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16. Abstract This report is an evaluation of the existing Rural Rail Transportation Districts (RRTDs) in Texas. RRTDs are subdivisions of Texas state government that have the power to purchase existing rail lines that may be threatened with abandonment, to purchase and operate existing rail lines, or to build new railroad and intermodal facilities. The report documents both the history of RRTD development and the current status of each individual RRTD through case studies and a listing of common characteristics held by RRTDs since they were first authorized in 1981. In general, the effectiveness of RRTDs has been limited due to a lack of state funding; however, a few RRTDs have been successful in obtaining state or federal grants that have allowed them limited success. The report also describes the history of district formation and the recent trends that have allowed districts more latitude to act as regional economic development tools rather than only as infrastructure preservation entities. Examples of "best practices" in both preservation and economic development type districts are presented.					
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TEXAS RURAL RAIL TRANSPORTATION DISTRICTS: CHARACTERISTICS AND CASE STUDIES

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CHAPTER 1: BACKGROUND OF RURAL RAIL TRANSPORTATION DISTRICT FORMATION IN TEXAS

RAIL DISTRICT FORMATION

The 67th Texas Legislature first authorized formation of Rural Rail Transportation Districts (RRTDs) in 1981. The U.S. Congress had passed the Staggers Rail Act in 1980, greatly reducing the economic regulation of the railroad industry and some of the barriers to abandonment of many unprofitable railroad lines held by large, Class I railroad companies. Foreseeing a period during which the railroad companies would greatly increase the number of abandonment requests for light traffic density branch lines in rural areas, the legislature sought to create a mechanism that would allow local governments to save rail as a rural transportation option.

The creators envisioned RRTDs as regional public bodies that could work to prevent the permanent loss of rail lines in rural and agricultural areas. They are special public districts created by action of individual county commissioners courts and are considered political subdivisions of Texas state government. This status as a local governmental unit grants to RRTDs many of the same powers that other public bodies have. Unlike most other special districts, however, the status did not give RRTDs the power to levy taxes in order to fund rail maintenance, improvements, or operations. The only statutory funding source that has been made available to them, other than receiving donations of cash and real property, has been the authority to issue revenue bonds and the use of anticipation notes. Two RRTDs have been successful in receiving specific legislative appropriation “riders” granting them funds from state general revenue through the Texas Department of Transportation (TxDOT).

The Texas Legislature has passed Amendments to the rail district statutes periodically with major changes occurring in 1993 and in 1997. These changes have enhanced the ability of RRTDs to act as economic development vehicles and allowed single counties to develop rail districts. A minor change was also made during the 2001 legislative session when Senate Bill (SB) 406 included an amendment stating that any railroad lines purchased by RRTDs using state appropriated funds are not to be abandoned without the approval of the Texas Transportation Commission. Although SB 406 created a mechanism for funding preservation of abandoned rail facilities by TxDOT, no monies were appropriated for this purpose. This change did, however, solidify the intent of the legislature that any rail lines that may be purchased by the state, at any time in the future, are not to be abandoned until the Transportation Commission determines that they are no longer necessary and should be removed from service.

RAIL DISTRICT DEVELOPMENT HISTORY

In examining the existing Texas RRTDs, we can draw several general conclusions regarding their effectiveness in preventing loss of rail service through a region or in encouraging economic development along a rail line. It is difficult, however, to develop an all-purpose history of rural rail transportation districts in Texas because each one has had distinctive features and factors that have led to its success or failure. For this reason, this section will address only the general development patterns and trends of RRTDs in the state. [Chapter 3](#) covers more fully

the specific motivation and history behind each RRTD's formation in the case study of each district, and [Chapter 5](#) outlines more detailed suggestions and best practices.

The South Plains Rural Rail Transportation District was the only known RRTD to be formed in the state during the 1980s. Eight Lubbock-area counties formed the district amid concerns that several nearby lines would be abandoned. This district was later disbanded (under rules applicable at that time) when private sector, shortline rail company plans were developed which preserved local rail service (*1*). Five counties along the Atchison, Topeka, and Santa Fe rail line between Brownwood and Fort Worth formed the Centex Rural Rail Transportation District, the earliest RRTD that remains in existence, in late 1990. An 11-county district was formed along the South Orient line through West Texas and a 12-county district was formed in the southeastern corner of the state, but generally smaller districts made up of two or three counties then became the norm. These districts were distributed throughout the state in every major geographic area except the Panhandle and the Rio Grande Valley as shown in [Figure 1](#). In total, nine districts were formed between 1991 and 1997 as several new Class I railroad abandonment proceedings took place.

The pace of district formation has accelerated since amendments to the rail district statutes took effect following the 1997 Texas legislative session. Changes allowing single counties to form their own RRTDs and enhancing the ability of RRTDs to be used as economic development tools for specific projects removed hesitancy that had prevented some counties from forming RRTDs in previous years. As of August 2001, there were 16 RRTDs in the state with at least three more potential districts being considered. Together, the 16 districts incorporate 56 counties spread throughout the state as shown in [Figure 2](#).

RRTD BOARD ACTIVITY

During the early part of this research project, the authors found that only eight of the fourteen rural rail districts existing at that time were holding regular meetings and were diligent in appointing members when terms expired (*2*). Among those eight active districts, not all are keeping the statutory requirement to meet at least monthly and there is not a means for enforcement of this provision. Less active boards in districts that do not own or operate rail assets are meeting on a bi-monthly or quarterly basis, feeling that this is sufficient for carrying out the business of the RRTD. At least one district is known to post “no agenda” notices during those months in which it does not hold a meeting. This reduced meeting schedule allows some boards to conduct the limited business of these less active RRTDs while requiring less of a time commitment from the board members, but is technically in violation of the RRTD statute.

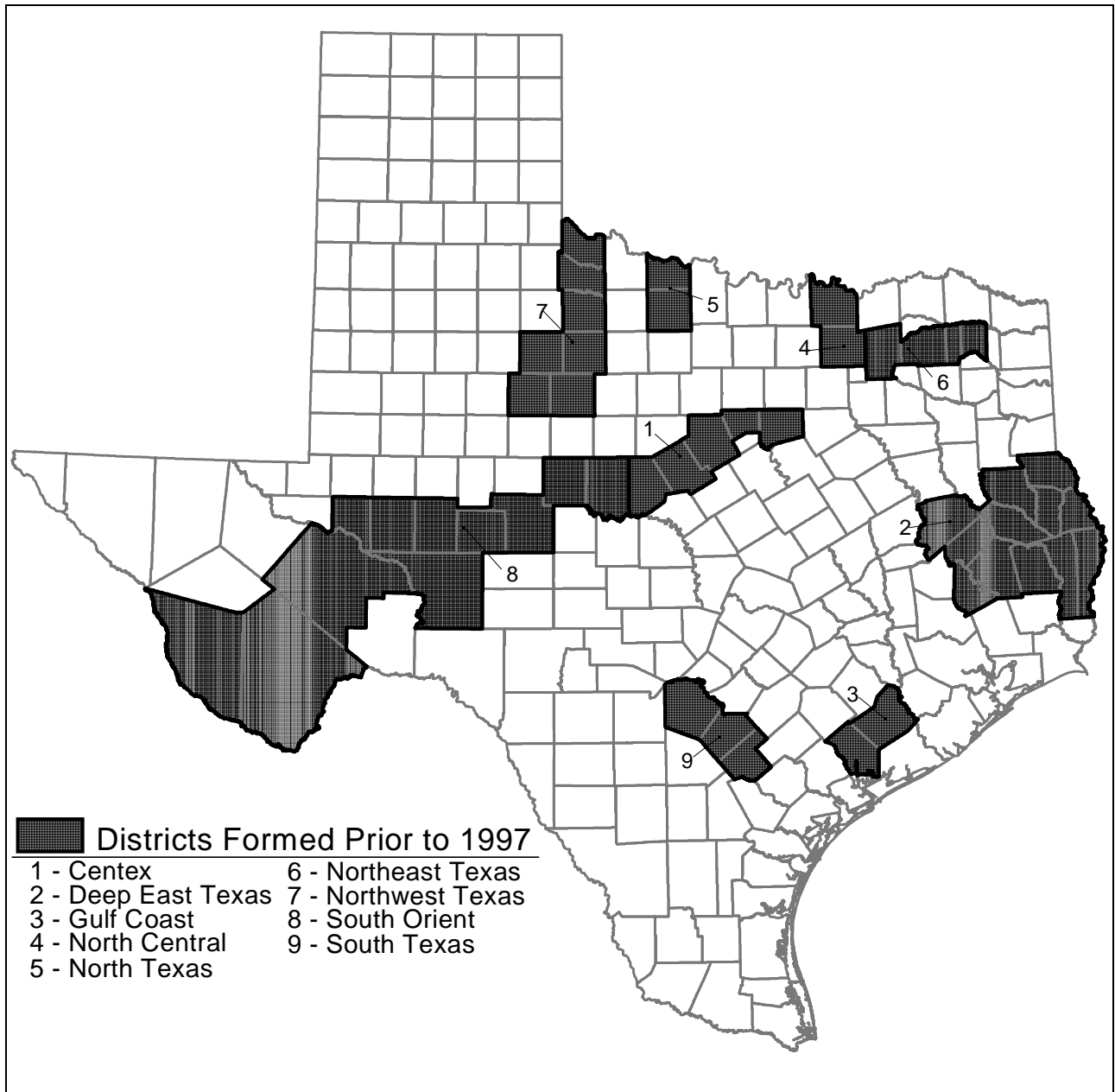


Figure 1. Rural Rail Districts Formed Between 1981 and 1997.

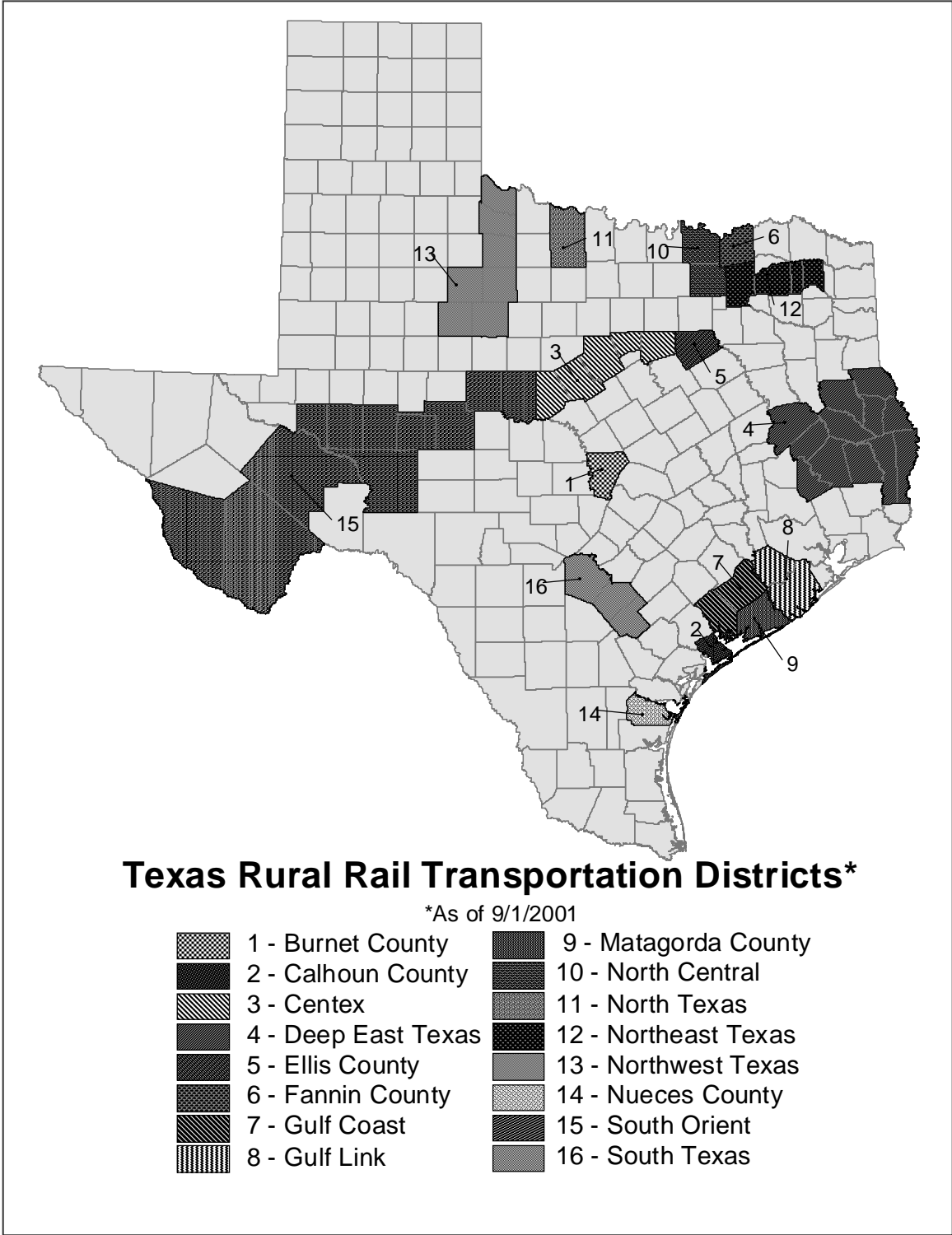


Figure 2. Current Rural Rail Districts.

Regularity, if not frequency, of the business meetings is vital to keep the board membership involved and active. If the district does not hold regular board meetings, board positions also tend to expire without reappointment or new members being appointed. The RRTD continues to exist due to its perpetual succession; however, in effect the board can be defunct. Many of the inactive, defunct RRTDs did not form in time to prevent abandonment and scrapping of the lines in their area, so they and their boards exist “on paper,” but, without any physical rail assets to acquire or manage, there are very few activities that they can accomplish by requiring fixed monthly board meetings. Other RRTD boards may have control of remaining rail rights-of-way; however, the track and other rail materials have been removed from the rail line before the RRTD could act to prevent it. In some of these cases, the RRTD has sought other uses for the rights-of-way such as highway expansion, use as a utility or fiber-optic right-of-way, or as a recreational trail. These alternate uses have been questioned by some since much of the rail right-of-way often consists of a railroad operating easement and not outright, or fee simple, ownership of the land. The provisions of Federal “railbanking” law, however, have allowed such uses—as long as there remains the intent to return active rail service to the right-of-way at some future date.

Among the 10 RRTD boards that regularly meet (eight when the study began plus the two newly formed), there is also great variance in the level and type of activities carried out by each board. Three districts, the South Orient RRTD, the Centex RRTD, and the Northeast Texas (NETEX) RRTD, have successfully purchased some ownership rights in the lines within their boundaries and have contracted for operations and/or maintenance of the line with a contract operator. These districts have been able to achieve continued operations through financial agreements in which either the contractors provided funding based upon their revenue or state or federal funding allowed them to subsidize a contractor’s efforts. State funding has historically been from riders to the general revenue appropriations bill passed each biennium by the legislature rather than stable, programmatic funding. Federal funding usually is in the form of loans or grants from U.S. government agencies (e.g., the U.S. Department of Agriculture (USDA)).

When an efficient and involved operator can be contracted to provide rail transportation services, the RRTD board acts much as an oversight committee for the contractor’s service and maintenance of the track. The NETEX RRTD board has expanded its role somewhat beyond this. Because NETEX has had capital, made available from state and federal funding grants, it has been able to actively pursue new rail customers by working closely with its operator to purchase and lease back specialized equipment. This enables customers along the line to ship products by rail and generates greater revenues for both the contractor and the RRTD by inducing the shipper to use rail instead of truck (2). Its contractor has begun to generate some revenue that is passed back to the RRTD.

[Chapter 2](#) gives a general history and overview of the state’s rail system and describes the functional classification system for railroads in the United States. [Chapter 3](#) presents profiles of each of the rural rail districts in the state. [Chapter 4](#) of this report explains the economic impacts of RRTDs, and [Chapter 5](#) outlines the innovative efforts and “best practices” that the most successful RRTDs in the state have used.

CHAPTER 2: TEXAS STATEWIDE ECONOMIC CHARACTERISTICS AND RAILROAD SYSTEM

This chapter summarizes several of the economic and population characteristics of Texas, and also examines the rail system serving Texas industries and customers. In conclusion, this chapter provides information on how the economy and rail system may affect the current RRTD and the development of additional districts in the future.

STATEWIDE ECONOMIC CHARACTERISTICS

The size of Texas and its diverse population allow for a wide array of economic activities and development in agriculture, industry, natural resources, and high technology. Not only is Texas ranked second by land area, but it is also ranked toward the top in many economic and population categories. The following sections describe population and economic trends in Texas over the last decade.

Population Trends

With a population total of 20.8 million in 2000, Texas follows only California as the most populous states in the U.S. (3). The population growth rate in Texas over the time period between 1990 and 2000 exceeded that of the U.S. average. Over that time frame, Texas grew 22.8 percent while the national average was 13.1 percent (3).

The majority of the growth over the last decade took place in the metropolitan areas, where 84.8 percent of Texas' population resides. The non-metropolitan areas include approximately 3.2 million people, while the metropolitan areas include approximately 17.7 million people. The fastest growing area is the metropolitan suburban area where the 10-year growth was over 45 percent. The combined metropolitan areas experienced a change in population of 3.5 million, representing a 25 percent increase (4).

The rural areas of Texas experienced a slower growth rate of 12 percent, with the majority of that growth occurring in non-metropolitan areas adjacent to metropolitan areas (4). The total increase in population in the rural areas was not reflected throughout the state where 35 percent of non-metropolitan areas lost population (5).

The population in Texas and throughout the U.S. continues to increase in age. The population involving persons 65 years of age or older grew 12 percent nationwide from 1990 to 2000. In Texas, that age category increased 20.7 percent (4). The majority of the elderly reside in metropolitan areas; however, in rural areas the group accounts for a larger share of the population.

Economic Trends

The per capita personal income for Texas trailed that of the U.S. in 1997, with values of \$23,707 and \$25,288, respectively. Examining the per capita personal income on a regional basis in Texas, the highest per capita personal income levels exist in four major areas: the Houston metropolitan area, the Dallas-Fort Worth metropolitan area, the agricultural counties in

the northernmost Panhandle, and the Hill Country area between Austin and San Antonio (6). With the major locations mostly in major metropolitan areas, it is not surprising that the per capita personal income in metropolitan areas exceeded those in non-metropolitan areas \$24,776 to \$17, 972 for a \$6,804 difference.

Texas experienced considerable economic growth over the past decade. The gross state product (GSP) reached \$713.1 billion in 2000, a value nearly 50 percent higher than the 1994 GSP, and is expected to grow to near \$850 billion in 2004 (7). Texas leads all states in job creation in the last decade with the addition of over 2.6 million non-farm jobs as of June 2001 (8).

The services industry represents the largest single sector of the state’s economy with over \$119 billion in 1998, a value consisting of 19 percent of the state’s economy. Following services is manufacturing with 16 percent. The combination of the transportation, finance, and trade industries represented 45 percent of the economy. The following table (Table 1) shows all of the industries in Texas and the percent share of the total state economy. Table 1 also shows the industry values for 1989. Each industry basically represents the same share of Texas’ economy. The greatest increase was services with a 107 percent increase, followed by manufacturing with a 70 percent increase. The total GSP increased 61 percent from 1989 to 1998 (6).

Table 1. Texas Gross State Product by Industry (in millions).

Industry Group	1989 Data	% of Total	1998 Data	% of Total	% Increase
Agriculture	5,317	1	5,937	1	12
Government	44,037	11	69,310	11	57
Manufacturing	61,045	16	103,707	16	70
Mining	30,994	8	47,207	7	52
Services	57,681	15	119,546	19	107
Transportation, Finance, and Trade	193,306	49	286,701	45	48
Total	392,380	100	632,408	100	61

Source: Dallas Morning News. 2000-2001 Texas Almanac (6).

The major industries are distributed differently throughout the state. An examination of the earnings related to the different industries provides a better understanding of where the industries are most represented. Table 2 shows a regional breakdown of the predominant industries based on earnings.

Table 2. Percent of Counties with Predominant Industry by Region (1999).

