	--
1982	1,148	22.08	--
1983	1,113	21.40	--
1984	1,000	19.23	--
1985	807	15.52	--
1986	568	10.92	--
1987	962	18.50	--
1988	1,261	24.25	--
1989	1,661	31.94	--
1990	1,912	36.77	--
1991	2,102	40.42	--
1992	2,275	43.75	13,755
1993	3,460	66.54	22,171
1994	4,307	82.83	23,447
1995	4,233	81.40	22,465
1996	4,145	79.71	21,378
1997	4,272	82.15	25,801
1998	4,047	77.83	20,950
1999	4,023	77.37	22,191
2000	4,044	77.77	22,874
2001	3,638	69.96	17,308
2002	3,751	71.58	15,849
2003	3,922	74.85	17,500***

*Source: SRA*

*\*Based on 52.4 miles.*

*\*\*Data collected for passengers is organized by calendar year.*

*\*\*\*Data current as of October 2003.*

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Recommendation 4 of PERD's 2001 report stated the need to maintain financial statements that monitor losses separately for different railroad projects. The recommendation also called for an evaluation of the efficiency of alternative modes of transportation for SBVR customers.

*The Authority should have its financial statements present total losses as well as dividing losses between each rail project. If losses were to increase substantially for the SBVR, the Authority should conduct appropriate research to determine the cost-benefit to the state and examine alternative modes of transportation for SBVR customers to determine if the companies served by SBVR can operate profitably under alternative transportation.*

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*The Authority contends, as it did at the time of the 2001 report, that it should not maintain separate financial statements for each railroad.*

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The Authority contends, as it did at the time of the 2001 report, that it should not maintain separate financial statements for each railroad.

*The outside auditors did not separate the two railroads in the presentation of our financial statements. We have separate costs, revenue, carloads and passenger information for each railroad. We maintain that properties owned by the SRA represent our agency as an entire entity. We remain committed to the fact that the expenses that have been incurred by each of the railroads is minimal compared to the overall positive effect the railroads have in the communities they serve...*

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*Due to the required volume of truck traffic and the additional cost to customers, the Authority has determined that the most likely transportation alternative to rail is impractical.*

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The Authority has contacted customers to determine the feasibility of shipping by truck. Due to the required volume of truck traffic and the additional cost to customers, the Authority has determined that the most likely transportation alternative to rail is impractical.

*In our final responses for the 2001 audit we stated that we had researched the feasibility of shipping grain to the feedmill by truck. This scenario is not feasible for a couple of reasons. First, it would take four truckloads to equal one railcar. The volume alone would mean 240 trucks a week to haul corn and soy to the feedmill. This is not realistic given our road conditions in the area. It is also more expensive to ship by truck. We have contacted our customer and they have stated that without rail service they would be forced to move their plant to a different location. Thus the possibility of losing thousands of jobs is a definite reality without rail service in this area. The SBVR*

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*services Allegheny Wood Products who utilize the lower transportation costs of rail to ship their product out west. Shipping by truck over long distances is not an option for this business.*

**The Legislature funds the Authority's railroad projects and should be provided with data related to these projects on an individual basis.**

The Authority is, therefore, in partial compliance with Recommendation 4 of PERD's 2001 report, in that it has evaluated the feasibility of alternate forms of transportation, but still does not maintain separate financial statements for the two railroads in order to reflect their individual losses.

## **Conclusion**

The Authority's operating losses reached nearly \$1.7 million in FY 2002, while operating assistance from the State totaled nearly \$4 million. Capital improvement and related expenditures total over \$2 million annually. Clearly, the Authority's operating revenues are inadequate to allow it to be self-sustaining. While the number of excursion passengers on the West Virginia Central Railroad has more than tripled since 1999, the small amount of freight on the railroad continues to limit its potential profitability. The analysis of the economic benefits of the WVCR requested by the Legislative Auditor's office in 2001 has not yet been completed; however, the Rail Authority plans provide an economic analysis to the Joint Committee on Government Operations. The Authority is revising its plan to increase the volume of freight traffic on the SBVR and expects to provide a report to the Joint Committee on Government Operations, indicating when this occurs. Finally, the Authority still does not maintain separate operating loss data for each of its two railroads, in noncompliance with Recommendation 4 of PERD's 2001 report. The Legislative Auditor determines that separate accounting of each rail project is a service to the Legislature to assist it in its funding decisions of these projects.

## **Recommendations**

1. *The State Rail Authority should present the economic impact analysis of the West Virginia Central Railroad, upon its completion, to the Joint Committee on Government Operations.*
2. *The State Rail Authority should report to the Joint Committee on Government Operations to indicate when it has attained the revised goal of running 65 car unit trains to the Pilgrim's Pride facility, with a turnaround of 36 hours.*

- 
3. *The State Rail Authority's financial statements should provide separate operating losses for each railroad, in order to present data on the relative efficiency of each.*

## Issue 2

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### **Insurance Losses Suffered By the State Rail Authority Were Substantially Lower During the Last Two Years, With No Losses Suffered During FY 2003.**

Recommendation 3 of PERD's 2001 report stated the following:

*The State Rail Authority should consider proposing to the Legislature a financial benefit plan which would reward the Authority's employees for reducing or eliminating the Authority's losses while also reducing the number of derailments on the South Branch Valley Railroad.*

An Authority representative stated that while the Authority has taken no new safety initiatives, its long-term upgrade of track, bridges and equipment, as well as employee training, has served this purpose.