Industry Group	Texas Panhandle	Central Texas	Northeast Texas	Coastal Bend	South Texas	West Texas
Agriculture	45%	6%	11%	4%	0%	3%
Government	29%	32%	20%	24%	64%	46%
Manufacturing	7%	6%	20%	28%	3%	3%
Mining	8%	5%	0%	0%	5%	31%
Services	8%	43%	46%	40%	28%	17%
Transportation, Finance, and Trade	3%	8%	3%	4%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. *Bearfacts 1998-99 – Texas*. Available Online: www.bea.doc.gov. (1)

THE FREIGHT RAILROAD SYSTEM OF TEXAS

The first railroad constructed in Texas was the Buffalo Bayou, Brazos and Colorado Railroad in 1854. The rail line stretched approximately 20 miles between the port of Harrisburg and Stafford’s Point in present day Houston. Compared to the rest of the United States, the utilization of the railroads in Texas began late, but grew rapidly throughout the remaining 1800s. In the decade of the 1880s, Texas’ rail system grew over 6000 miles, which tripled the previous length. By 1905, Texas had more miles of railroad than any other state; a distinction it still holds today. Construction of new rail line in Texas continued to grow until 1932, some 16 years after the U.S. construction peaked. In 1932, Texas had over 17,000 miles of track (9).

Although the railroads were a major transporter of freight in Texas, they also played a major role in the movement in people. The increased growth in passenger service grew significantly in the late 1800s and early 1900s and reached a peak in 1920 when the system carried 30 million passengers (10).

After World War II, the U.S. began emphasizing mobility and began upgrading the existing highway system and undertook the construction of the Interstate Highway System. The improved intercity highway system along with improved truck performance started the decline in railroad industry. The decline resulted in the railroads shedding unprofitable rail lines, streamlining operations, and merging with other railroads. Between 1980 and 2001, Texas lost over 2500 miles of rail line to abandonment, a process made easier throughout the U.S. by the 1980 Federal Staggers Rail Act. Mergers reduced the number of the major Class I railroads operating in Texas from eight to three over that same time period.

The shedding of rail lines by the major rail carriers did not always result in abandonment. They often sold or leased these lines to shortline operators. On a national level, the number of shortlines increased from approximately 250 in 1970 to over 500 currently (9).

Railroads remain vital to the national economy. America’s freight railroads carry more than 40 percent of the nation’s intercity freight, including 64 percent of the nation’s coal and 40

percent of the nation's grain (11). Over 550 railroads, operating on over 144,000 miles of track, moved 1.86 billion tons of freight nationwide in 1999 (12). Table 3 shows the top commodities transported by railroads within the U.S. in 1999.

Table 3. Top U.S. Rail Commodities in 1999.

Commodity	Weight (Tons)	Percent of U.S. Total
Coal	766,269,629	41.2
Farm Products	155,643,023	8.4
Nonmetallic Minerals	152,071,981	8.2
Chemicals	149,715,509	8.1
Food Products	94,409,906	5.1
Mixed Freight	94,304,174	5.1
Metallic Ores	65,589,490	3.5
Primary Metal Products	64,527,744	3.5
Lumber, Wood Products	56,134,282	3.0
Glass and Stone	53,982,861	2.9
Grand Total	1,859,225,870	100

Source: *Railroad Service in the United States*. AAR Online, www.aar.org (12).

The following section provides information specific to the freight railroads operating in Texas.

Current Rail System Characteristics

The Texas rail system continues to play a major role in the transport of goods throughout the state and remains among the national leaders in several categories. Texas currently ranks second in the number of freight railroads, first in total length of track, and fifth in rail traffic. In 1999, the American Association of Railroads (AAR) listed 45 railroads operating in Texas with a total of 10,649 miles of physical track plus an additional 3,289 miles over which more than one railroad operates through a trackage rights agreement (13). Table 4 divides the 45 railroads into the different railroad classifications and provides the miles operated for each classification, which includes the trackage rights over other railroad-owned track.

Table 4. Freight Railroads Operating in Texas (1999).

Railroad Classification	Number of Freight Railroads	Miles Operated (Including Trackage Rights)
Class I	3	11,286
Class II	1	544
Class III	41	2,108
Totals	45	13,938

Source for Mileage: *Freight Railroads Operating in Texas*. AAR Online www.aar.org (13).

As the table shows, the major Class I operators conduct the majority of the operations, but the vast majority of the railroads in the state are small Class III operators. The Class III railroads, often referred to as shortlines, are usually short haul, low-cost businesses catering to the needs of the customers and providing links to the Class I railroads. They tend to be very customer-service oriented, and in a majority of the cases, shortline railroads serve highly specialized customers, such as grain elevators or lumber mills.

With over 11,000 miles operated in Texas, the Class I railroads play a vital role in the transport of goods. In 1999, the Class I railroads originated 109.3 million tons of freight, terminated 185.1 million tons, and carried over 322.7 million tons of freight within the state. The major commodities include chemicals, coal, farm products, and nonmetallic minerals. As example of the magnitude of the shipments by rail in Texas, in 1999, Texas led the nation in originated rail tons of chemicals by a wide margin (12). Table 5 shows the major commodities originating and terminating in Texas for 1999 and the percent of the total represented.

Table 5. Class I Freight Railroad Traffic in Texas (1999).

Commodity	Weight (tons)	Percent of Total
Originating Traffic		
Chemicals	39,851,093	36
Nonmetallic Minerals	23,270,374	21
Petroleum	7,454,510	7
Fixed Freight	6,549,212	6
Farm Products	4,933,378	5
All Other	27,213,538	25
Grand Total	109,272,105	100
Terminating Traffic		
Coal	54,320,256	29
Nonmetallic Minerals	28,329,806	15
Farm Products	27,166,933	15
Chemicals	21,405,982	12
Food Products	9,875,128	5
All Other	43,991,624	24
Grand Total	185,089,729	100

Source: *Railroad Service in Texas*. AAR Online www.aar.org (14).

The Class I railroads have a variety of facilities located around the state, including major terminals for switching operations and intermodal yards. They also have a large role in the movement of goods to and from the port facilities located along the Texas Gulf Coast and the international gateways between the United States and Mexico. Table 6 shows the major Class I facilities in Texas. The facilities for Kansas City Southern (KCS) include the ones for Texas Mexican Railway (TM).

Table 6. Major Class I Railroad Facilities in Texas.

Facility	UP*	BNSF*	KCS*
Major Terminals	<ul style="list-style-type: none"> ▪ Dallas ▪ El Paso ▪ Fort Worth ▪ Houston ▪ Laredo ▪ San Antonio 	<ul style="list-style-type: none"> ▪ Amarillo ▪ Fort Worth ▪ Houston ▪ Temple 	<ul style="list-style-type: none"> ▪ Beaumont ▪ Corpus Christi (TM) ▪ Dallas ▪ Laredo (TM) ▪ Port Arthur
Intermodal Yards	<ul style="list-style-type: none"> ▪ Dallas ▪ El Paso ▪ Houston ▪ Laredo ▪ San Antonio 	<ul style="list-style-type: none"> ▪ Amarillo ▪ Borger ▪ El Paso ▪ Fort Worth ▪ Houston 	<ul style="list-style-type: none"> ▪ Dallas ▪ Laredo (TM) ▪ Port Arthur
Port Access	<ul style="list-style-type: none"> ▪ Beaumont ▪ Brownsville ▪ Corpus Christi ▪ Freeport ▪ Galveston ▪ Houston ▪ Orange ▪ Port Arthur ▪ Port Lavaca 	<ul style="list-style-type: none"> ▪ Beaumont ▪ Corpus Christi ▪ Galveston ▪ Houston ▪ Orange 	<ul style="list-style-type: none"> ▪ Beaumont ▪ Corpus Christi (TM) ▪ Port Arthur
International Gateways	<ul style="list-style-type: none"> ▪ El Paso ▪ Eagle Pass ▪ Laredo ▪ Brownsville 	<ul style="list-style-type: none"> ▪ El Paso ▪ Eagle Pass ▪ Brownsville 	<ul style="list-style-type: none"> ▪ Laredo (TM)

* UP – Union Pacific; BNSF – Burlington Northern Santa Fe Corp.; KCS – Kansas City Southern Railway.

Table 7 shows the railroads currently operating in Texas. There are also several passenger or tourism trains around the state that are not listed in the table.

Table 7. Railroads Operating in Texas.

Class I Railroads	
<ul style="list-style-type: none"> ▪ BNSF - Burlington Northern Santa Fe Corporation ▪ KCS - Kansas City Southern Railway Company ▪ UP - Union Pacific Railroad Company 	
Class II Railroads	
<ul style="list-style-type: none"> ▪ TM - Texas Mexican Railway Company 	
Class III Railroads	
<ul style="list-style-type: none"> ▪ AATR - Austin Area Terminal Railroad ▪ AGCE - Alamo Gulf Coast Railroad Company ▪ ANR - Angelina & Neches River Railroad Company ▪ BLR - The Blacklands Railroad ▪ BOP - Border Pacific Railroad ▪ BRG - Brownsville & Rio Grande International Railroad ▪ CCTA - Corpus Christi Terminal Association ▪ DART - Dallas Area Rapid Transit ▪ DGNO - Dallas, Garland & Northeastern Railroad ▪ Econo-Rail Corporation ▪ FWWD - Fort Worth & Dallas Belt Railroad Company ▪ FWRW - Fort Worth & Western Railroad ▪ GCSR - Gulf, Colorado & San Saba Railway ▪ GRR - Georgetown Railroad Company ▪ GVSR - Galveston Railroad ▪ KRR - Kiamichi Railroad Company ▪ MCSA - Moscow, Camden & San Augustine Railroad ▪ PCN - Point Comfort & Northern Railway Company ▪ PNR - Panhandle Northern Railroad Company ▪ PTC - Plainview Terminal Company ▪ PTRR - Port Terminal Railroad Association ▪ PVS - Pecos Valley Southern Railway Company ▪ RSS - Rockdale, Sandow & Southern Railroad Company ▪ RVSC - Rio Valley Switching Company ▪ SRN - Sabine River & Northern Railroad Company ▪ SSC - Southern Switching Company ▪ SW - Southwestern Railroad Company ▪ TCT - Texas City Terminal Railway Company ▪ TIBR - Timberrock Railroad Company ▪ TN - Texas & Northern Railway Company ▪ TNER - Texas Northeastern Railroad ▪ TNMR - Texas & New Mexico Railroad Company ▪ TPT - Texas Pacific Transportation Company ▪ TSE - Texas South-Eastern Railroad Company ▪ TXGN - Texas, Gonzales & Northern Railway Company ▪ TXNW - Texas North Western Railway Company ▪ TXOR - Texas & Oklahoma Railroad Company ▪ TXR - Texas Rock Crusher Railway Company ▪ TXTC - Texas Transportation Company ▪ WTJR - Wichita, Tillman & Jackson Railway Company ▪ WTLR - West Texas & Lubbock Railroad Company 	

Source: *Freight Railroads Operating in Texas*, 1999. AAR Online. www.aar.org (13).

CONCLUSIONS

Historically rural in nature, the population trends show Texas is mostly metropolitan today. Almost 85 percent of Texas' population resides in 58 metropolitan counties. Not only did rural areas within Texas grow at a much slower rate than the metropolitan areas many of the rural counties decreased in population over the past decade. The rural areas of Texas are also older than the metropolitan areas, with the elderly representing a higher percentage of the population. These trends in population are likely to continue in the future.

Many of these rural areas rely heavily on industries that use rail transportation. Over 2500 miles of rail line have been lost to abandonment in Texas since 1980. Some of the rail line conditions declined due to lack of customers along the line. These situations most likely did not greatly affect the adjoining communities. However, many rural towns around the state lost an important mode of transportation with the loss of rail service. The effects vary depending on the community's reliance on rail, but in most cases, some businesses close or relocate because of the

loss of rail service. This can greatly affect the economy of a rural community which then loses an employment and tax source as well as the ability to attract new businesses into the area. These factors need to be taken into consideration when examining the potential for success of a proposed RRTD.

CHAPTER 3: TEXAS RURAL RAIL TRANSPORTATION DISTRICT PROFILES

INTRODUCTION

At the time this report was completed, 16 known RRTDs existed in the state of Texas with several more districts in various stages of development. Each RRTD has its own individual characteristics relating to its history of formation, the area and purpose it serves, and its level of activities. This chapter provides profiles of the existing RRTDs located throughout the state. The authors received the information included in each district profile through telephone surveys with district representatives, interviews and discussions with consultants involved in rail district formation, attendance at several RRTD meetings, and the limited existing literature. Discussion areas include regional characteristics, motivation for formation, rail district activities, and district status. The regional economic characteristics provide an overview of the demographic trends of the area related to population changes, as well as the major industrial or agricultural products produced in the area.

Our research discovered that, unlike most other subdivisions of state government, RRTDs are not required by statute to officially register their formation with the Secretary of State, nor are they required to notify either the Railroad Commission of Texas or the Texas Department of Transportation of their activities. One provision of the statutes requires a multi-county RRTD to inform the Texas Transportation Institute (TTI) upon forming a district; however, this provision was not included when the 1997 amendments were added covering formation of single-county districts. This lack of a common, central oversight agency designated to record historical data and liaison with RRTDs on a statewide basis greatly limited our ability to gather precise information on district formation. Where district representatives could not be contacted to obtain exact formation dates, approximate dates of formation are presented.

It should also be noted that during the course of this research, it was discovered that one additional RRTD had formed in the late 1980s, but was later disbanded before statutes were put in place restricting the ability to dissolve RRTDs. The South Plains Rural Rail Transportation District was formed to address the potential abandonment of rail line in eight counties surrounding the Lubbock area. This district was later disbanded when local leaders determined that the RRTD was no longer needed after private sector, shortline rail company plans were developed that preserved local rail service.

CASE STUDIES FOR EXISTING RURAL RAIL TRANSPORTATION DISTRICTS

Burnet County Rural Rail District

The Burnet County Rural Rail District is a single-county district formed in June 2000 to address the potential loss of rail service. The RRTD board consists of five members: two shippers, one local businessman, and two retired residents. The county has several aggregate mining operations and a chemical manufacturing facility that rely upon rail transportation. Burnet County experienced tremendous growth between 1990 and 2000 with a population

increase of 50.6 percent. Much of the growth is attributed to the growth of the neighboring Austin metropolitan area. Figure 3 shows a map of the Burnet County Rural Rail District.

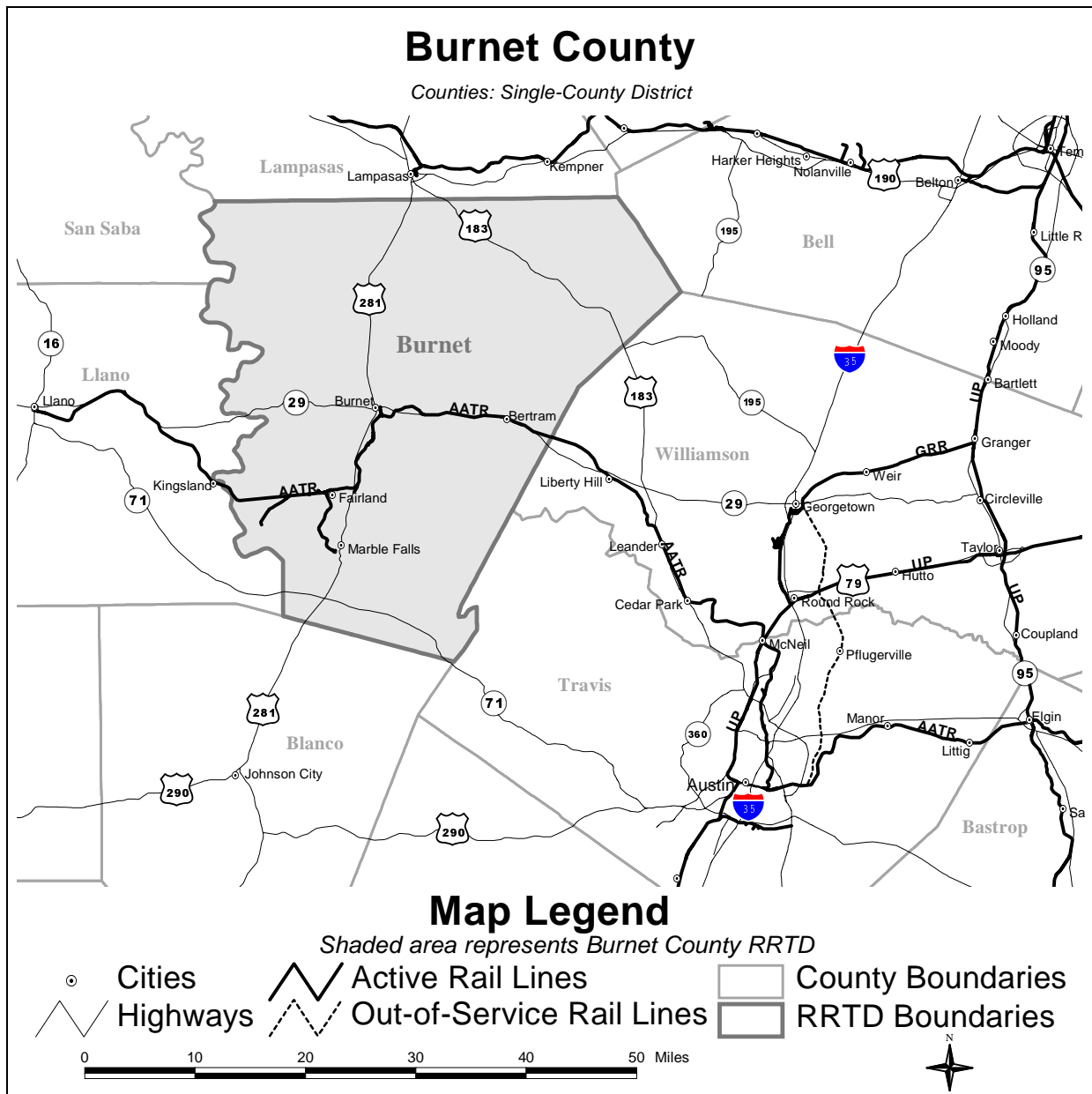


Figure 3. Burnet County Rural Rail District.

Motivation for Formation

Capital Metropolitan Transportation Authority (Capital Metro), the public transit agency for the Austin urbanized area, owns approximately 200 miles of rail line that stretches on both sides of Austin between Llano, in Llano County, and Giddings in Lee County. The City of Austin purchased the line during its abandonment in the mid-1980s and transferred it to Capital Metro approximately 10 years later. As a transit agency, Capital Metro's long-term plans are to use portions of this line and its right-of-way for transit purposes, but freight service over the line has continued.

The Burnet County RRTD formed to prevent abandonment of this line for freight service, in particular the line northwest of Austin that traverses Burnet County serving several rock quarries, when Capital Metro developed the urban sections of the line for rail transit. Of major concern were Capital Metro's efforts to replace the Longhorn Railroad Company as the freight operator of line in April 2000. Shippers located in Burnet County, including three aggregate mining locations and one chemical company, were concerned that freight service would not be restored over the line, thus requiring them to move their freight at higher cost by truck. Capital Metro did restore freight operations, however, by leasing operations over the line to Houston-based Econo-Rail Corporation, who continues to operate the line as the Austin Area Terminal Railroad (AATR).

Rail District Activities

Since taking over operations and maintenance, Econo-Rail has upgraded the line by replacing ties and ballast, and repairing several bridges. Traffic levels over the line are expected to increase due to the upgrade in track infrastructure. If Capital Metro were to consider abandoning freight service in the future, the RRTD board would once again be interested in acquiring the line for continued operations.

Status of District

Activity of the board has diminished with the improved rail situation in place. The tenure of the current board members is set to expire in June 2002.

Calhoun County Rural Rail District

The Calhoun County Rural Rail District is a single-county district formed in December 1999. The RRTD board consists of five members: two port and marine representatives, one member representing the Union Carbide Corporation (UCC) chemical plant, one shortline railroad operator, and one local real estate agent. The regional economy is highly dependent on the chemical processing facilities, marine industries along the coast, and agriculture. The population of the county increased 8.4 percent between 1990 and 2000. Figure 4 shows a map of the Calhoun County Rural Rail District.

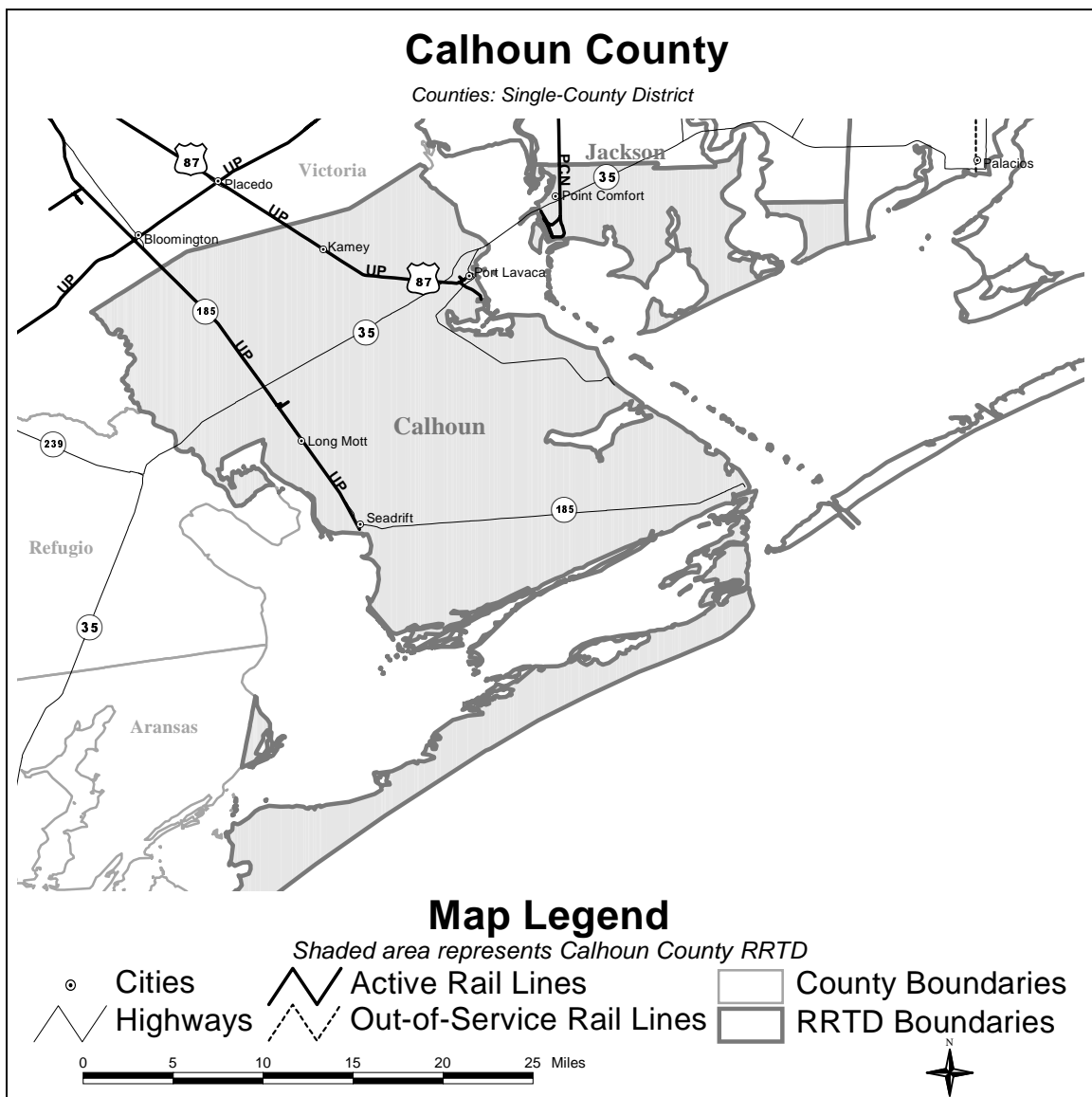


Figure 4. Calhoun County Rural Rail District.

Motivation for Formation

The UCC chemical facility located in Seadrift, Texas, is a major shipper of products by rail and is currently served exclusively by UP. UCC investigated the possibility of building an additional rail line to their facility that would allow it to be served by alternative railroads and thereby decrease its transportation costs. The plan originally involved plans to build a 7.8-mile railroad spur from a former Southern Pacific (SP) line in Kamey, Texas. One of the conditions of the merger between SP and UP gave trackage rights over that former SP line to BNSF, which was interested in providing service over the new line.

The RRTD originally developed as a possible vehicle for the construction of this line between Seadrift and Kamey. UCC and its parent company, DOW Chemical, considered purchasing bonds from the RRTD in order to fund construction of the rail line that could be repaid by charging a fee to use the spur line once operations began. By having the rail be held by a public entity, several tax advantages could also be gained. The RRTD board also considered several other rail-related projects bond funds, such as car storage facilities at Port Lavaca and restoration of several abandoned rail lines.

Rail District Activities

Progress on gaining approval for the new line slowed during UCC's merger into DOW Chemical; however, in June 2001 BNSF received permission from the Surface Transportation Board (STB) to construct the line pending a positive environmental impact study. BNSF has indicated to the RRTD that it now wishes to construct the line without the assistance of the RRTD.

Status of District

The district submitted proposals to BNSF for consideration to use the RRTD as a partner in the build-in activities, but it has not received a positive response at this time. Without a stable revenue stream from fees for operations over the new line coming in to the RRTD, the district has suspended all other projects. The board continues to meet occasionally, but, according to the district's president, will likely become inactive if the district is not used in the build-in. Terms for the current RRTD board are set to expire in December 2001.

Centex Rural Rail Transportation District

The Centex Rural Rail Transportation District is a multi-county district made up of Brown, Comanche, Erath, Hood, and Johnson counties. The district formed in the early 1990s to combat the potential abandonment of the line owned by the Atchison, Topeka, and Santa Fe Railway (ATSF) that traversed the counties. The district was viewed as a means to preserve, protect, and advance rail transportation in the region.

The five-county district includes a diverse variety of economic and regional characteristics with counties adjacent to a major metropolitan area stretching through rural counties in Texas. The major industries of the region include manufacturing, food processing, agriculture, and oil and gas. The overall growth in population for the region was 25.1 percent from 1990 to 2000. Population growth was much higher for the counties in proximity to the

Dallas/Fort Worth Metroplex. Johnson and Hood Counties adjoin Tarrant County and experienced growth rates of 30.5 and 41.8 percent, respectively. Figure 5 below shows a map of the Centex Rural Rail Transportation District.

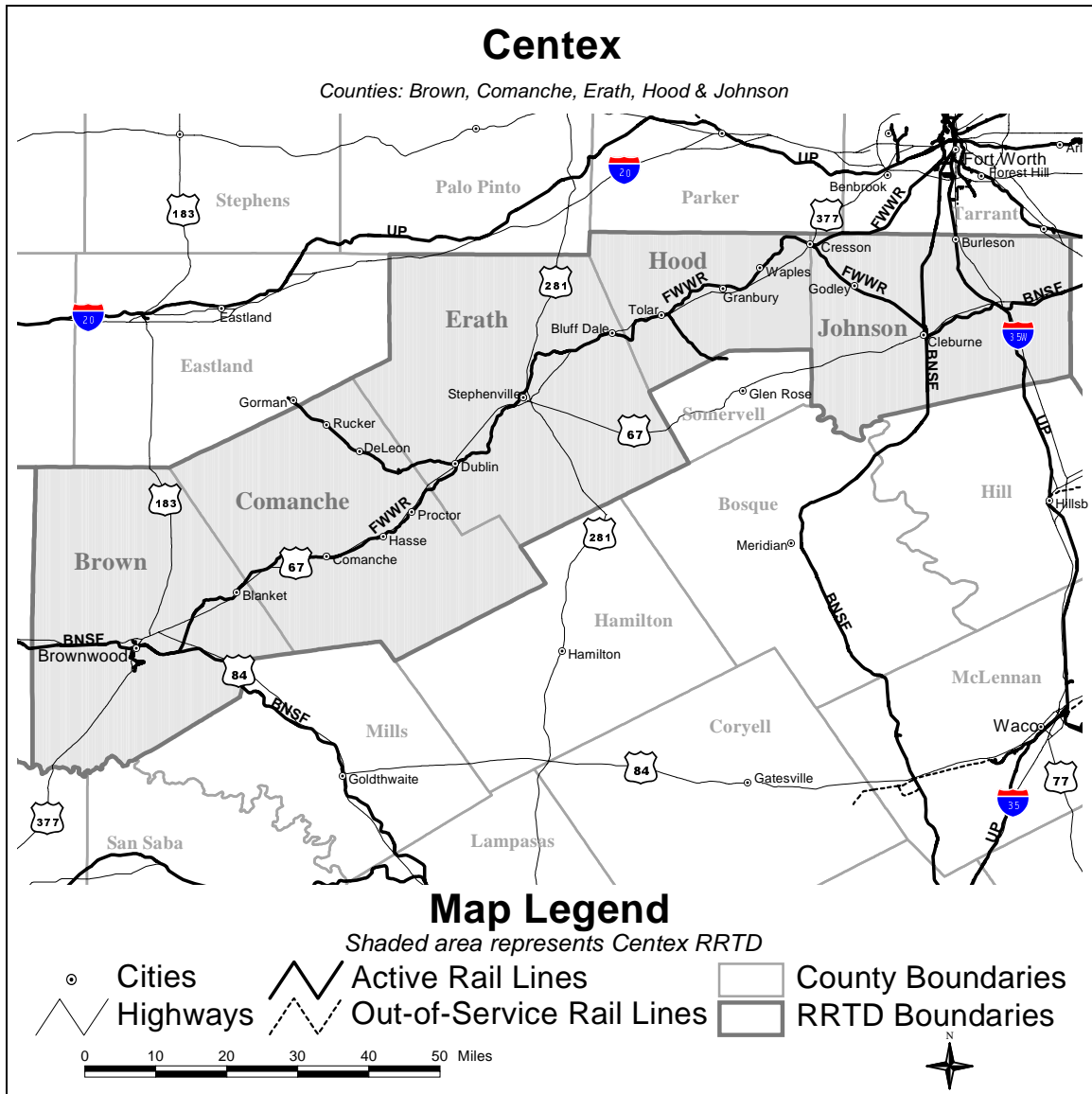


Figure 5. Centex Rural Rail Transportation District.

Motivation for Formation

The purpose for forming this RRTD was to preserve rail service along a line that was threatened with abandonment by its owner. The line between Fort Worth and Brownwood had been operated by the ATSF, but financial losses and insufficient business along the line led them to seek to sell the line. Centex Limited Partnership and the Centex RRTD acquired the line in 1990. Under the agreement, the district acquired existing rights to the right-of-way underlying the railroad, but the Centex Limited Partnership acquired ownership of all the infrastructure and

operating rights. In December 1998 the Fort Worth and Western Railroad (FWWR) acquired rights to the rail infrastructure and operations from the Centex Limited Partnership through a long-term lease agreement that includes an option to purchase the right-of-way from the RRTD. FWWR now conducts freight operations over the line. FWWR is responsible for maintenance of the rail infrastructure and has a contract with Railroad Controls Limited (RCL) to maintain the highway-railroad grade crossing safety devices along the line.

Rail District Activities

Provisions in the contract between the district and FWWR specify that the railroad has the option to buy the right-of-way for a nominal amount (i.e., \$100) if they so choose. The benefit to FWWR of *not* having ownership is based on the nontaxable status of the right-of-way under the RRTD ownership. Were FWWR to purchase the right-of-way, it would be placed back on the tax rolls and the railroad would have to pass this added expense to its customers in the form of higher per-car load rates. The FWWR estimates this increase could be up to \$40 per carload and could tip the balance in favor of trucks for some customers.

A spur line that FWWR operates from Dublin to Gorman recently received a grant from the Texas Department of Agriculture for \$2 million. This line, although Centex RRTD has no ownership rights to it, connects with the RRTD's line at Dublin. The grant funding is intended to allow FWWR to upgrade and expand their operations along that route including the replacement of 36,000 ties. This line has the potential to service the peanut industry located along the route and add an additional 800 cars per year to their traffic base. This added rail business would also reflect a corresponding reduction in the number of trucks (approximately 3200 per year) on rural highways used to transport peanuts.

FWWR estimates that they serve 25 customers along the mainline segment co-owned by the RRTD, most of which are associated with agricultural activity. Current traffic estimates indicate the current customers ship between 400 to 500 cars per month. A second source of revenue is empty car storage. Several customers along the line rely on the railroad to store their private cars when they are not in use. This adds to the revenue stream of the line and benefits both the customers and the Class I railroads by making equipment readily available when it is needed.

FWWR represents a fairly unique example of a viable shortline railroad operation. It connects with all three Texas Class I railroads – KCS, UP, and BNSF in Fort Worth. This fact has allowed FWWR some degree of flexibility in its dealings with the Class I railroads. The prospect of a better interconnection with the KCS over track owned by Dallas Area Rapid Transit (DART) between Wylie (northeast of Dallas) and Fort Worth would set up still better interline opportunities. Additionally, the prospect of traffic increases on the South Orient line under the operation of Texas Pacifico holds much promise for increased levels of business for the FWWR. Texas Pacifico is planning to invest \$5 million in rehabilitation on the South Orient line, which will allow FWWR to begin a revitalized rail marketing program, approaching businesses currently relying on truck transport and selling the economic benefits of rail.

Status of District

The RRTD board continues to meet on a monthly basis; however, some months the board does not meet and they post a “no agenda” notice. Most board members have a business background that gives them a familiarity with the reliance of business on rail transportation and an interest in rail preservation and economic development in the region. The board has experienced very little turnover of members since the district formed. Many of the current requests of the board are matters pertaining to “requests for crossings.” These matters include water lines, sewers, and other utilities. There has been some contention between the board and the operator regarding these issues in the past – the operator wanting to extract as much monetary compensation for the easement as possible and the board viewing it as a courtesy to other infrastructure providers. Some court activity has resulted from this fundamental disagreement, but FWR reports that these matters are now agreed to more readily.

Another current issue facing the board is the opportunity for the RRTD to purchase an additional spur line that runs from Cresson to Cleburne that could potentially be abandoned and scrapped. The line is viewed as having future opportunities for both passenger and freight operations. It could provide improved access as a link between the Centex/South Orient corridor and the Ellis County RRTD/Railport distribution center via BNSF without having to interchange in Fort Worth. Its proximity to the Dallas/Fort Worth Metroplex presents future opportunity for rail transit development as well. According to a district representative, the line has an estimated scrap value of \$850,000, but the owners, Centex Partnership, have offered to sell the line to the RRTD for \$400,000. However, the purchase may not be possible as there is no readily available state or local funding source to support the purchase.

Deep East Texas Rural Rail District

The Deep East Texas Rural Rail District, the largest multi-county district in the state, involves 12 counties in the east and southeastern part of Texas. The counties making up the district include Angelina, Houston, Jasper, Nacogdoches, Newton, Polk, Sabine, San Augustine, San Jacinto, Shelby, Trinity, and Tyler. The RRTD is located in a region heavily dependent on the timber industry and also several other industries including petroleum production and processing, mobile home manufacturing, ranching, and farming. The vast majority of the district is rural in nature and has experienced a 16.5 percent increase in region-wide population between 1990 and 2000. The greatest growth involved Polk and San Jacinto Counties with 34 percent and 35.9 percent, respectively. [Figure 6](#) shows a map of the Deep East Texas Rural Rail District.

Motivation for Formation

Formed in 1993 and 1994, the district was created to prevent the abandonment of two Class I rail lines, one owned by SP and the other by ATSF. If abandoned, the district would have lost over 200 miles of rail line.

Rail District Activities

The RRTD board pursued the purchase of both of the lines proposed for abandonment. Negotiations with the rail companies did not result in a purchase agreement with either railroad. The SP line from Dolan in Angelina County to Loeb, located outside the district in Jefferson

County, was abandoned. TxDOT has been involved in preserving the former rail right-of-way for highway expansion purposes along several sections that parallel U.S. Highway 69 between Lufkin and the Beaumont area. The ATSF line remains in operation under the ownership of the BNSF, the company created by the merger of Burlington Northern with ATSF.

Status of District

The Deep East Texas RRTD appears to be inactive at this time.

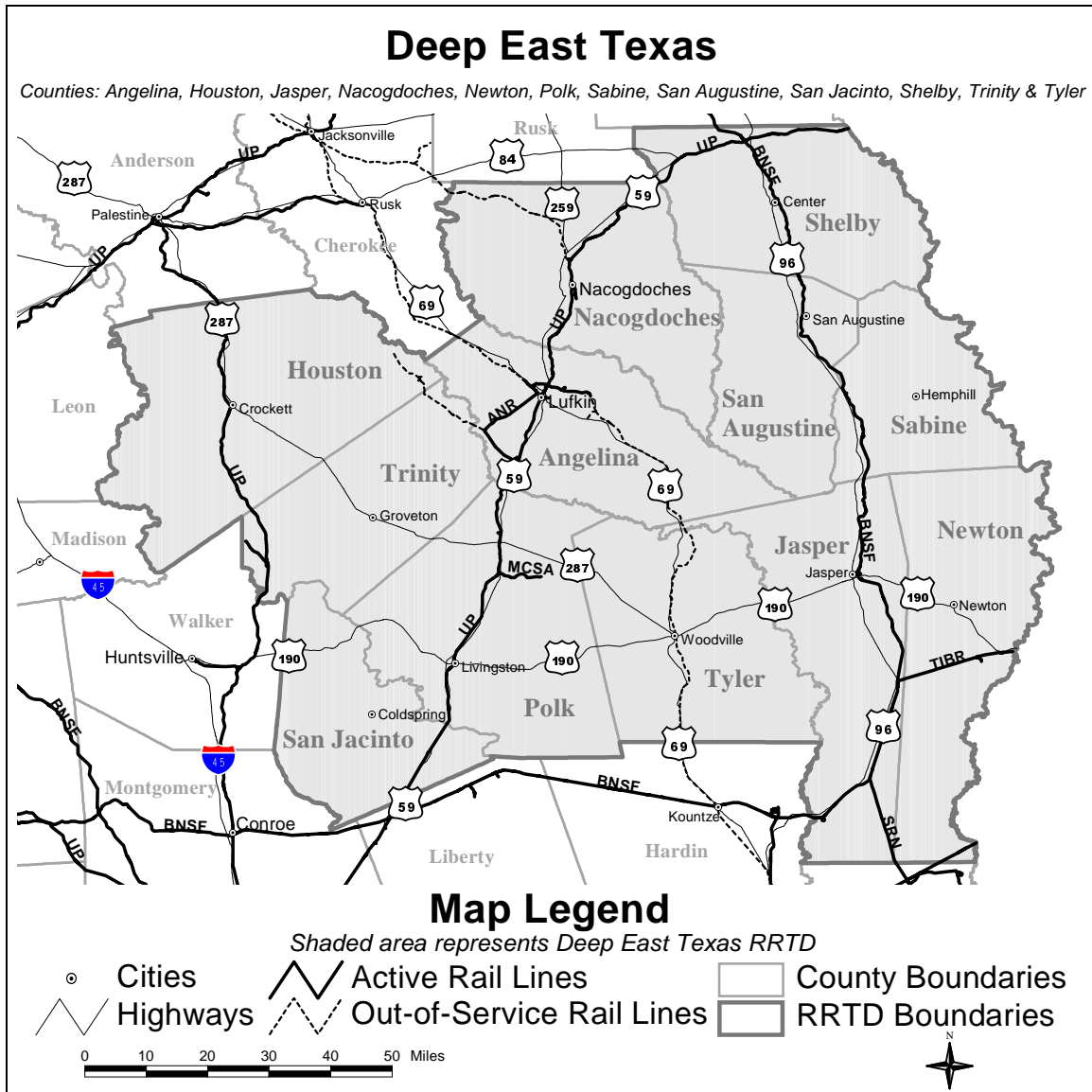


Figure 6. Deep East Texas Rural Rail District.

Ellis County Rural Rail Transportation District

The Ellis County RRTD is a single-county district formed in 1998. The first single-county RRTD formed in Texas, it was developed to foster and promote economic development in the Midlothian, Texas area. The economic characteristics of Ellis County include major steel and cement manufacturers in Midlothian along with ranching and farming throughout the county. From 1990 to 2000 Ellis County experienced a 30.8 percent increase in total population, a rate much higher than the state average of 22.8 percent. With its close proximity to the Dallas metropolitan area, Ellis County will most likely continue to grow in the future. Figure 7 shows a map of the Ellis County Rural Rail Transportation District.