*When I noted that no new safety initiatives had been taken I went on to state that we are continuing the long term efforts we had in place during the last audit. This long term plan is to upgrade our track, bridges and equipment on a yearly basis as budget allows. We have continued to upgrade our track, bridges and equipment and the effort has resulted in less derailments, higher operating speeds and overall safer track. As for the recommendation to propose to the Legislature a "financial benefit plan" to reward the Authority's employees for reducing or eliminating the Authority's losses while also reducing the number of derailments on the SBVR, we are still inclined to repeat our response given in the 2001 agency responses. The management of the SRA feels that the plan we have in place would reduce derailments and decrease the Authority's losses. We feel that our employees understand that their livelihood depends on the success of the railroad and that salary increases can only be given as bottom line profits rise. Therefore, we contend that sharing money saving ideas and safety issues is a part of our employees everyday job requirements and we do not believe that bonuses should be given for something that should be part of an employees job.*

During the last several fiscal years, the Authority's only insurance losses have been one mine subsidence claim accounting for all losses during FY 2001 in addition to one property and one automobile insurance claim during FY 2002 (see Table 5). The SRA experienced no insurance losses during FY 2003.

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*The Authority has been able to substantially reduce insurance claim losses during the last three years, through its own training and maintenance programs.*

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Clearly, the Authority has been able to substantially reduce insurance claim losses during the last three years, through its own training and maintenance programs.

Fiscal Year	Amount
1995	\$1,706
1996	\$57,695
1997	\$479,775
1998	\$0
1999	\$357,948
2000	\$214,515
2001	\$125,449
2002	\$15,373
2003	\$0
Total	\$1,252,461

*Source: West Virginia Board of Risk and Insurance Management*

## **Conclusion**

While the SRA did not follow the course of action in Recommendation 3 of the last report, the Authority does appear to have effectively reduced insurance claims losses. If this trend continues as it has for the last several years, the Legislative Auditor's Office can conclude that the SRA has effectively dealt with safety concerns.

## **Recommendation**

4. *The State Rail Authority should continue to emphasize maintenance and safety training, monitoring insurance claims losses, in order to sustain the current trend towards decreased losses.*



## The State Rail Authority Continues to Have Limited State-wide Activity to Promote Rail Service.

Recommendation 5 of PERD's 2001 report stated:

*The State Rail Authority should update and implement a statewide proactive plan with the intent to:*

- 1) anticipate rail abandonments;*
- 2) react to unanticipated rail abandonments*
- 3) identify struggling rail lines that can be strengthened , including the effort to obtain new rail service customers for underutilized rail lines;*
- 4) obtain and maintain knowledge of the status of rail lines, the use and changes in the use of rail line services, and possibly the financial conditions of railroad companies;*
- 5) perform other activities necessary to promote and support a strong, safe, efficient and adequate railroad industry as authorized by statute.*

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*The Authority has not completed an up-to-date equivalent to the State Rail Plan and is, therefore, not yet in compliance with this recommendation.*

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The Authority is still responsible for promoting the rail industry throughout the State, not simply operating the SBVR and WVCR. The State Rail Plan, or an updated equivalent would be a valuable planning tool in accomplishing this task. The Authority has not completed an up-to-date equivalent to the State Rail Plan and is, therefore, not yet in compliance with this recommendation. An Authority representative commented on the Authority's reasons for failing to complete a plan for rail service. The Authority feels that its ability to collect the necessary data from private corporations is a limiting factor in completing such a plan. The Authority, in effect, feels that it completes all of the tasks that such a plan would include, through its present activities.

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*The Authority, in effect, feels that it completes all of the tasks that such a plan would include, through its present activities.*

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*We listed quite a number of functions we perform in our response to this recommendation during the December 2001 review. The SRA monitors the Federal Register on a daily basis and keeps in contact with CSX and Norfolk Southern with regard to rail line abandonments. We also assist local development authorities in opposing abandonments that would be detrimental to the local economy. The SRA will railbank a line that the Surface Transportation Board (STB) has approved for abandonment if the line has potential for future use as a railroad. This is determined by contacting the local economic development authorities to*

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*discuss current and future needs of the rail line.*

*An example of how the SRA protects the state's interests with regard to rail service occurred during the acquisition of Conrail by CSX and NS in 1997. This action would result in the transfer of all Conrail lines in West Virginia to NS. There were concerns over changes in traffic patterns, shipper access and the impact on communities along rail lines in the state. The SRA attended public meetings and reviewed all materials submitted by CSX and NS. We analyzed the potential impacts on all rail lines in West Virginia and provided a detailed analysis to the governor's office, the WVDOT and our congressional delegation.*