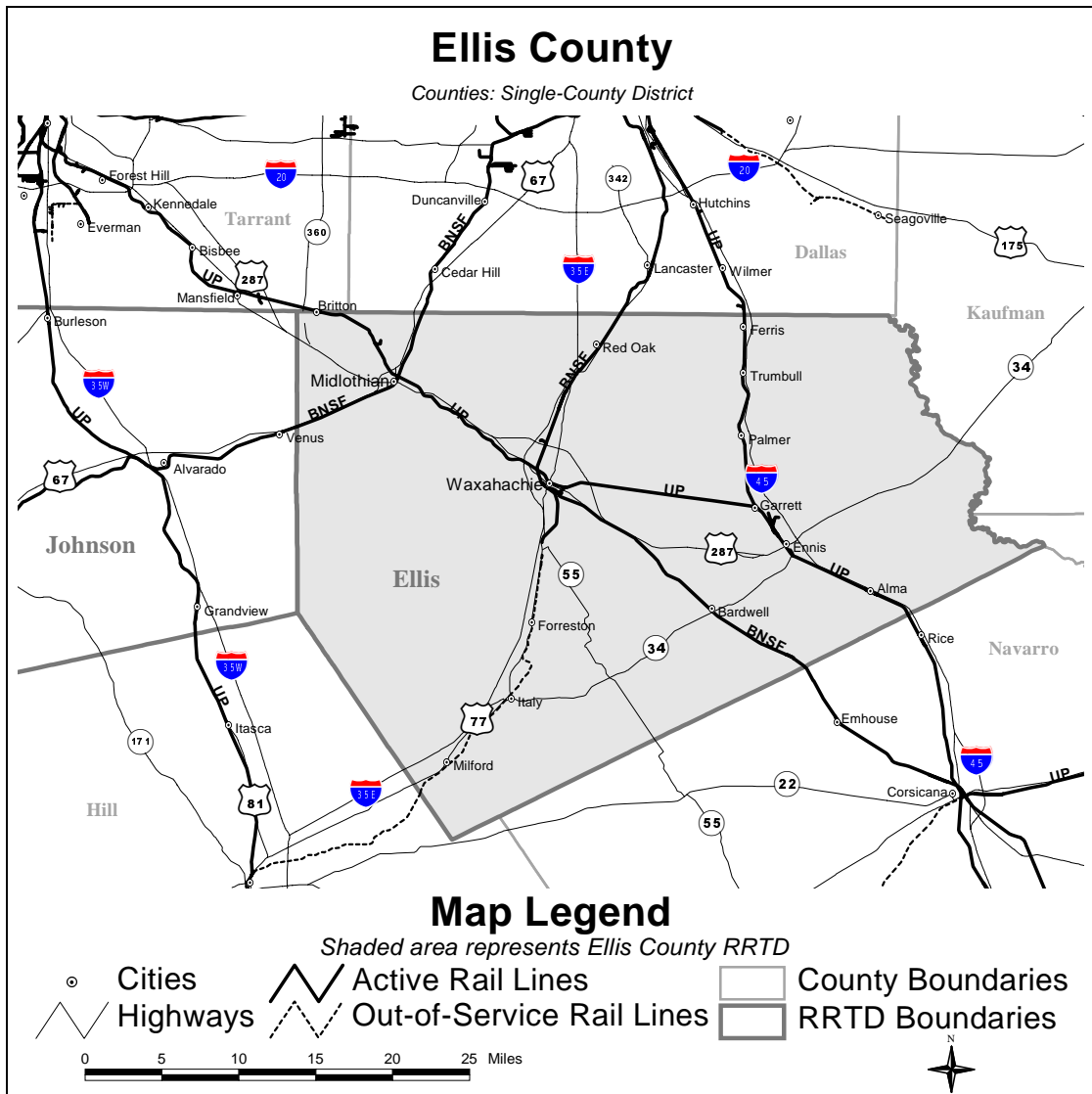


Figure 7. Ellis County Rural Rail Transportation District.

Motivation for Formation

The Ellis County RRTD was formed to enhance the rail transportation capabilities of a development known as “Railport.” The site is adjacent to the BNSF mainline and was being

developed as a Texas Improvement Revitalization Zone (TIRZ). Original plans were for the RRTD to fund construction of a new eight-mile rail line from the Railport site to the north and west to connect to the UP mainline. This addition would allow any future tenants of the facility to choose between the two rail service providers and obtain lower, competitive rail transportation rates. Instead of using the RRTD's bonding authority, bonds previously issued by Ellis County were to be used to fund the construction of the track for the RRTD. Railport would, in turn, pay back county bonds through operating revenues generated from both use of the track and switching operations.

Texas Industries (TXI) owns the real estate of the Railport facility, and they plan to develop the property by selling the different parcels of land to other companies. One example of development in the complex is that a major national retailer purchased a parcel and has begun construction of a national distribution center. The boundary of the facility development also includes a previously existing business, Chaparral Steel, which will benefit from the competitive rail access resulting from site development and RRTD operations.

Rail District Activities

After STB authorization for the Ellis County RRTD to cross the BNSF line and proceed with constructing the new line to UP, BNSF requested a meeting with the RRTD to discuss the purpose of the district. Subsequently, a memorandum of understanding (MOU) has been signed by BNSF, UP, Ellis County, the RRTD, and the Midlothian Development Agency (MDA). The MOU provides for track access, haulage, switching, and reciprocal exchange between BNSF, UP, and the RRTD with respect to rail service at Railport. The agreement stipulates that BNSF will accept cars at their Alliance yard in Fort Worth from UP for delivery to Railport businesses. Upon customer notification that the car is ready to be picked up and forwarded, BNSF will deliver the car back to the Alliance yard and notify UP the car is available for pick-up. Each such car accepted by BNSF and transferred will pay a fixed switching and transport fee to BNSF for the transaction.

BNSF has also committed to provide trackage and haulage rights to UP on the track serving the Railport facility. If UP elects to deliver to Railport using UP locomotives and crew, then they will pay a lower per-car switching fee and a track occupancy per-mile fee to move the cars in and out of the Railport facility. Railport switching work itself is to be carried out by BNSF. Railport and MDA will build and provide for lease to BNSF, within the Railport facility, four 4000-foot long yard or storage tracks. Additionally, a locomotive storage track will be built, and facilities provided for and turned over to BNSF for use in the lease. Furthermore, the RRTD and MDA will build and provide a crew rest facility at this location, and BNSF will move its current local crew rest location to this new facility. BNSF will abandon the current crew facility in order to provide for the continual occupancy and availability of crew and locomotive services required by the Railport facility.

With the new agreement, the build-out will consist of only two miles connecting to the BNSF line adjacent to the Railport complex. Rail operations to the Railport business park are scheduled for completion in late 2001 or early 2002.

Status of District

The RRTD board holds regular monthly meetings. Of the original board members, one resigned early in his term, but the remaining members have been reappointed and continue to serve.

Fannin Rural Rail Transportation District

The Fannin RRTD is a single-county district formed at the end of 1999 to address the potential loss of rail service over a 60-mile line between Bells and Paris, Texas. The RRTD board consists of five members: three agriculture shippers and two local government representatives. The county is a rural county largely based on agricultural industries including farming and ranching. It experienced a population growth of 12.4 percent between 1990 and 2000. [Figure 8](#) shows a map of the Fannin Rural Rail Transportation District.

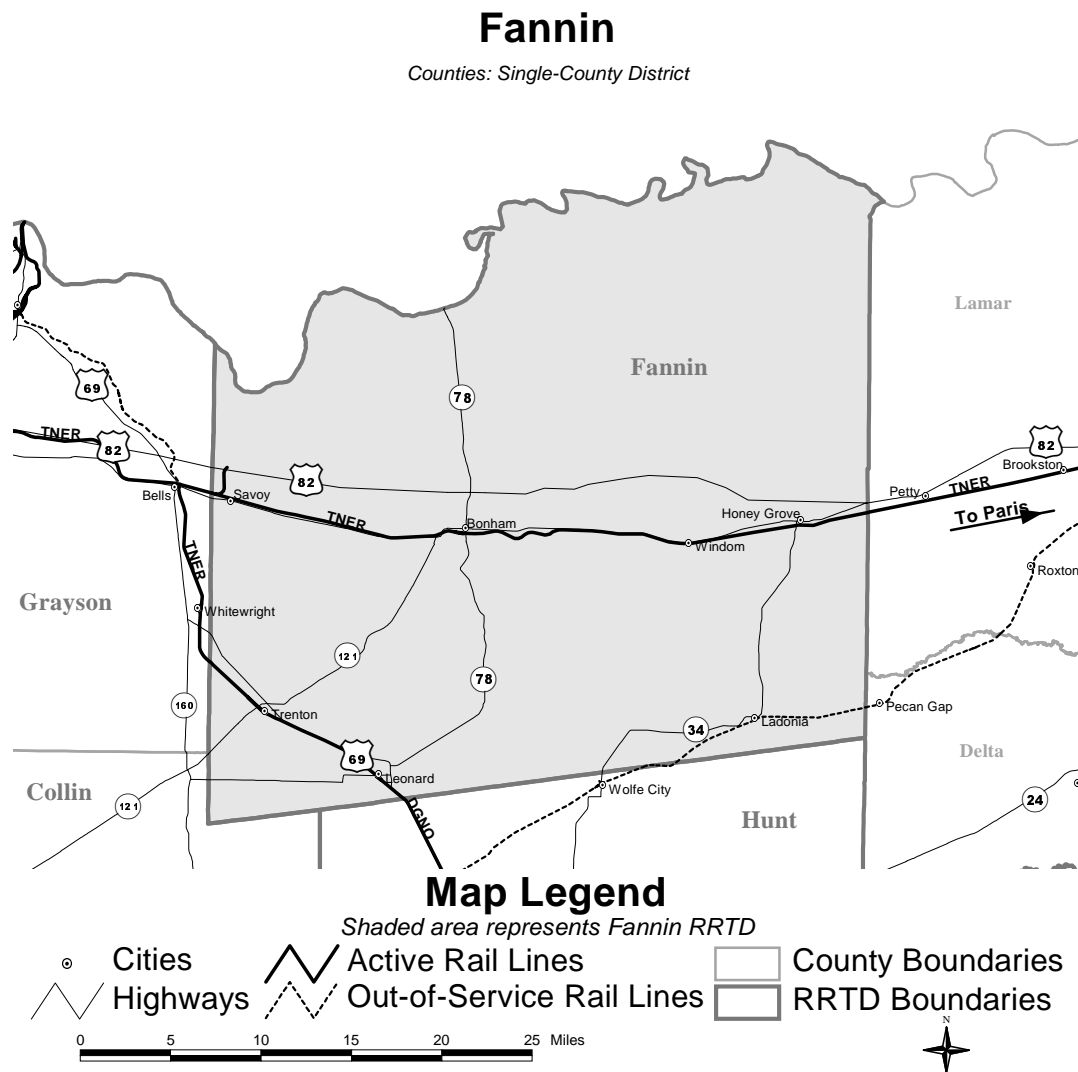


Figure 8. Fannin Rural Rail Transportation District.

Motivation for Formation

UP retained ownership of the rail line between Bells and Paris, but turned over operation of the line to a shortline railroad owned by RailAmerica Incorporated. The condition of track infrastructure along the line had deteriorated beyond acceptable operating conditions, so RailAmerica began adding a surcharge of \$750 per car to shippers to operate over the line (15). The surcharge has forced many shippers to use truck instead of the rail and has provided RailAmerica and UP with potential justification for discontinuance of service and abandonment.

The track that UP has considered abandoning is the line segment between Bells to four miles west of Paris. The customer base along the line is largely agriculture co-ops and fertilizer distribution groups that depend heavily on rail for shipping. Therefore, the general goals of the district are to acquire the UP line either through lease or purchase and maintain rail service.

Rail District Activities

The district and its legal staff have attempted to negotiate with UP for the purchase of the entire section of line from Bells into the city of Paris. Originally, UP said they were willing to sell the entire line, but now they are only willing to sell the section described above, which excludes the track within the city of Paris and the potential interchange and customer base there. UP has indicated that they want to retain that section of track and have stated that they want to wait to discuss purchase of the line by the Fannin RRTD until after the STB has approved an abandonment/discontinuance of service request from UP and RailAmerica.

The rail district would benefit more if an agreement with UP involved the entire line segment into Paris. Track access to Paris would allow more shipping options by connecting with the Kiamichi Railroad, a shortline that runs into Oklahoma and interchanges with KCS in the southwest corner of Arkansas. Without this access, UP would control the interchanges and most likely eliminate competitive transportation to the major shippers located in Paris and to the west if the line were to be rehabilitated by the RRTD.

Status of District

The RRTD board continues to meet to discuss this issue. To cover its legal fees, the district is looking for funding sources, including the Texas Department of Agriculture, the Texas Department of Economic Development, and the Texas Grain and Feed Association. The district has received a proposal from an operator to restore and operate the line. With an estimated potential traffic level of 3000 cars per year, the rail operator believes that the line could be viable.

Gulf Coast Rural Rail Transportation District

The Gulf Coast Rural Rail Transportation District is a multi-county district comprised of Jackson and Wharton Counties. The regional economy is largely based on agriculture and petroleum production industries. As with most of the rural areas of Texas, the population of the area grew at a slower rate than the overall statewide increase of 22.8 percent. The increase in

population from 1990 to 2000 was only 4.9 percent. Figure 9 shows the Gulf Coast Rural Rail Transportation District.

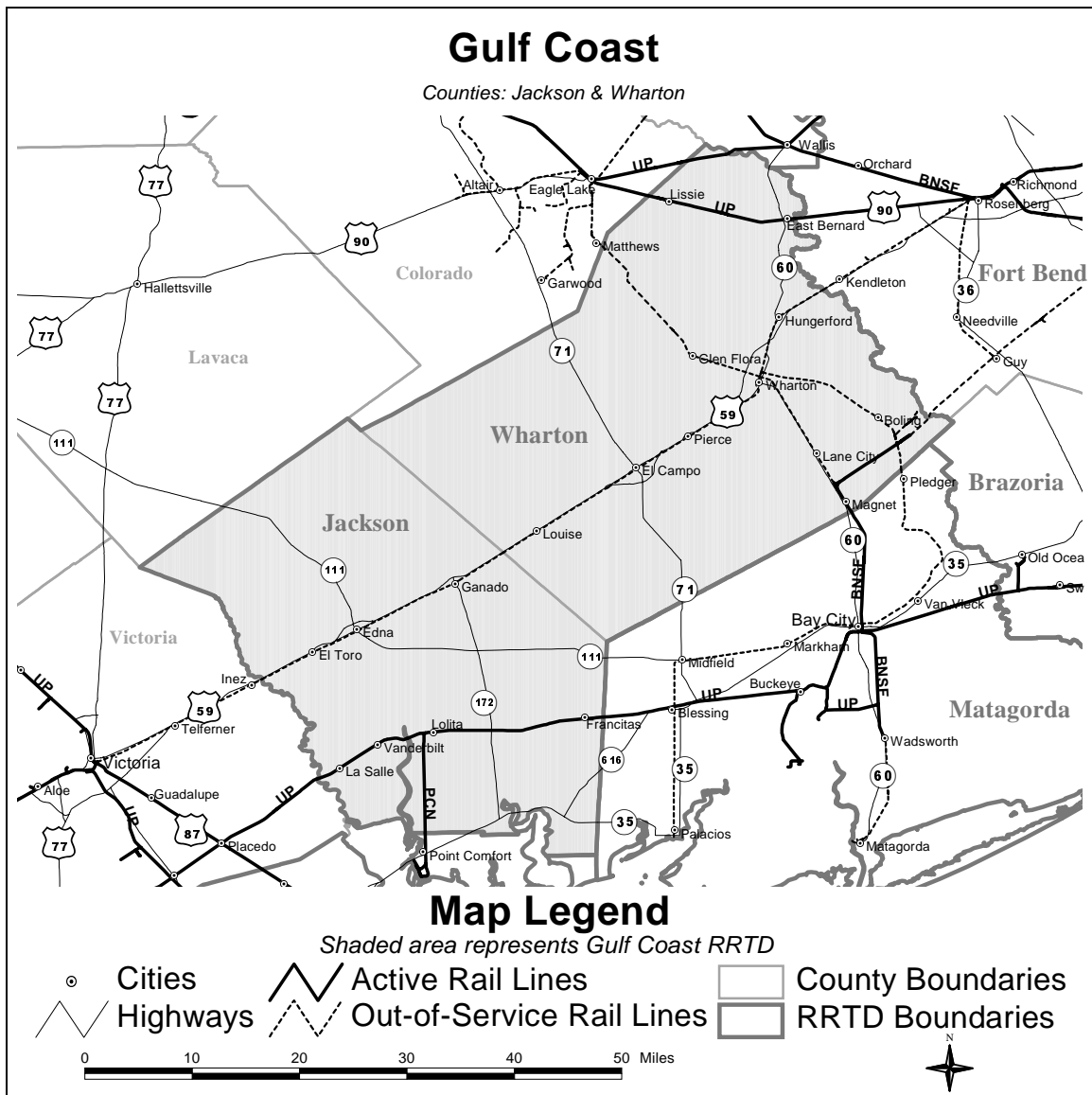


Figure 9. Gulf Coast Rural Rail Transportation District.

Motivation for Formation

The Gulf Coast RRTD formed during 1993 and 1994 to protest the impending abandonment of the SP line that passed through both counties. The line, traveling from Rosenberg in Fort Bend County to Victoria in Victoria County, served as the major transporter of agriculture products for the region.

Rail District Activities

The RRTD board was active in several hearings before the Interstate Commerce Commission during the abandonment process, but, ultimately, it was unable to prevent the abandonment of the 85-mile line rail segment. The majority of the line was pulled up and sold for its salvage value. The loss of rail service forced several agricultural cooperatives to relocate to new locations that were still served by rail.

Status of District

The district remains dormant but could become active again with new developments regarding the abandoned rail line corridor. To improve its operations for international traffic, UP gave TM permission to purchase the remaining rail line and right-of-way in December of 2000. Pending completion of the transaction, TM plans to reconstruct the entire section of line through the district. While it is not yet clear whether the RRTD will be involved in redevelopment of this rail line, it could possibly use its bonding authority and other statutory powers to assist TM with the upgrade and rebuilding of the line in order to restore rail service. The right-of-way is also of interest due to TxDOT's plans to construct Interstate 69 in approximately the same corridor.

Gulf Link Rural Rail District

The Gulf Link RRTD encompasses Brazoria and Fort Bend Counties. It formed in June 1998 to address rail service options for several chemical processing facilities located in the Freeport, Texas, area. Along with the major chemical industries, both farming and ranching remain as important industries in the region. The area experienced a high level of population growth between 1990 and 2000, with a growth rate of 42.9 percent. With its proximity to Harris County and the Houston area, Fort Bend County alone experienced a 57.2 percent growth in population. Figure 10 shows a map of the Gulf Link Rural Rail District.

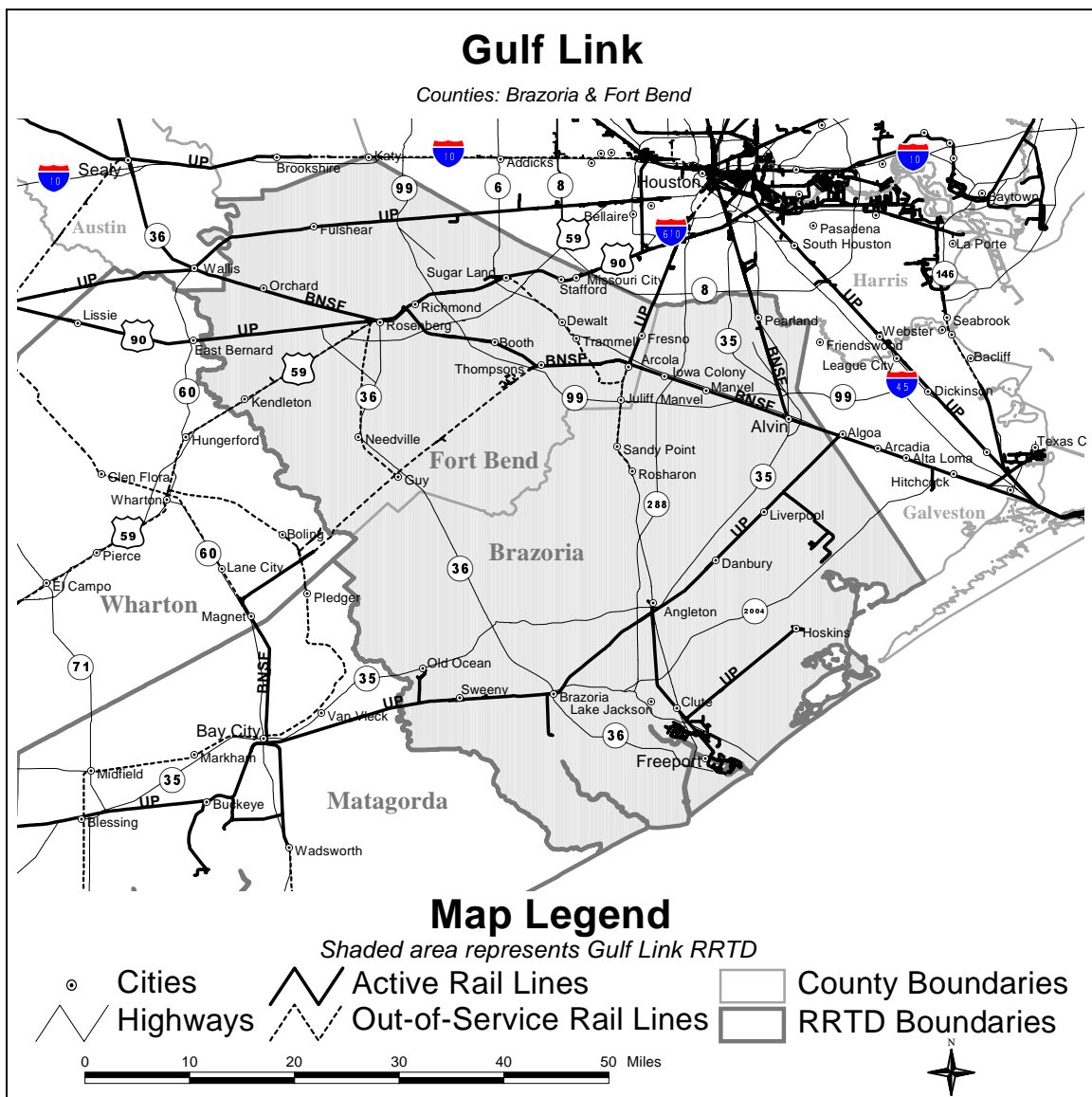


Figure 10. Gulf Link Rural Rail District.

Motivation for Formation

A group of chemical processing plants, including a DOW Chemical facility, are currently only served by UP and have examined the possible line construction of approximately 25 miles of track to connect to the BNSF line that comes northwest out of Galveston.

Rail District Activities

Initial activities by the district included an evaluation of the possible options for the RRTD involvement, routing, and financing but these actions never progressed beyond the discussion stage.

Status of District

According to a district representative, the RRTD board has not officially met in approximately one year. The project at this time appears to be a low priority for the chemical companies involved in the initial discussions.

Matagorda County Rural Rail District

The Matagorda County Rural Rail District is a single-county district formed in February 2001. The RRTD board consists of nine members: three industry representatives and six county economic development representatives. Matagorda County is located along the Texas Gulf Coast and experienced minimum growth in population between 1990 and 2000 of 2.8 percent. The county's economy is greatly impacted by recreation and marine-related industries, such as commercial fishing along the coast. A nuclear power plant located in Bay City also acts as a major employer of residents in Matagorda County. Other industries include petroleum production and refining, varied manufacturing, and various agriculture-related businesses. [Figure 11](#) shows a map of the Matagorda County Rural Rail District.

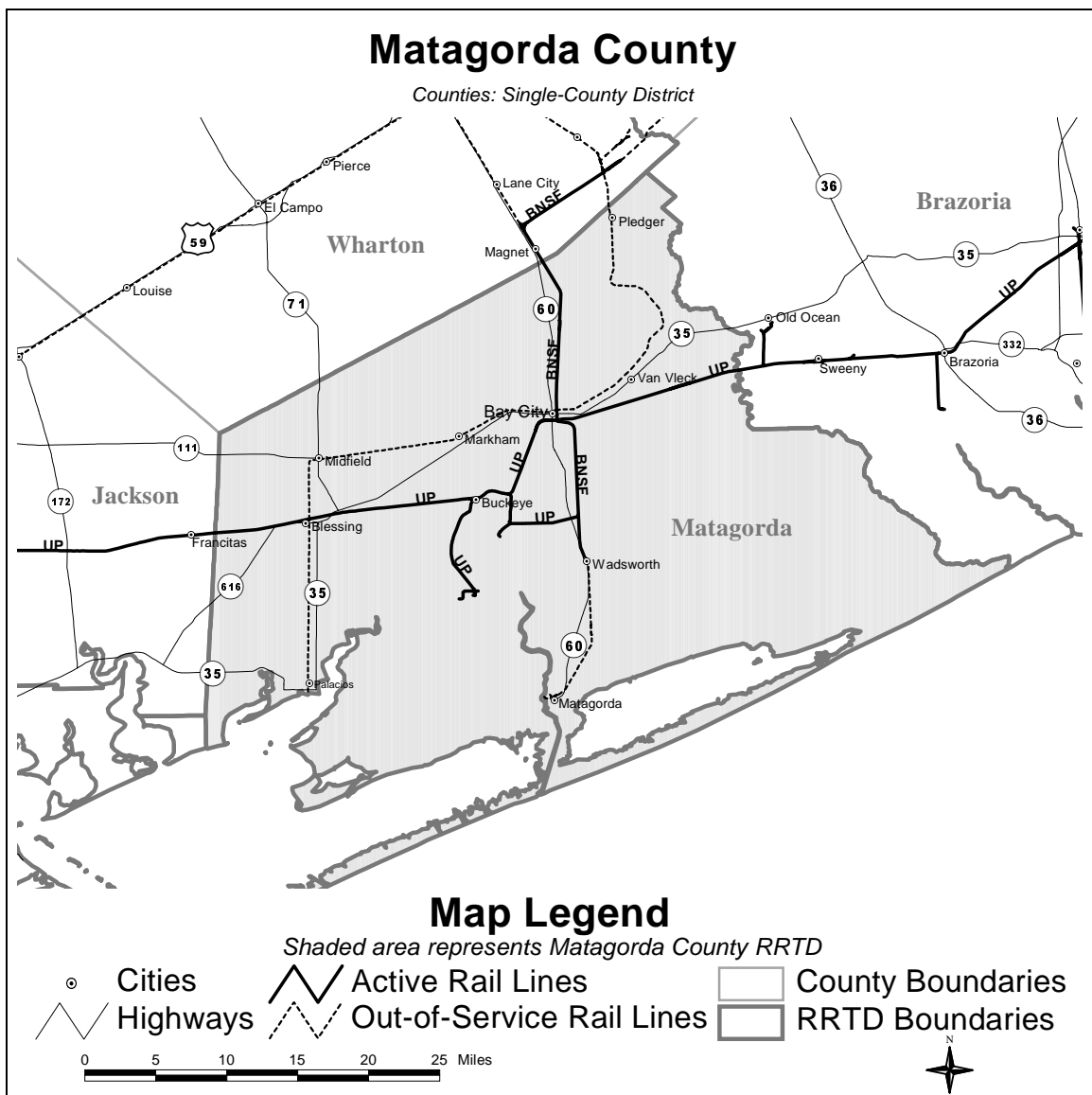


Figure 11. Matagorda County Rural Rail District.

Motivation for Formation

RRTD board members view the district as a tool for economic development and for increasing the employee and tax base of the county by facilitating the financing and construction of rail infrastructure.

Rail District Activities

The district is examining an array of possible rail-related projects around the county. One possibility is to assist with the rail access to a 1400-acre industrial site currently under development. The industrial complex has the potential to move between 2400 and 3200 cars per month for the two prospective shippers, with a coal burning electric plant generating most of this traffic. Other potential activities around the county include restoring the rail line abandoned by SP in 1985 to the Port of Palacios and constructing rail sidings for storage purposes on the north side of Bay City.

Status of District

The board is currently developing their mission statement and business plan and meets on a monthly basis.

North Central Rural Rail District

The North Central Rural Rail District includes Collin and Grayson Counties. Its close proximity to the Dallas metropolitan area has resulted in a very large increase in population of 67.7 percent between 1990 and 2000. In particular, Collin County experienced growth of over 86 percent. Agriculture-related business remains significant in the region, and joins manufacturing, distribution, and retail/wholesale as the other major industries. Figure 12 shows a map of the North Central Rural Rail District.

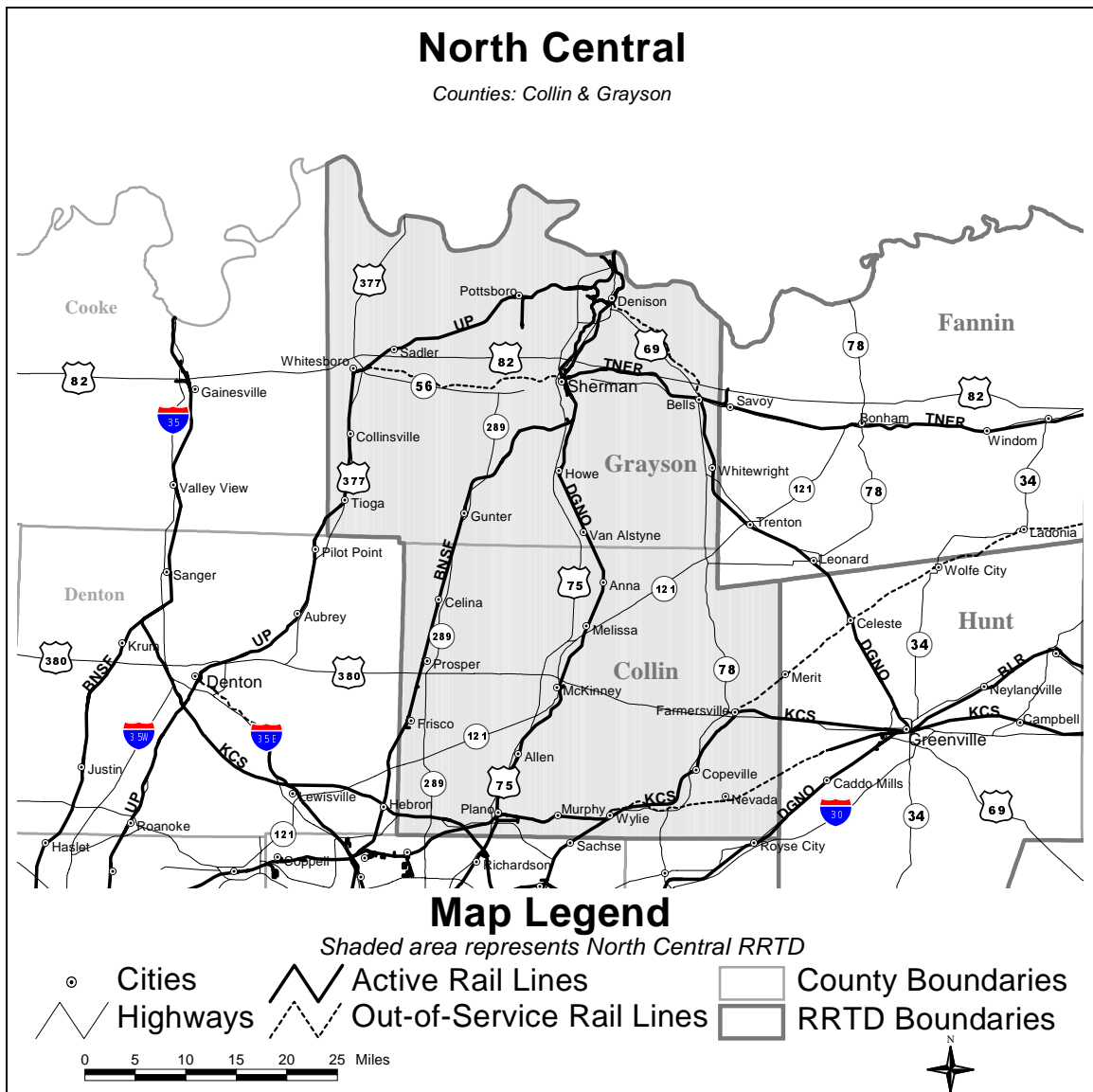


Figure 12. North Central Rural Rail District.

Motivation for Formation

This RRTD formed in 1995 to address potential abandonment of a rail line owned by UP that traverses the two counties. Formerly owned by SP, the deteriorated condition of the line warranted low-speed operations, which led to concerns by local officials and shippers that it might be abandoned.

Rail District Activities

In examining potential opportunities for the rail line, each county differed in its goals for rail preservation. Collin County was most interested in using the existing rail line and its right-of-way for future passenger rail, while Grayson County was concerned primarily with freight rail operations. Collin County's position adjacent to Dallas County and planned expansion of DART's passenger rail operations made passenger rail goals more appealing to Collin County. The Dallas, Garland, and Northeastern Railroad (DGNO) took over operations on the line through a lease agreement with UP before the RRTD could successfully negotiate to acquire the line. DGNO continues to operate over the line; however, DART purchased the line and several other lines in the Dallas area from UP in July 2001 (16).

Status of District

The district is not active at this time due to continued operations by DGNO and DART's acquisition of the line. The district might assist DART or the freight operator in developing future freight or passenger facilities along the line.

North Texas Rural Rail Transportation District

The North Texas RRTD is made up of Archer and Wichita Counties. The regional economy for the two-county district relies on agriculture, manufacturing, and oil and gas. The mostly rural counties experienced a modest 7.8 percent increase in population between 1990 and 2000. [Figure 13](#) shows a map of the North Texas Rural Rail Transportation District.

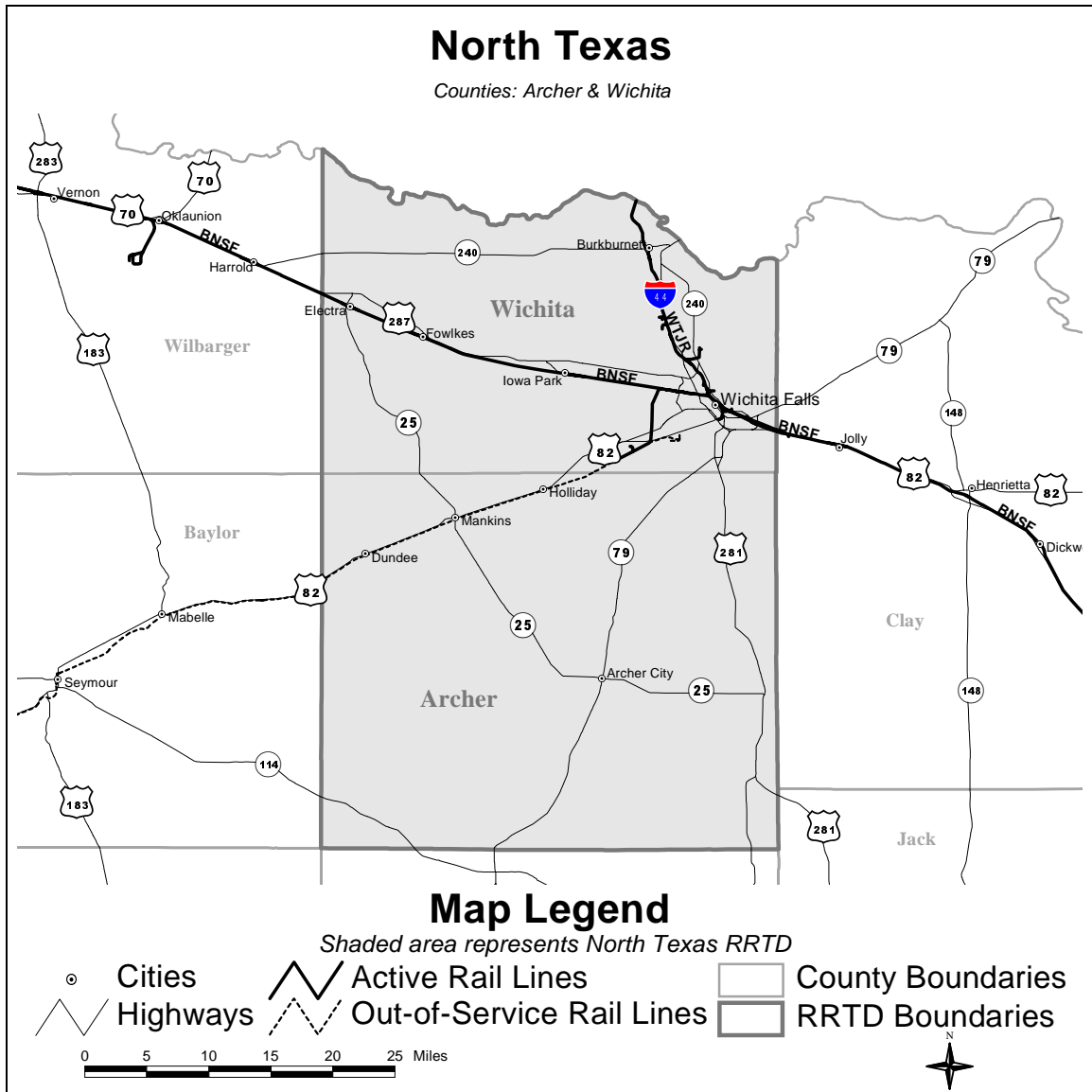


Figure 13. North Texas Rural Rail Transportation District.

Motivation for Formation

The North Texas RRTD formed in 1995 and 1996 to combat the potential loss of rail service and abandonment of the ATSF rail line running through the two-county area along US Highway 82.

Rail District Activities

The district was unable to stop the abandonment but was able to gain ownership of a seven-mile portion of the right-of-way. The ownership interest is a railroad easement, and the right-of-way was rail banked during the abandonment process. As a result of the abandonment the area lost a grain elevator, creating greater use of trucks in the harvest season. The loss of rail service in the area is also believed to have affected the ability to attract new businesses to the area.

Status of District

The RRTD board remains active, holding meetings monthly or as needed. They received a grant from the Texas Parks and Wildlife Department for interim conversion of the right-of-way into a trail. They continue to examine possible business opportunities in the area. One option under consideration is to allow a utility company to use the right-of-way for running fiber-optic cable. The RRTD remains interested in acquiring any rail or additional right-of-way that might become available for purchase.

Northeast Texas (NETEX) Rural Rail Transportation District

The NETEX RRTD is a multi-county district formed by Franklin, Hopkins, Hunt, and Titus Counties. The district formed in July 1994 to address the impending abandonment of a rail line owned by SP. The incentive to form the RRTD was to prevent loss of rail service and to promote economic development for the area. The region covered by the four-county district is mostly rural in nature, relying mostly on agriculture industries. The area also has mining activity for lignite, white rock, and sand. The region experienced a 16.9 percent increase in population from 1990 to 2000. [Figure 14](#) shows the Northeast Texas Rural Rail Transportation District.

Motivation for Formation

In 1995 the legislature appropriated \$2 million for the purchase of 31 miles of SP line from Simtrott, west of the city of Greenville to a point five miles west of Sulphur Springs. These appropriated general revenue funds provided the only revenue source for this purchase. The State, through TxDOT, maintains a security interest on this 31 miles of track equal to the amount of state funding appropriated by the legislature; however, all operating rights and decisions have been granted to the NETEX RRTD. Greenville and Commerce lay on this portion of the line.

In September 2000, the NETEX RRTD purchased an additional 35 miles of track from UP that connected the former eastern end of track, just west of Sulphur Springs, east to the western Titus county line near Winfield. Funds for this purchase came from a \$1.5 million Rural Economic Development Grant from the U.S. Department of Agriculture. NETEX owns this portion of the rail line in fee simple interest.

In May 2001, the 77th Legislature passed an appropriations bill rider number 62, directing TxDOT to allocate \$300,000 of its appropriated funds to purchase and preserve 23.5 miles of former SP right-of-way between Simtrott and Wylie, Texas, adjoining to the current NETEX holdings. The Interstate Commerce Commission authorized this piece of railroad for abandonment in November 1994. At that time, NETEX attempted to purchase the abandoned

railroad from SP, but SP sold the line to A&K Materials in May 1995, who removed the tracks and sold the materials for their salvage value.