*It must be understood that over 98 percent of the railroad mileage in West Virginia is owned and operated by two companies, CSX Transportation and Norfolk Southern. These large, **multi-state** corporations operate rail systems that are engaged in interstate commerce and come under the jurisdiction of various federal agencies. The SRA has no legal power to require these corporations to provide it with any information regarding their operations. Although requests for information have often been unanswered, we do use the information that is provided to stay abreast of these company's future plans as much as possible. The Association of American Railroads reports consolidated data for all railroads by state. The most current statistics for West Virginia are shown on the SRA's website.*

## **Conclusion**

The Authority feels that its purely reactive role in dealing with rail line abandonments and mergers is adequate for fulfilling the planning role assigned to it. The Legislative Auditor's Office contends that the SRA's lack of proactive planning greatly limits its ability to anticipate the State's rail service needs. The Authority is, therefore, not in compliance with Recommendation 5 of PERD's 2001 report and should seek a more active role in rail service planning.

## **Recommendation**

5. *The State Rail Authority should continue to focus on anticipating changes that affect the rail industry in the State.*

# Appendix A: Transmittal Letter

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## WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

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(304) 347-4890  
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John Sylvia  
Director

December 16, 2003

West Virginia State Rail Authority  
William W. Hartman, Executive Director  
120 Water Plant Drive  
Moorefield, WV 26836

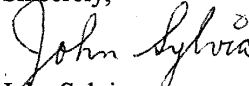
Dear Mr. Hartman:

This is to transmit a draft copy of the Preliminary Performance Evaluation of the State Rail Authority. This report is scheduled to be presented during the January 11-13, 2004 interim meeting of the Joint Committee on Government Operations. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committee may have.

We need to schedule an exit conference to discuss any concerns you may have with the report. We can conduct the exit conference via telephone. We would like to have the meeting the week of December 15, 2003. Please notify us to schedule an exact time. We need your written response by noon on December 29, 2003, in order to included it in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, January 8, 2004, to make arrangements.

We request that your personnel treat the draft report as confidential and that it not be disclosed to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

  
John Sylvia

c: Fred VanKirk, P.E., Cabinet Secretary

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*Joint Committee on Government and Finance*



# Appendix B: Agency Response

## SRA RESPONSE TO 2003 PERFORMANCE EVALUATION

**Recommendation 1:** *The State Rail Authority should present the economic impact analysis of the West Virginia Central Railroad, upon its completion, to the Joint Committee on Government Operations.*

An economic impact analysis is being prepared by an outside consultant. When this is complete the SRA will present it to the Joint Committee on Government Operations. We are certain this study will show a positive impact on the economy of the communities served by the WVCR.

**Recommendation 2:** *The State Rail Authority should report to the Joint Committee on Government Operations to indicate when it has attained the revised goal of running 65 car unit trains to the Pilgrim's Pride facility, with a turnaround of 36 hours.*

The SRA at this time can report that the express unloading of the 65 car unit trains is going well. The last three unit trains have all been turned around within a 36 hour period. This success amounts to free demurrage and additional revenue on each car for the SBVR and a per car savings on freight for the customer Pilgrim's Pride. Also by turning these trains around in a 36 hour period it allows the SBVR crews to better serve our other customers. The trial period is basically complete and the final agreements should be signed in the near future.

**Recommendation 3:** *The State Rail Authority's financial statements should provide separate operating losses for each railroad, in order to present data on the relative efficiency of each.*

The SRA monitors the revenues, expenses and capital improvement projects of each railroad separately however we have always presented financial statements for the agency as one entity as required by state code section 29-18-17. Presenting separate statements for each railroad will be time consuming and more costly but it can be done if the legislature feels it is necessary.

**Recommendation 4:** *The State Rail Authority should continue to emphasize maintenance and safety training, monitoring insurance claims losses, in order to sustain the current trend towards decreased losses.*

The SRA is committed to running a safe and efficient railroad. We will continue to complete maintenance programs on the SBVR & WVCR as our yearly budget allows. It is our intent to serve our freight customers and excursion passengers as well as possible always keeping safety as our number one goal. Derailments are costly to our operation. They can result in injury, property damage, lost operating time and higher insurance premiums. By continuing to improve our track structure and equipment the probability of derailments has decreased and will continue to decrease. However, it should be

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understood that derailments can occur and do occur on the best track structures and are not necessarily the result of poor performance by the railroad or its employees.

***Recommendation 5: The State Rail Authority should continue to focus on anticipating changes that affect the rail industry in the State.***

The SRA will continue to focus on anticipating changes that affect the rail industry in the State. We do monitor rail issues through many avenues of information. We have expanded the duties of our Property Manager who now takes a more active role in researching and monitoring the anticipated plans for the future uses of CSX and Norfolk Southern rail properties in the state. Although the state code empowers the SRA to perform many functions it does not require that all of these functions be performed. The SRA is required to determine which functions are necessary to adequately perform all of the duties we are charged with, including monitoring the state's rail systems.