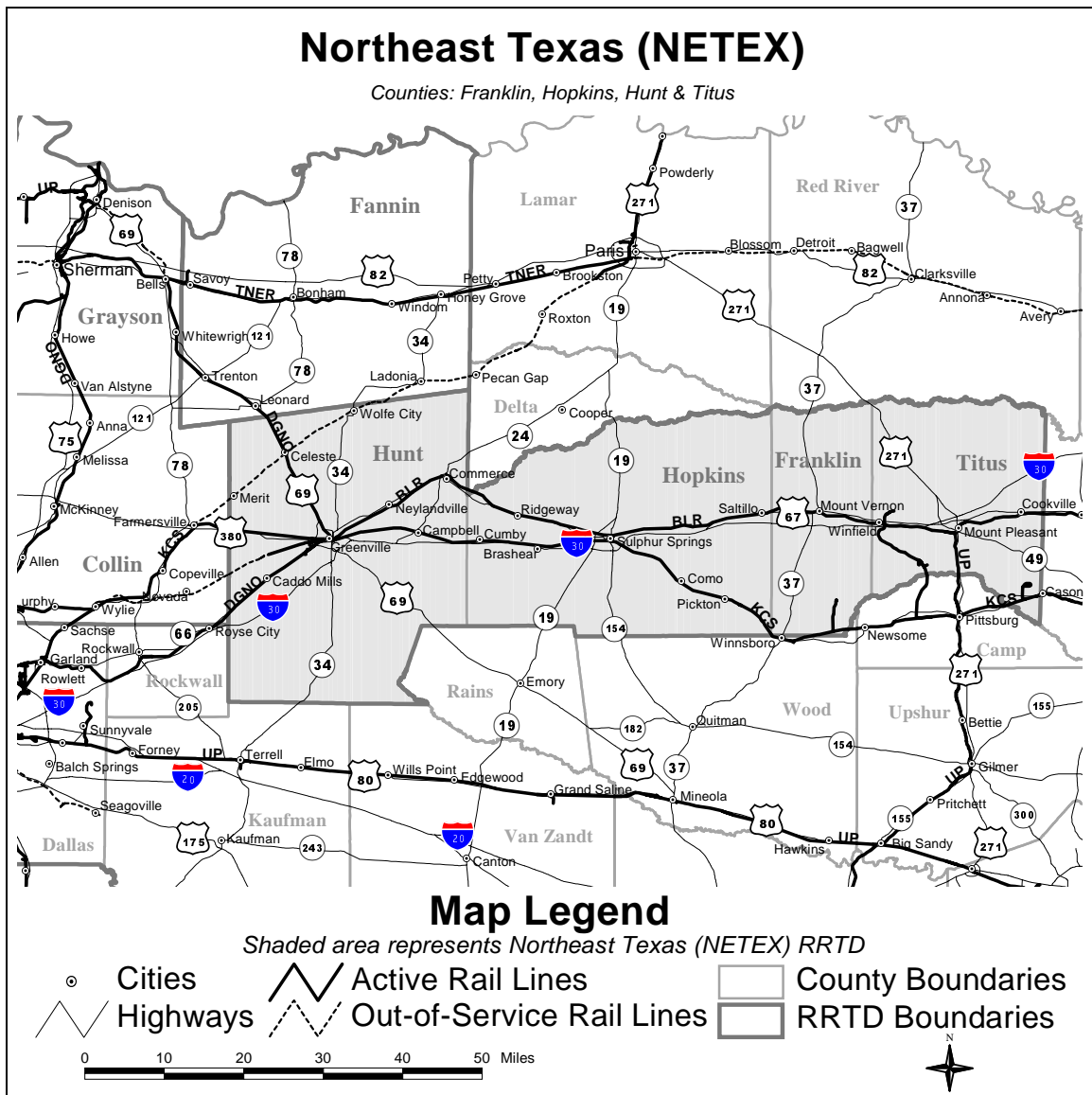


Figure 14. Northeast Texas Rural Rail Transportation District.

Rail District Activities

The NETEX RRTD has been one of the most successful examples of an active and involved rail district board. NETEX has often acted as an adjunct to the region’s economic development council. NETEX has had two different operators in the time since it initially formed. The first operator started with two customers and an annual car count of 200 cars per year. This level remained level through 1998. In 1998, NETEX obtained a new operator, the Blacklands Railroad, which has aggressively developed the shippers on the line to increase car

count to 1200 cars per year from a total of 10 shippers. This represents an increase of eight shippers over the early period of operations. NETEX attributes the increase in customers and car count to aggressive operator marketing and consistently high-quality customer service.

The district has successfully retained two original shippers, drawn three new shippers, and regained four of the original seven businesses that had used rail in the area. One business left the area in order to remain competitive in its industry. The industry was a wood door and window manufacturer that relocated to Canada to reduce its raw material supply costs. Even though the business used the district's rail line for both its raw material and finished product shipping, NETEX believes that the relocation decision was made due to industry dynamics not related to its level of rail service.

Status of District

The NETEX RRTD is one of the most active and involved in the state. The district regularly attempts to promote the use of rail by shippers along the line. One method that NETEX has used is to purchase specialized rail equipment that the operator or shippers would otherwise not be able to afford and then lease it back to the operator. This brings more traffic to the line and generates revenue that can be reinvested in further rail improvements. They have attended several government surplus sales and auctions, and purchased several pieces of equipment for the rail operator and shippers. This equipment includes rail ties for Blacklands Railroad and a conveyor system for a grain shipper.

NETEX also is active in pursuing all possible funding opportunities at both the state and federal levels. Their success in winning such funding has allowed NETEX to continue to grow in its ownership of rail infrastructure. Long-term plans include the possibility that commuter rail operations could take place over all or a portion of the line owned by the district.

Northwest Texas Rural Rail Authority

The Northwest Texas Rural Rail Authority formed in 1993 by Fisher, Foard, Hardeman, Haskell, Jones, Knox, and Stonewall Counties to combat the abandonment of approximately 150 miles of rail line, known as the North Orient line, between Sweetwater, Texas, and the Texas-Oklahoma border. This region is rural in nature. Ranching, farming, and oil and gas production are its primary industries. With the exception of Jones County, all the counties in the district experienced decreased populations between 1990 and 2000, a trend experienced by a large portion of the rural counties in Texas. Figure 15 depicts the Northwest Texas Rural Rail Authority.

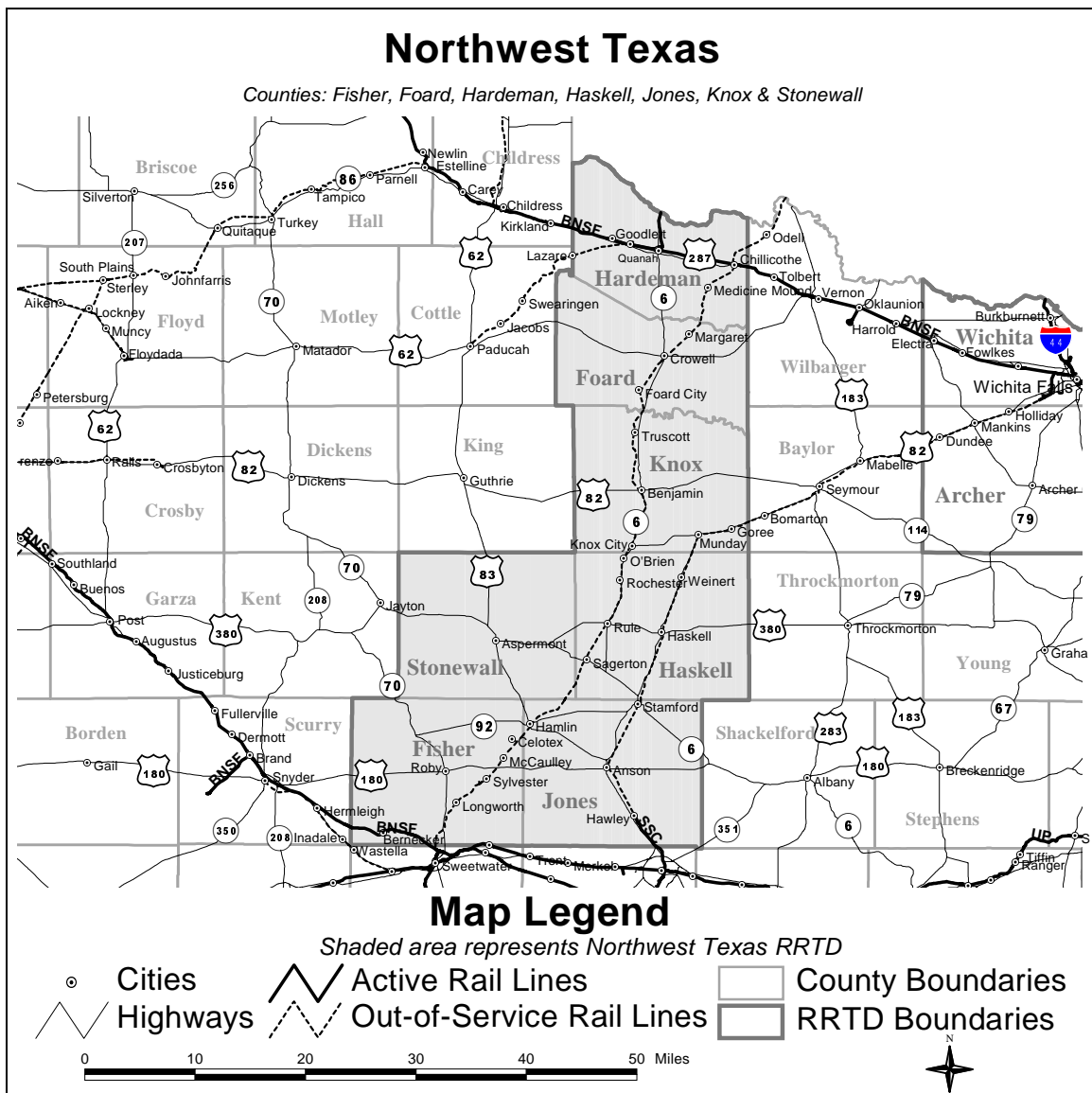


Figure 15. Northwest Texas Rural Rail Authority.

Motivation for Formation

In the late 1980s ATSF attempted to sell the entire Orient line between Oklahoma and Mexico; however, they did not accept any bids and followed with an application to abandon a section of the North Orient line. In 1991, the Texas and Oklahoma Railroad Company (TXOR) acquired the line from ATSF and operated over it for two years before applying for abandonment of the line. The condition of the line warranted operations below 10 miles per hour, and a reduced customer base did not make the line economically viable. The line was abandoned and the track removed in 1995. Only a small segment of the TXOR line remains in operation outside the district in Nolan County between Sweetwater and Maryneal.

Status of District

The Northwest Texas Rural Rail Authority is inactive at this time.

Nueces County Rural Rail Transportation District

The Nueces County Rural Rail Transportation District is a single-county district formed in May 2001. The RRTD board makeup consists of five members: two port representatives, two economic development representatives, and one additional member. The economy of Nueces County is diversified, ranging from agriculture to petroleum production and processing. The deepwater port located in Corpus Christi also plays a major role in the county. Nueces County has experienced a 7.7 percent population increase between 1990 and 2000. Figure 16 shows the Nueces County Rural Rail Transportation District.

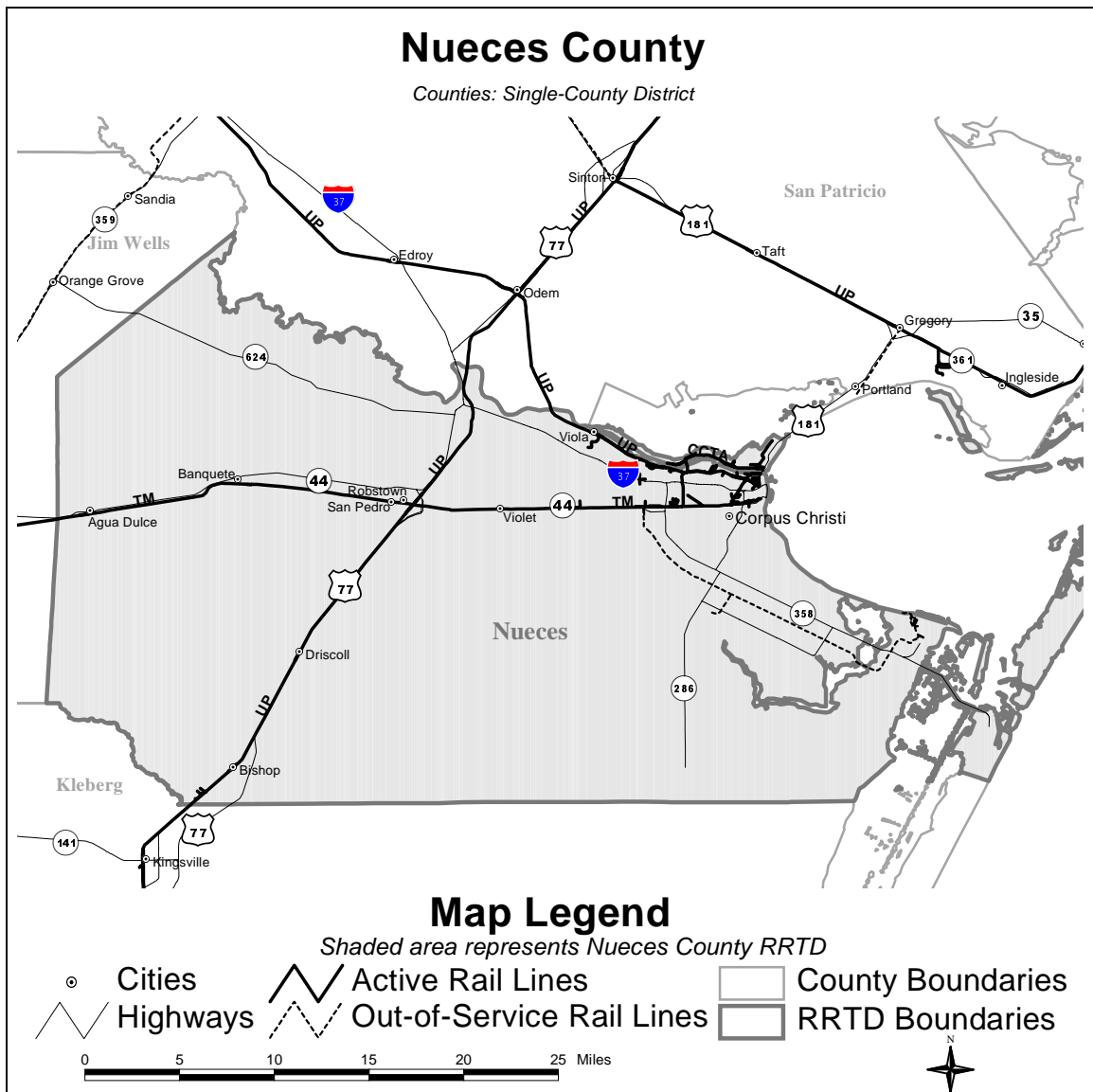


Figure 16. Nueces County Rural Rail Transportation District.

Motivation for Formation

The district has formed to address rail issues throughout the county and act as an avenue for financing and creating public-private partnerships for economic development.

Rail District Activities

Several potential rail-related activities involving the district have been identified for investigation. The first issue involves the RRTD assisting with rail infrastructure expansion at the Port of Corpus Christi. Another potential project is the construction of a rail storage facility for use by a large grain cooperative. The storage facility is needed for the creation of unit trains of grain for shipment to Mexico. An investigation into possible locations is currently underway.

Status of District

The Nueces County RRTD is a newly formed district that is meeting on a regular basis.

South Orient Rural Rail Transportation District

The South Orient Rural Rail Transportation District (SORRTD) formed in late 1991. It is made up of 11 counties across West Texas—Brewster, Coleman, Crane, Crockett, Irion, Pecos, Presidio, Reagan, Runnels, Tom Green, and Upton. The region's economy depends mostly on agricultural industries and mining operations. The overall growth in population was only 3.3 percent between 1990 and 2000. Four of the 11 counties experienced reduced population numbers, the highest being Reagan and Upton counties with 26.3 and 23.5 percent reductions, respectively. [Figure 17](#) depicts the South Orient Rural Rail Transportation District.

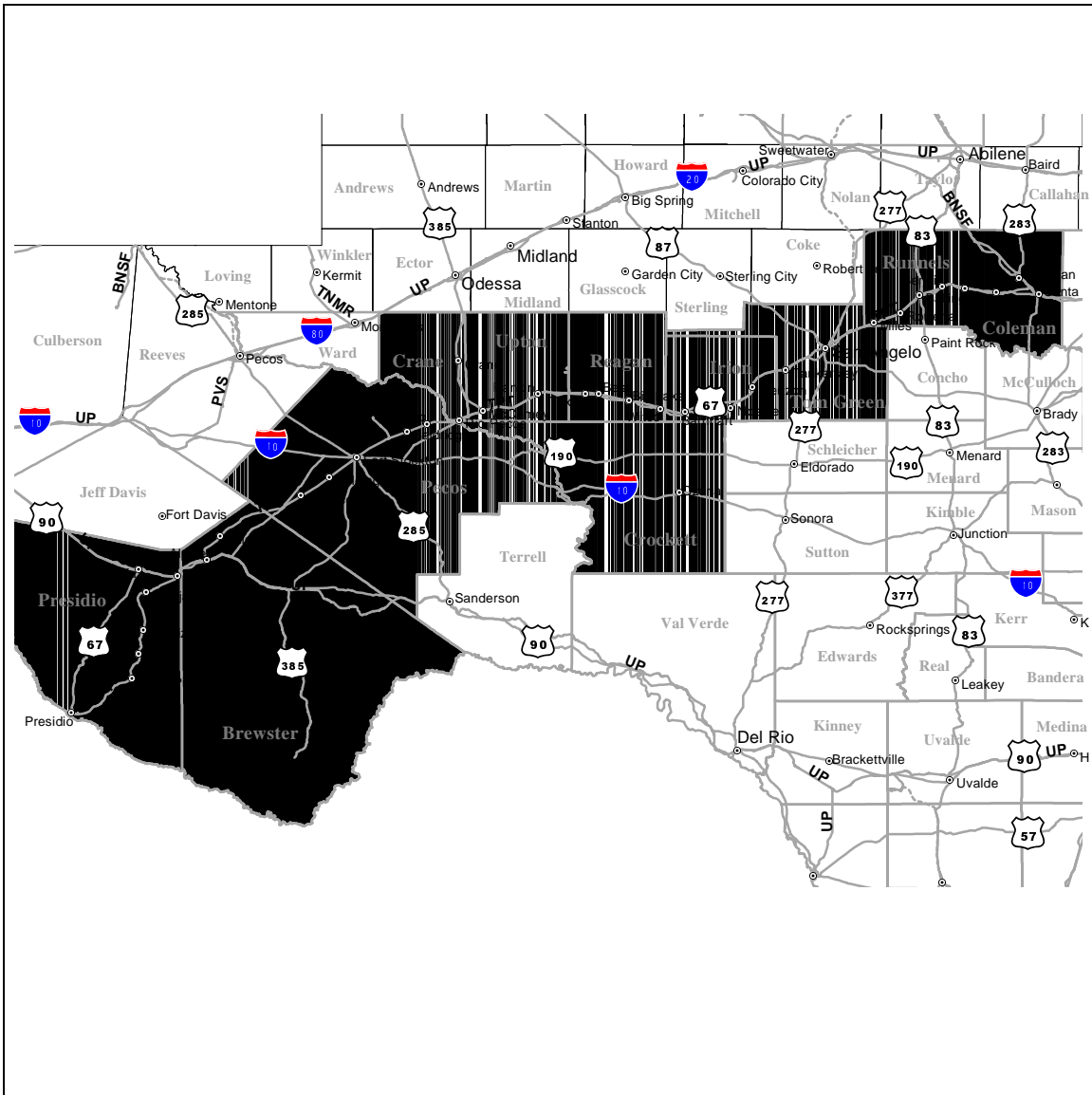


Figure 17. South Orient Rural Rail Transportation District.

Motivation for Formation

SORRTD formed to prevent the impending abandonment of the ATSF South Orient line between San Angelo Junction in Coleman County and Presidio on the Mexican border via San Angelo and Alpine. Preservation of this line was seen as essential since it was one of only five rail crossing locations between Texas and Mexico and one of only eight between the U.S. and Mexico, even though very little traffic had moved over the line in the preceding years. The impending development of a North American Free Trade Agreement (NAFTA) was seen as a change that would increase the number of trains operating in both directions leading to an increased potential for profitability.

Rail District Activities

As part of a complex agreement that involved both TxDOT, as the pass-through agency for a \$3 million state general revenue appropriation, and a private limited partnership, the South Orient Railroad Company, Ltd. (SORC), which provided \$2.5 million in additional funds, SORRTD acquired the installed rail infrastructure on the roadbed. SORRTD's ownership was subject to a \$2.52 million security interest held by TxDOT if the line were ever to be abandoned and a \$5000 purchase option held by the SORC. TxDOT received the ATSF's existing ownership rights to the right-of-way underlying the rail line for \$480,000. The SORC acquired ownership of both ATSF's common carrier obligation and "permanent" easement to operate a freight rail business along the line.

The agreement also gave SORC a \$5000 option to purchase certain non-railroad real estate adjacent to the railroad and its right-of-way. SORC exercised this option quickly and ownership of these properties was transferred to Bristol Real Estate, another subsidiary of its parent company. This clause in the contract did not directly affect the operation of trains along the South Orient line, but it does serve as an example of how use and/or ownership of non-railroad assets may often play an important role in reaching an operating agreement. The contracting parties on a case-by-case basis must determine the advisability of accepting such a condition. In this case, the transfer of these assets was required in order to negotiate a return of active rail service along the line.

SORRTD's activities were limited between 1992 and 1998 because the RRTD did not have much to control regarding the operations of the rail line. SORC began to operate trains over the line in 1992 and tried for several years to make it profitable with little success due to several factors. SORC carried out the day-to-day operations and also operated the line owned by the CENTEX RRTD during this time – giving it a direct route between Presidio and Fort Worth. SORC planned on attracting "overhead" traffic from Class I railroads that did not have routes to Mexico; however, the round of mergers in the mid-1990s gave all of the Class I railroads border crossings within their own systems. Ultimately, several different business strategies failed for SORC and, combined with closure of some major businesses located along the line, SORC decided in June 1998 to file with the STB for abandonment permission.

SORRTD was involved in active opposition to SORC's abandonment request after it was made public in early 1998. Because the district had not been very active prior to that time, several of the board member's terms had elapsed and several of them no longer held positions in

local government as they had when first appointed. This need to reappoint board members in a time of crisis and to reacquaint them with the railroad's needs proved difficult for SORRTD. The president of the SORRTD board and the board's legal representation were successful in filing official protests with the STB in opposition to SORC's abandonment request. These efforts, along with the protests filed by TxDOT due to its interest in preservation of this rail gateway to Mexico and by other citizens and businesses along the line, were successful in persuading the STB to allow only a discontinuance of operations over most of the line instead of full abandonment.

In 1999, the 76th Texas Legislature passed a \$6 million appropriations rider that directed TxDOT to purchase the South Orient line. The structure of the purchase was not delineated and this amount was far below the salvage value of the line that SORC estimated between \$11 million and \$15 million. Negotiations between SORC and Nuevo Grupo Mexico, S.A. de C.V. (Grupo Mexico) resulted in an agreement to purchase the rail line from SORC for \$9.5 million including the \$6 million appropriated to TxDOT. This agreement would have had much the same ownership arrangement as the 1991 agreement had. TxDOT intervened at this point and proposed that it become the owner of both the right-of-way and the installed track structures before the state's \$6 million could be spent. Having both of these objects under state ownership, through TxDOT, was seen as the best way to ensure that a future repetition of abandonment proceedings would not occur requiring further state funding to "purchase" the line.

At this point, negotiations began between TxDOT, SORC, Grupo Mexico, and SORRTD to determine how to best structure a new agreement. After several months of proposals, the parties finally came to an agreement that became final in March 2001. In exchange for transfer of the \$6 million appropriation, TxDOT received ownership of the track structures from SORRTD, and the outstanding \$5000 purchase option held by SORC was extinguished. A U.S. subsidiary of Grupo Mexico, Texas Pacifico Transportation, received a 40-year lease (with five ten-year extension options) to operate trains over the line in exchange for contributing an additional \$3.5 million to meet SORC's \$9.5 million asking price. As part of the plan, Grupo Mexico also provided funds to pay for legal fees accumulated by SORRTD during the abandonment process. Texas Pacifico has begun operating over the line and is planning investments of several million dollars in improvements to both signals and track on various sections of the line. Service to and from Mexico is expected to begin in late 2001 or early 2002.

Status of District

At the current time, the RRTD is relatively inactive. Most of its responsibilities have been transferred over to TxDOT as the new owner of the tracks, the right-of-way, and the residual common carrier obligation. While the RRTD continues to exist, it can do little more than assist the operator in developing business opportunities along the line since it no longer holds these ownership rights.

South Texas Rural Rail Transportation District

The South Texas Rural Rail Transportation District is a multi-county district formed in the early 1990s to address the possible loss of rail service and abandonment of a line stretching

through Bexar, Karnes, and Wilson Counties. The Board of Directors originally consisted of two members from each county. Bexar County contains a major metropolitan city, San Antonio, but the other two counties are rural in nature. The population of Bexar County in 2000 was almost 1.4 million, while the other two counties combined for 48,000. The growth rate of all the counties was significant, with Wilson County growing at a rate of 43.1 percent from 1990 to 2000. The overall growth of the region averaged 18 percent over the 10-year period. [Figure 18](#) shows a map of the South Texas Rural Rail Transportation District.

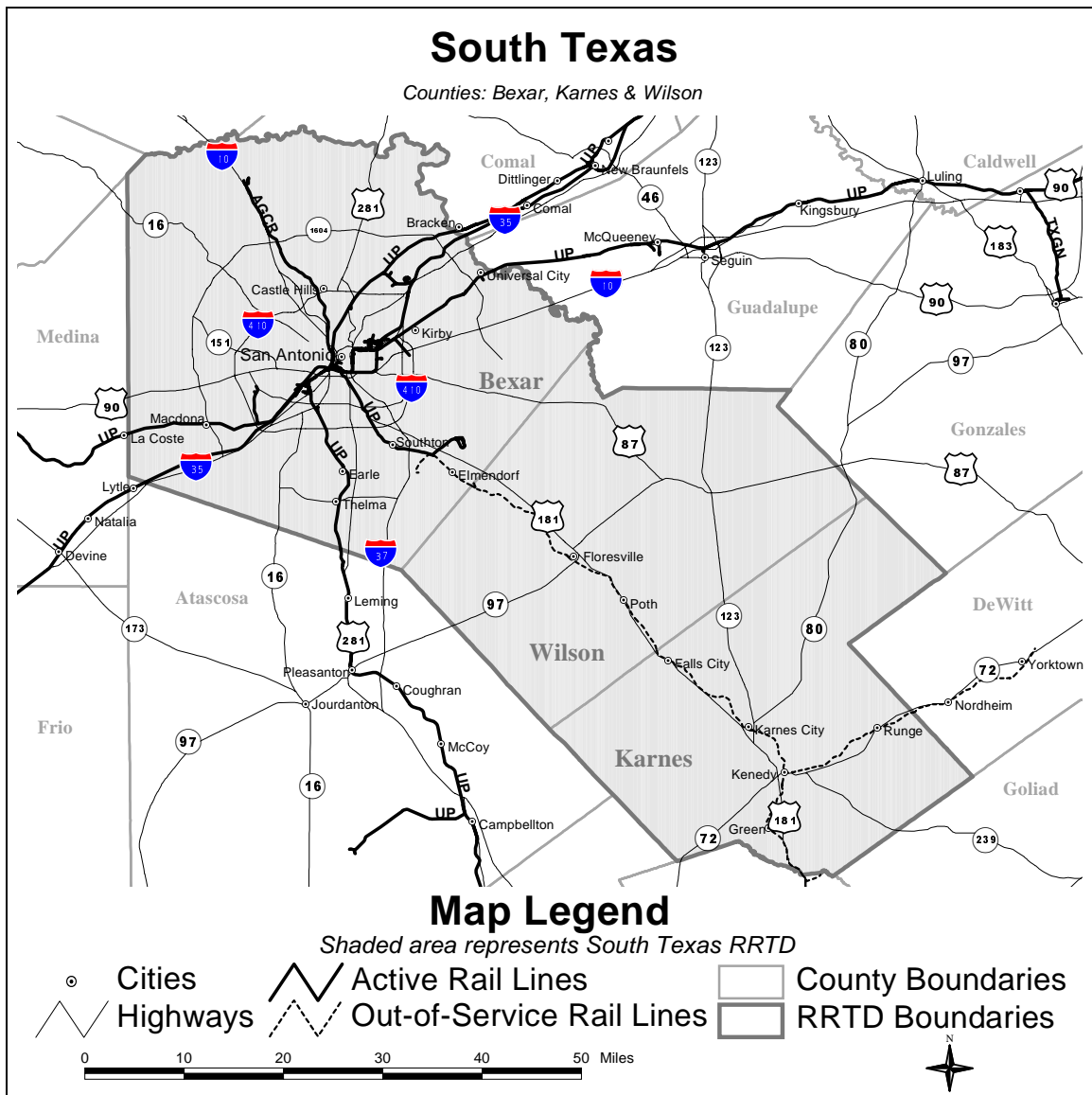


Figure 18. South Texas Rural Rail Transportation District.

Motivation for Formation

The line owned by SP originally stretched from the San Antonio area to Corpus Christi. The line had carried uranium ore to a mill in Karnes County. A key bridge along the line washed

out, and SP decided not to reopen the line, instead opting to defer maintenance for several years and ultimately planned to abandon the line. SP abandoned the line before the RRTD could be formed and made arrangements to remove the rail, ties, and ballast and sell them for their salvage value. As a result of the abandonment, several agriculture cooperatives and lumber companies closed or were forced to relocate.

Rail District Activities

Prior to the track materials being removed, the RRTD explored the possible operation of a tourist train between San Antonio and Karnes County. Officials of the Texas State Railroad were contacted and a feasibility study was done to examine the potential for this activity, but it did not come to fruition. After the line was removed, the RRTD was able to gain ownership of right-of-way and has examined several possible uses. These possibilities include a rails-to-trails project, city parks in communities located along the corridor, possible highway expansion by TxDOT, and water line placement by the San Antonio River Authority.

Status of District

The RRTD board has not met since 1995.

[Table 8](#) depicts the current RRTDs, and their status as of August 31, 2001.

Table 8. Texas RRTD Case Study Summary Table (status as of August 31, 2001)

District	Number of Counties	Formed	Primary Motivation	Current Board Status	Status of Line	Ownership	Outside Funding Sources
Burnet County	1	2000	Abandonment	Inactive	Operational	None	N/A
Calhoun County	1	1999	Economic Development	Inactive	N/A	None	N/A
Centex	5	Early 1990s	Abandonment	Active	Operational	Right-of-Way	Texas Department of Agriculture (to operator)
Deep East Texas	12	1993-94	Abandonment	Inactive	SP Line Abandoned	None	N/A
Ellis County	1	1998	Economic Development	Active	Progressing as Planned	Right-of-Way & Structures	Public/Private Partnership
Fannin	1	1999	Abandonment	Active	Impending Abandonment	None	N/A
Gulf Coast	2	1993-94	Abandonment	Inactive	Inactive line; Purchased by TM	None	N/A
Gulf Link	2	1998	Economic Development	Inactive	N/A	None	N/A
Matagorda County	1	2001	Economic Development	Active	N/A	None	N/A
North Central	2	1995	Abandonment	Inactive	Operational	None	N/A
North Texas	2	1995-96	Abandonment	Active	Abandoned	Purchased 7-mile Segment	Texas Parks & Wildlife Department (for trail conversion)
Northeast Texas	4	1994	Abandonment	Active	Operational	Right-of-Way & Structures	Texas Legislature & U.S. Department of Agriculture
Northwest Texas	7	1993	Abandonment	Inactive	Abandoned	None	N/A
Nueces County	1	2001	Economic Development	Active	N/A	None	N/A
South Orient	11	1991	Abandonment	Inactive	Operational	TxDOT	Texas Legislature
South Texas	3	Early 1990s	Abandonment	Inactive	Abandoned	Right-of-Way	N/A

CASE STUDIES OF POTENTIAL RURAL RAIL TRANSPORTATION DISTRICTS

The following is a list of several potential rural rail transportation districts that either are or have been under consideration at the time of this report. In all cases county officials have met to discuss the possible formation, but RRTD formation may or may not actually occur.

Bexar County

Bexar County represents the first potential occurrence of one county becoming a member of multiple RRTDs. As a member of the South Texas RRTD, the county was interested in preservation of rail service related to a rail line abandonment. The formation of a single-county district at this time is related to the development of a rail container yard at the former Kelly Air Force Base, part of which is being redeveloped as an intermodal transportation distribution facility. Representatives are examining the potential involvement of a RRTD as an avenue for obtaining financing, managing construction, and conducting operations.

Jefferson County

The Jefferson County Commissioner's Court initiated an examination in early 2001 into the possible creation of a RRTD for rail issues at the county's port facilities. In particular, only one railroad, KCS, serves the southern part of the county, including the Port of Port Arthur. The Port of Port Arthur could improve its rail services with additional railroad connections. At the other end of the county, the Port of Beaumont has rail service from all three Class I railroads in the state and is opposed to creation of a district that would merely move business from one part of the county to another. Therefore, plans for creation of a RRTD in Jefferson County are suspended indefinitely. Other than formation of an exploratory committee, the county commissioners' court has taken no further action toward RRTD formation.

Rio Grande Valley Rural Rail Transportation District

Cameron, Hidalgo, and Willacy Counties are in the process of developing the Rio Grande Valley RRTD. Both Hidalgo and Willacy Counties have adopted resolutions agreeing to the formation. Cameron County is considering joining the other two counties but may instead choose to go on its own and form a single-county RRTD. The proposed RRTD board organization includes five members each from Hidalgo and Cameron Counties and two from Willacy County. Development of the RRTD is related to rail infrastructure issues around the Valley region, including Brownsville, McAllen, and Harlingen. One opportunity includes the potential for continued relocation and construction activities along rail line through the downtown areas of Brownsville and Harlingen. Another opportunity involves the rehabilitation of a segment of rail line between Brownsville and McAllen. A third identified opportunity is the development of a small rail car storage and car cleaning facility.

San Patricio County Rural Rail Transportation District

San Patricio County is examining the possibility of forming a RRTD for economic development opportunities within the county. The county is located on the north side of Corpus Christi Bay along the Texas Gulf Coast. The economy of the region includes several industries

that significantly rely on railroad transportation including petrochemical, agribusiness, and manufacturing. San Patricio County officials are also considering use of the RRTD to address highway-railroad grade crossing issues around the county.

CASE STUDY CONCLUSIONS

Originally developed as a means to maintain rail service in rural communities around the state, RRTDs today provide a greater opportunity to improve and increase rail activity in counties around the state. Based on the district profiles, several common characteristics of the districts can be drawn. Of the 16 districts, 11 were formed to combat loss of rail service and rail line abandonment, and the other five were formed specifically for economic development purposes. Of the ones that were formed to maintain rail service, five were not able to reverse the loss of service. These RRTDs were the Deep East Texas, Gulf Coast, North Texas, Northwest Texas, and South Texas. Because of the purchase by TM of the UP line between Victoria and Rosenberg, the Gulf Coast RRTD region may in the near future assist in the reconstruction of the line that was inactive for many years.

Several districts are no longer active, while others remain dedicated to meeting regularly and being active. Of the 16 districts, seven remain involved on a regular basis, three are currently inactive while awaiting new development, and six are completely inactive. The profiles show that three districts have rail operations over rail line they control: Centex, Ellis County, and NETEX RRTDs. The rail operations on Centex and NETEX might not exist today without the district formation.

The potential developing districts are all examining the use of RRTDs as a tool to improve or increase rail service and progress economic development in their regions. An examination of the formation of the existing districts shows they either formed for abandonment or economic development purposes. Although RRTD formation may seem statutory and process oriented, each district formation had its own unique and complex characteristics. The following chapters will examine the economic impact of RRTDs and examine common factors leading to the success of a RRTD.

CHAPTER 4: THE TRANSPORTATION AND ECONOMIC IMPACTS OF RURAL RAIL TRANSPORTATION DISTRICTS

OVERVIEW

From a statewide perspective, the transportation and economic impacts of most RRTDs have not been significant to date. The reasons for this conclusion are two-fold. First, as discussed in the following section, RRTDs have historically been aimed at transportation and economic problems that are far beyond repair by the minimal level of resources that can be brought to bear by rail districts. Second, RRTDs have not been put in a financial position by the current applicable statutes to readily garner the means by which to impact the intractable conditions that they face. However, as new economic development programs initiated by private sector business interests begin to impact development and transportation in some RRTDs, this status could change.

The state's enabling legislation provides RRTD powers that include the right of eminent domain, the ability to own or operate capital assets, the right to own real property, and the right to issue revenue bonds to raise funds. In addition, property owned by RRTDs may be excluded from the county tax rolls, potentially lowering the cost of business for an operating railroad that leases a RRTD-owned rail line. These broad powers offer the potential for a significant contribution to transportation and economic development. However, given that RRTDs were not legislatively imbued with a ready source of funds with which to counter the potential loss of rail service, it is easy to understand why economic success has been relatively rare. Where RRTDs have been successful, certain key conditions are present that account for the success.

Among the factors present in successful RRTDs are the following:

- a remaining viable customer base,
- rail infrastructure that is serviceable at the time of acquisition,
- state funding or grants,
- a capable operator,
- a knowledgeable and engaged Rail District Board,
- favorable interchange potential with a major carrier, and
- a generally healthy and robust economy.

Given that these factors correlate positively with success, and, as our case studies have demonstrated, most RRTDs have achieved less success than desired at the time they were established. It is not surprising to observe that a full measure of these factors has been lacking in most of the state's 16 districts. Two factors previously mentioned – poor economic conditions surrounding rail service in the region (i.e., too few customers) and lack of funding – may be the most critical. Another factor that has worked against the potential effectiveness of RRTDs has been the relatively brisk pace with which most branch rail line abandonments have taken place. This short time frame has meant that local leaders have not had the time to prepare a well-informed or well-planned response to the impending loss of rail service.

Forming a RRTD after plans are already in place to sell an abandoned line for scrap is, perhaps, the worst-case scenario. Often, for a marginally viable rail line, the present value of the rail, ties, and ballast greatly exceed the potential, future value of an operating line for transportation purposes. Understandably, the short-term business decision by a railroad company leans toward the immediate profits available from salvaging the line. Regrettably, these private decisions often do not consider the public ramifications of permanent loss of rail service and the future costs that may have to be borne by the public sector to provide alternatives to rail. A situation very similar to this has occurred in North Texas with the Northwest Texas Rural Rail Authority. Without infrastructure or funding to replace track, it is almost impossible to reestablish rail service to a region once it is lost.

DEFERRED MAINTENANCE

The conditions that have most frequently surrounded branch rail line abandonment may be characterized by a chronic pattern of decreasing shipper activity that has led to decreasing maintenance activity on the line, which in turn has led to decreasing quality of service. This pattern has served to further discourage business activity on the line, and a spiraling-down of conditions has resulted in many abandonment decisions. Railroad management usually has two ways to reduce costs on the line. One way is reduced frequency of service. The less frequently trains operate on the line, the lower expenses associated with fuel and personnel become.

The second way railroad management can contain costs on a marginally viable line is through deferred maintenance. The decision management must make is often a trade-off between level of service and maintenance expense. The Federal Railroad Administration (FRA), as the regulatory authority overseeing railroad safety in the U.S., defines track class as a function of the physical integrity (quality) of the infrastructure. There are six classes of track defined for U.S. freight railroads, and the higher the class designation, the higher the operating speed and hence the higher the capacity or level of customer service on the line. Track quality is a business decision and usually reflects a balance between level of investment and level of rail activity on the line or desired level of service.

There are prescriptive, physical integrity-related guidelines that each railroad line must meet in order to qualify for a class designation commensurate with their desired operating levels on a line. These guidelines, for example, have to do with features such as number of bad crossties per unit distance, integrity of fastening systems, and rail integrity. A heavily traveled, mainline corridor is usually maintained to a Class IV level, allowing speeds up to 80 miles per hour on the line. The expense the railroad bears is considered by management to be proportional to the revenue made possible by the relatively high level of service.

With moderate or low levels of business, railroad management may decide that investment sufficient to maintain the class designation of a line is no longer warranted by the revenue possible from shippers on the line. The business decision made is to save on maintenance expenses and decrease operating speeds in conformity with the lower class designation. The pattern is often repeated until the FRA class designation restricts speeds to no more than 10 miles per hour. It is following this history of reduced maintenance that RRTDs often acquire abandoned branch rail lines. The consequences are that the line is in need of

substantial repair in order to provide a reasonable level of service to any remaining customers. The challenge of attracting new shippers or regaining the business of shippers that have switched to alternative modes is also made more difficult by these conditions.

FEDERAL AND STATE LEVEL FUNDING OR GRANTS

Access to capital has been one of the critical needs of most RRTDs in Texas. The ability to issue revenue bonds for projects has been and remains an option, but to date, no RRTD has chosen to pursue this line of funding. There have been occasions where the Texas Legislature appropriated funds for specific rail districts, most notably for the South Orient RRTD in 1991 and again in 1999. The state also made funding available to the Northeast Texas RRTD in 1995 for the purchase and maintenance of 31 miles of the former Southern Pacific line between Sulphur Springs and Greenville. In 2001 the Legislature made an additional appropriation available to NETEX for purchasing an abandoned right-of-way before it was redeveloped.

South Orient Rural Rail Transportation District

In mid-1991, in a precedent-setting appropriation, the South Orient Rural Rail Transportation District received a \$3 million authorization from the Texas Department of Transportation. The state funding became available after local legislators sponsored a budget rider to House Bill 1, which the Texas Legislature approved during a special session. This funding from the state, combined with funding promised by investors, equaled ATSF's asking price for the track, right-of-way, and property. By the end of November 1991, TxDOT finalized its decision to allocate the \$3 million to the South Orient Rural Rail Transportation District. The finalized contract was signed December 31, 1991.

The conclusive arrangement gave the TxDOT title to the 285-mile line and other rights and interests in it. The state agency also received an interest valued at \$2.5 million in other district assets. The South Orient Rural Rail Transportation District leased the line to an investment group called the South Orient Railroad Company, Ltd. The group signed a 50-year lease with an option for an additional 50 years and an obligation to operate the line for at least two years. After seven years of marginal operations, the SORC filed for abandonment with the U.S. Department of Transportation's (USDOT's) STB. After review of the 1998 petition and assessment of the line's current and future value, the STB denied the application.

With abandonment denied for the South Orient line, SORC began looking for financial options for the line. One of these options was to buy the track from the state for \$2.5 million and then scrap the line, selling the material for an estimated \$15 million. Even though this was a remote possibility when the deal was made in 1991, the state's expectations were that the line could become economically viable. Having failed as a shortline, Texas was once again faced with the loss of a potentially valuable gateway to Mexico.

Understanding the potential future importance of the crossing into Mexico, Texas, in 1999, allocated \$6 million from state appropriations to acquire the line in operational status. This was valued by the SORC at \$9.5 million. TxDOT initiated negotiations with Grupo Mexico, majority owner of the Mexican carrier Ferrocarril Mexicano (Ferromex), for a lease

agreement to operate over the line. As part of the agreement, Grupo Mexico would pay the additional \$3.5 million to SORC to finalize the deal. The company created by Grupo Mexico to operate the line is Texas Pacifico. Final negotiations were completed in early 2001, whereby Texas Pacifico will have the right to operate the line for an initial 40-year period.

The term of the agreement is a 40-year lease with five 10-year extensions. Texas Pacifico, as an operator aligned with Ferromex, offers a plausible scenario for development of traffic through the corridor. The fact that Texas Pacifico can receive overhead traffic directly from Ferromex and deliver similar traffic received from others suggests that volumes may increase enough to warrant significant investment in the supporting infrastructure. Traffic generated on the line may also grow given the long-term nature of the agreement and prospects for improved service.

The agreement between Grupo Mexico and TxDOT does not contain explicit performance or investment goals. The operator and parent company maintain that they will evaluate the need for investment according to their internal, “standard business practices.” This standing suggests that minimal investments will be made to bring the line up to operational condition and, as revenues increase, additional capital may be expended to increase the performance levels capable over segments needing improvement.

Northeast Texas Rural Rail Transportation District

The Southern Pacific Railroad discontinued service on 23.5 miles of their system in the northeastern part of Texas between Greenville and Wylie in 1998. In 1994, abandonment request for this line was approved by the ICC prior to its abolishment and replacement by the Surface Transportation Board (STB) as the federal-level rail system oversight agency after passage of the ICC Termination Act of 1995. During 1995, the line was removed and its materials were sold for their scrap value. That same year the Texas Legislature approved a \$2 million appropriation to allow the Northeast Texas RRTD to purchase 31 miles of line from Southern Pacific in the same vicinity – from Sulphur Springs to west of Greenville, Texas. The appropriation put the RRTD in the position to hire an operator and provide service to customers on the line.

In 1997, Northeast Texas RRTD initiated a grant application to the U.S. Department of Agriculture to allow for the acquisition of 35 miles of additional line from the Union Pacific to the Titus County line. This purchase was consummated in 2000 and served to give the RRTD access to Mt. Pleasant. In 2001, the Texas Legislature provided an additional appropriation of \$300,000 to allow the RRTD to purchase the 23.5 miles of abandoned right-of-way between Greenville and Wylie for future use.

Thus, in total, the RRTD has obtained \$3.8 million in federal and state grants or appropriations to allow operations and maintenance on 66 miles of line. Without these funds, approximately 90 miles of railroad in a rapidly urbanizing area would have been lost to Texas for transportation purposes with little prospect of a replacement except for highways.

Centex Rural Rail Transportation District

The Fort Worth and Western Railroad recently received a \$2 million grant from the Texas Department of Economic Development and the Texas Department of Agriculture to upgrade and expand the line from Dublin, Texas, to Gorman, Texas. This line, which is not within the jurisdiction of the Centex RRTD, nonetheless adds transportation capabilities to the operating railroad and will serve to remove trucks from what is known as the “peanut line,” which refers to the location of several peanut processors along the rail line. With the potential to add up to 2000 carloads a year to its traffic base, removing between 7000 and 8000 trucks a year from Texas highways, the FWWR is the best example of a viable RRTD-based shortline in the state.

The economic development grant from the state to FWWR highlights how targeted public funding can have a positive impact on branch rail line preservation. The favorable consequences of this funding are twofold. First, the improved access to rail will have the affect of lowering transportation expenses for the shippers along the line. This reduction will improve profitability and help secure an employment base for the agricultural interests in the region. The second effect will be less wear on the region’s roadways, reducing maintenance and rehabilitation expenditures and adding to the region’s ability to spend scarce transportation funding in other locations. The dual impact serves to magnify the benefits of rail transportation and maximize the value received for public transportation expenditures.

OPERATOR CAPABILITIES

The economic and transportation impacts of RRTDs, as expressed through the continuance of rail service, are in no small measure due to the capabilities and motivations of the railroad operating company. The ability of the operator to serve customers and run a shortline operation safely and profitably may make the difference in whether a branch line can continue to offer economic and transportation benefits to the region. As the case studies in this report attest, some operators perform reasonably well while others perform at marginal levels.

The FWWR mainly operates over the Centex RRTD lines south of Fort Worth. It has performed exceptionally well in providing transportation services and, as a result, has maintained a viable customer base, reported to include as many as 65 active shippers. With annual traffic levels in excess of 20,000 carloads, the railroad anticipates continued growth through adept marketing, good customer service, and effective relationships with the Class I railroads with which it interchanges.

A similar, yet far more modest success story can be told about the current operator on the Northeast Texas RRTD, the Blacklands Railroad. The original operator, the East Texas Central Railroad Company, was a subsidiary to a shortline company in Arkansas. The East Texas Central started with two customers and maintained that level through 1998. The RRTD subsequently contracted with Blacklands Railroad. Since doing so, the shipper base has increased to 10 active shippers and 1200 carloads a year through aggressive marketing and consistently high levels of customer service.

ADDITIONAL PROGRAM SUPPORT FOR RRTDS

In 1998 the U.S. Department of Agriculture and the U.S. Department of Transportation developed a memorandum of understanding under which the agencies agreed to jointly address the long-term agricultural and transportation needs of rural areas within the United States. These needs include both passenger transportation and freight mobility.

A wide variety of programs have been made available. These include:

- USDA Rural Development Grants
- USDA Forest Service Grants
- USDOT's Rural Initiative
- USDOT Program Grants

Detailed information on these may be found at the following web page:

<http://199.79.179.78/ruraltransport/toolbox/>

ECONOMIC DEVELOPMENT

The original purpose of rural rail districts was to preserve rail service in areas of the state that were threatened with its loss. The loss of service, as this report clearly points out, has usually been due to abandonment by one of the state's major railroads. In a process that began with the replacement of rail by trucking as the principal freight mode and was accelerated by the Staggers Act of 1980, unprofitable branch lines were dropped from many rail networks. Lines that were not generating revenue sufficient to pay for themselves were eliminated, and rail networks were consolidated to maximize profit in a new, much more deregulated environment.

One of the paradoxes of RRTDs is that it is precisely the lack of economic development or economic activity that has led to the formation of many districts. Most branch lines slated for abandonment had marginal or very low levels of service, and in the regulated environment of the 1970s and before, railroads were not readily allowed to terminate service. This was true even though in providing that service and maintaining the infrastructure necessary to continue operations, the operating railroads often lost money. The heavily regulated conditions under which railroads operated mandated service, set freight rates, and severely restricted the conditions under which lines could be abandoned. Once freed from these conditions and at the same time facing competitive market conditions that required setting rates that yielded operating profits, railroads began a restructuring that set their strategically reduced networks on a course toward profitability.

Over a period of 25 years or so, these events left substantial rural areas of Texas without rail service. The ramifications of this loss of service varied. In locations where business or manufacturing was dependent on rail transportation, but able to switch to trucking, the higher cost of transportation by truck meant lower profitability and perhaps the loss of jobs. Sometimes the higher costs led to the insolvency of the business and ultimate closure. In those businesses where the alternative was too expensive or not practical, relocation or termination of business

was the final outcome. Agriculture, historically reliant on rail as a means to transport produce to market, did not have the luxury of relocation and had to absorb increased transportation costs by switching to trucks. If these costs cannot be absorbed, many farms may go out of business or be sold.

Examining the converse situation, where the RRTD is able to maintain rail service, economic development has been positively impacted. This report details several cases where continuity of service has occurred in Texas and where the economic impact on rural communities has been decidedly favorable. The Centex RRTD may be the best example of this outcome. Composed of five central Texas counties, the Centex District was formed in the early 1990s as a means to facilitate the continued operation of the northern portion of the South Orient line. The RRTD owns the railroad right-of-way, but leases it to the resident operator, the Fort Worth & Western Railroad, who operates over the Rail District's 140-mile network and provides service to a base of approximately 65 agricultural and manufacturing shippers.

TRANSPORTATION IMPACTS OF RURAL RAIL TRANSPORTATION DISTRICTS

During the 1970s and 1980s vast amounts of branch rail line were abandoned by the U.S. rail industry. The economic conditions, under which the railroads operated, coupled with the surge in trucking as a more flexible alternative, brought financial pressure to bear on a private transportation industry that is both capital and labor intensive. The staggering weight of these dual expenses plus the regulations controlling pricing had the U.S. rail industry on the verge of collapse. The response of many railroads, such as the Rock Island, was bankruptcy and termination of service over wide areas. The other, all too common, response was branch line abandonment – the elimination of lines that were unprofitable.

When rail lines are abandoned and where trucking is the only or the necessary alternative, public costs as well as private costs are incurred as a result of the termination of rail service. Since each railcar has the capacity of three or four truckloads, even low-volume rail lines, when abandoned, put significant additional traffic on roadways that were often designed for lighter, less frequent loads. The resulting maintenance costs have increased the adverse effects of abandonment decisions to include, in addition to the shipper, the public at-large, which must pay for accelerated roadway repair and rehabilitation.

It is a well-documented fact that trucks inflict the bulk of damage on roadway surfaces and subgrade. The ratio of truck damage to that imposed by passenger autos is estimated at 9600 to one. Thus, the damage caused by one 80,000-pound truck on the state's publicly provided highway infrastructure is equivalent to the wear and tear of more than 9600 automobiles. The rapid increase in truck traffic in Texas is affecting the life span of the state's roadways in a detrimental fashion by accelerating the rate at which repair and maintenance functions must be performed. Roads constructed with an expected life of 25 to 30 years are currently wearing out in 10 to 15 years. Importantly, dollars spent on unanticipated maintenance activities are consequently unavailable for new construction.

While branch rail line abandonment and modal shift to trucks is only a modest contributor to the increasing volume of truck traffic in Texas, it is nonetheless a factor. It gains

more significance by the realization that rail line preservation and encouragement of rail transportation is one of the few ways that transportation policy can proactively limit the rate of growth in truck traffic. It is important to consider rail transportation in terms of the value received for each dollar spent. RRTDs are a potential, yet underutilized mechanism to gain the best value for transportation expenditures.

A simple example demonstrates the tremendous impact that a modest rail service termination can have on regional traffic and on the loads placed on affected roadways. The loss of rail service on a line that has a traffic load of only 100 rail carloads a month is equivalent to an additional wear and tear on the road equal to approximately 3.8 million automobiles per month – more than 128,000 cars per day. If one considers the impact of branch line abandonment in these terms, rail service preservation assumes a greater importance if only from the perspective of highway maintenance.

CHAPTER 5: BEST PRACTICES

FACTORS FOR AN EFFECTIVE RRTD

Several factors that have proven essential in forecasting the potential ability of an RRTD to carry out its functions effectively were identified during the research project based upon the experiences of the existing districts. These factors fall into four main areas:

- financial capabilities,
- board activity level,
- business operational practices, and
- legal and ownership issues.

County commissions that are considering formation of a RRTD should review these factors beforehand to help in making their decision on whether to proceed. A listing of characteristics describing desirable backgrounds for board members should also help them in selecting appropriate leaders for each RRTD board.

While there is some variance from district to district regarding niche markets or products that will be moved by rail, the RRTDs that have proven successful in preserving rail infrastructure and developing new rail facilities have several common features that have contributed to their success. Because each district developed under different conditions and the ownership characteristics of each RRTD are not equal, these factors will be evaluated based upon the assumption that the RRTD has ownership of both the existing track infrastructure and its underlying right-of-way.

Financial Capabilities

One of the determining factors in the success or failure of a RRTD is its financial status. The costs of acquiring and operating an abandoned rail line are considerable, and without sufficient financial backing and business prospects, it is unlikely that the RRTD will be able to preserve the rail line. Some of the primary financial considerations for RRTDs are summarized below.

Capital Expenses

- *Acquisition costs* include the cost of the land, the right-of-way, and infrastructure (rail, ties, ballast, etc.) of an abandoned line and any existing support facilities.
- *Rehabilitation costs* will vary according to the current condition of the rail line. Many lines that are being abandoned may have been in gradual decline due to decreasing use and maintenance by the abandoning rail company.

- *Construction costs* must also be considered if a new spur line or supporting facilities are planned.

Funding Sources

The following are some of the funding strategies RRTDs may use to finance capital and operating expenses.

- *Issue revenue bonds* to finance acquisitions and construction.
- *Apply for grants* (federal, state, or private sector) of real property or funding. Possible sources of grants for existing RRTDs include State General Revenue appropriations and funding through private rail, manufacturing, or industrial companies that have an interest in operating/shipping along the line.
- *Sell or lease excess property* from the acquired right-of-way.
- *Charge rents* for use of the right-of-way and associated properties.
- *Public/Private Partnerships* between the RRTD and local business interests.

Economic Development Prospects

To maximize the opportunities for continued funding of rail activity, RRTDs need to ensure opportunities for preserving present and encouraging future economic development along the rail line. Indicators of potential future economic success of the RRTD include the following:

- existing or prospective customer base/businesses on line when the RRTD forms,
- RRTD involvement in rail industry associations such as the American Shortline and Regional Railroad Association (ASLRRA) or others,
- RRTD involvement in local economic development groups, and
- a generally healthy national and local economy.

Board Activity Level

The ability of a RRTD board to complete tasks is greatly determined by the level of activity and effort that is put into its success. The following factors regarding board activity and makeup aid the RRTD.

- *Timeliness of RRTD formation* is the first and possibly most difficult requirement. Actions to preserve a local rail line should begin as traffic levels begin to decrease and must be taken once the line is proposed for abandonment by a railroad company. If at all possible, acquisition by the RRTD should occur before the rail infrastructure is removed or deteriorated by heavy use and deferred maintenance. Since many

railroad abandonments occur without much warning, organizing and establishing a RRTD within this time window requires local transportation and economic development leaders to be proactive in working with the owning railroad company to preserve rail service.

- Those appointed to the RRTD board should have a background in or an understanding of businesses that rely on rail transportation and general knowledge of the local economy.
- The RRTD board should have regularly scheduled meetings to conduct RRTD business. The current RRTD statute mandates that meetings be held at least monthly. While monthly meetings may seem excessive in the case of some RRTDs that have no assets or operating rail lines, the importance of meeting on a regular basis to ensure continuity of the board cannot be overemphasized.
- Ideally, RRTD boards should have as little turnover of members as possible. Members develop knowledge of rail transportation over time, so experience from years of RRTD board service is beneficial.
- Boards do not need to be overly involved in day-to-day rail operations if a reliable and conscientious contract operator can be obtained. Instead the board should focus on contractor oversight and maintaining financial responsibility for the publicly held RRTD. (See Business Operational Practices below.)

Business Operational Practices

Favorable Operating Conditions

The following conditions should be addressed prior to acquiring an abandoned rail line, if possible, as they will directly affect the ability of the RRTD to operate rail service over the line.

- If the rail is not in sufficient condition for operating trains, the cost and timetable of rehabilitation must be considered.
- The rail lines of the RRTD should interchange with at least one Class I railroad, and preferably more than one.
- The RRTD needs to establish a business relationship with its Class I or other interchanging railroads.
- Traffic levels (existing or potential) on the rail line and on the connecting railroads must be sufficient to support operating costs.

The Business Plan

A business plan should include a set of goals for the operation of a rail line (or for the use of the right-of-way if a rail line no longer exists). The RRTD board should be innovative in seeking out new avenues for business, and should work closely with local business and economic development groups. The business plan should be developed in concert with the annual RRTD operating budget required by the statute.

Relationship with Rail Operator

Once the business plan and track and interchange conditions are evaluated and the decision is made to acquire the rail line for continued operations, the RRTD should hire a contract rail operator as soon as possible. To ensure a productive relationship between the RRTD board and the operator, the board should do the following:

- set standards for the rail operator that meet the board's business plan,
- develop an understanding of how rates are set for movement by rail so that the board and operator can more easily negotiate on user fees for the RRTD and in setting fees that will cover both line maintenance costs and the other financial needs of the RRTD and operator,
- understand that the rail operator will need the RRTD board's assistance in gaining STB approval to operate over the line and may need to have certain fees waived or even limited financial assistance from the RRTD during an initial period of start-up operations, and
- hire an operator that is skilled and aggressive in gaining new, retaining current, and regaining former shippers while providing a high level of customer service.

Legal and Ownership Issues

RRTD ownership of the land, right-of-way, and rail infrastructure are essential to long-term preservation of the line and continuing rail operations. Without ownership and control of all these elements, the RRTD's future activities will be limited. RRTD boards should do the following:

- ensure support and agreement between all counties involved before proceeding,
- prepare to negotiate with the rail company on the purchase price (taking into account the company's expected income from scrapping and selling the rail line components) and with potential rail operators,
- hire a good transportation lawyer to guide the RRTD board through the process and protect the interests of the RRTD, and

- use the RRTD’s status as a public agency to good advantage wherever possible in finding funding or other assistance for RRTD activities. Boards should seek legal guidance in such matters.

If the RRTD is unable to gain ownership of track infrastructure, but has ownership of the underlying right-of-way, it should do its best to preserve the right-of-way intact for future redevelopment as a rail corridor. One method for achieving this is for the RRTD to place the right-of-way in “rail banked” status and convert it to some interim use until a new rail line is needed.

EVALUATING ECONOMIC SUCCESS

Ultimately, because its main purposes are to provide transportation options and to promote economic development, a successful RRTD will seek to “break even” financially. Any profits it might generate should be either invested in improvements to its existing holdings or for investment to raise capital for future projects. Periodic evaluations of RRTD activities and accomplishments help to measure the success and progress of a RRTD and to identify areas for possible improvement. The following selection of economic evaluation measures is not comprehensive, but provides a starting point for monitoring the current and potential success of an existing RRTD.

Information on Economic Development

Measures of economic development that should be tracked within a RRTD’s county or counties include the following:

- growth of existing businesses that use rail shipping,
- new businesses in the area that use rail shipping,
- number of businesses switching to rail shipping from truck shipping (or supplementing truck shipping with rail shipping),
- increase in profits and jobs within businesses that switch to rail shipping from truck shipping (or supplement truck shipping with rail shipping), and
- number of manufacturers/shippers served.

Gauging Board Activity

Measures of effectiveness for RRTD board activity could include the following:

- frequency of board meetings,
- attendance levels at board meetings,
- average length of tenure for board members, and
- successful partnering with operator and other railroads.

Funding Avenue Exploration

Measures of funding avenue exploration could include the following:

- amount of funding and/or real property received from federal or state grants,
- amount of funding and/or real property received from private-sector companies,
- number of manufacturers and shippers paying for rail shipping within the RRTD,
- number and amount of revenue bonds sold, and
- total funding obtained versus capital and operating costs.

It should also be noted that the application process for loans and grants from federal and state sources often take a significant amount of time. These programs also have varying legal and collateral requirements that must often be met. The RRTD board should take these factors into consideration when considering such funding options.

Rail Traffic Levels/Trucks Diverted

Measures of rail and truck traffic levels could include the following:

- number of rail carloads shipped per day/week/month/year within the district and
- number of truckloads shipped per day/week/month/year within the district.

Long-Term Roadway Rehabilitation Costs

Measures of long-term roadway reconstruction/rehabilitation costs could include the following:

- number of rail carloads diverted from truck shipping per day/week/month/year, (expressed as the equivalent number of truckloads removed from roads with each rail car equivalent to approximately three or four truckloads);
- number of truckloads removed per day/week/month/year (from above measure), expressed as the approximate reduction in roadway damage (with roadway damage from each 80,000-pound truckload equivalent to that of approximately 9600 automobiles); and
- expected roadway lifetime, based on the number of truckloads shipped.

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