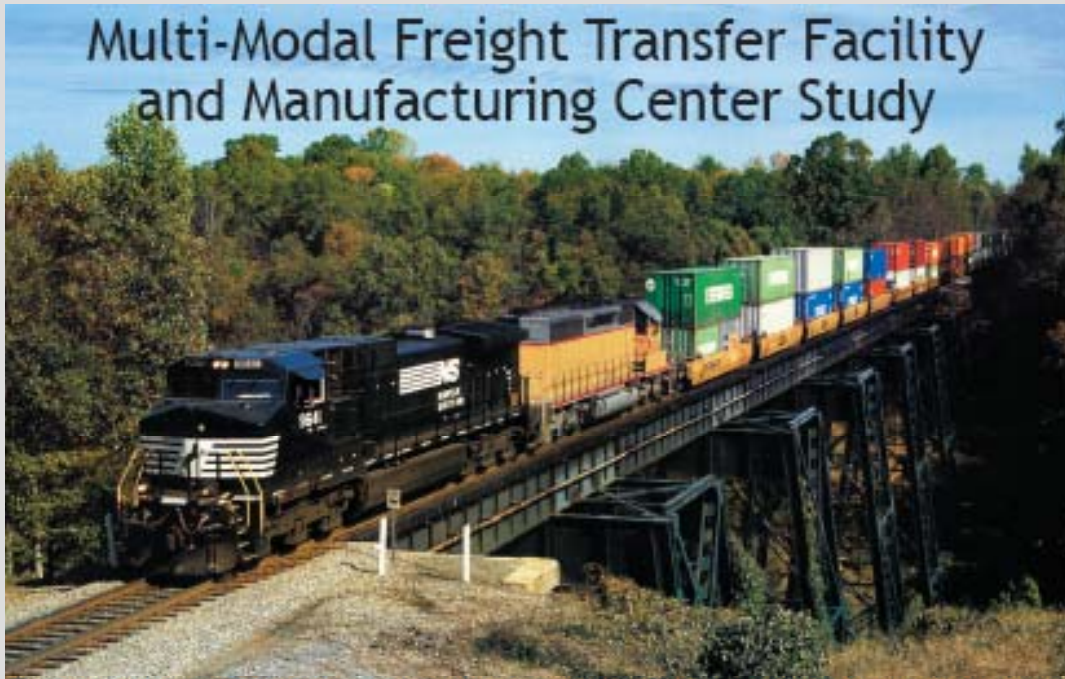


Final Report
Statement of Feasibility
and Feasibility Report



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December 2007

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INTRODUCTION

This report is part of a series of planning study reports relating to the proposed development of a multi-modal freight transfer facility and manufacturing center (industrial or business park) in the Southern Tier West region of New York, which includes Allegany, Cattaraugus, and Chautauqua Counties in western New York State. This specific report summarizes the results of an analysis of the feasibility of developing such a facility and the commercial viability of such a facility on a sustained basis.

The Southern Tier West Regional Planning and Development Board (STW) is actively engaged in encouraging the rebirth and improved health of the Southern Tier Extension Railroad Line (STERL), a 145-mile long railroad stretching between Corry PA and Hornell NY. This railroad line is currently owned by the Southern Tier Extension Railroad Authority (STERA) for a period of years, at which time ownership will revert to Norfolk Southern Corporation (NS). NS has leased the line to the Western New York and Pennsylvania Railroad Company (WNYP) for a period of years. WNYP is the operator of the line; NS has retained trackage rights on the line and currently operates regular coal trains on the line.

STW, STERA, New York State Department of Transportation (NYSDOT), and WNYP have an active ongoing partnership to promote railroad system development in southwestern New York State, so as to promote economic development in that region. This has involved extensive ongoing capital rehabilitation of the Southern Tier Extension railroad line, working with potential shippers to insure that they have rail access, and marketing business development sites along the railroad line. More recently, the US Department of Commerce Economic Development Administration (EDA) and NYS DOT, both of whom previously have invested in capital rehabilitation of the line, have provided funding to STW to study the possibility of creating a freight transfer and warehousing facility and attendant manufacturing center (industrial or business park) somewhere along the New York State portion of the railroad line.

STW's goals for this study project are:

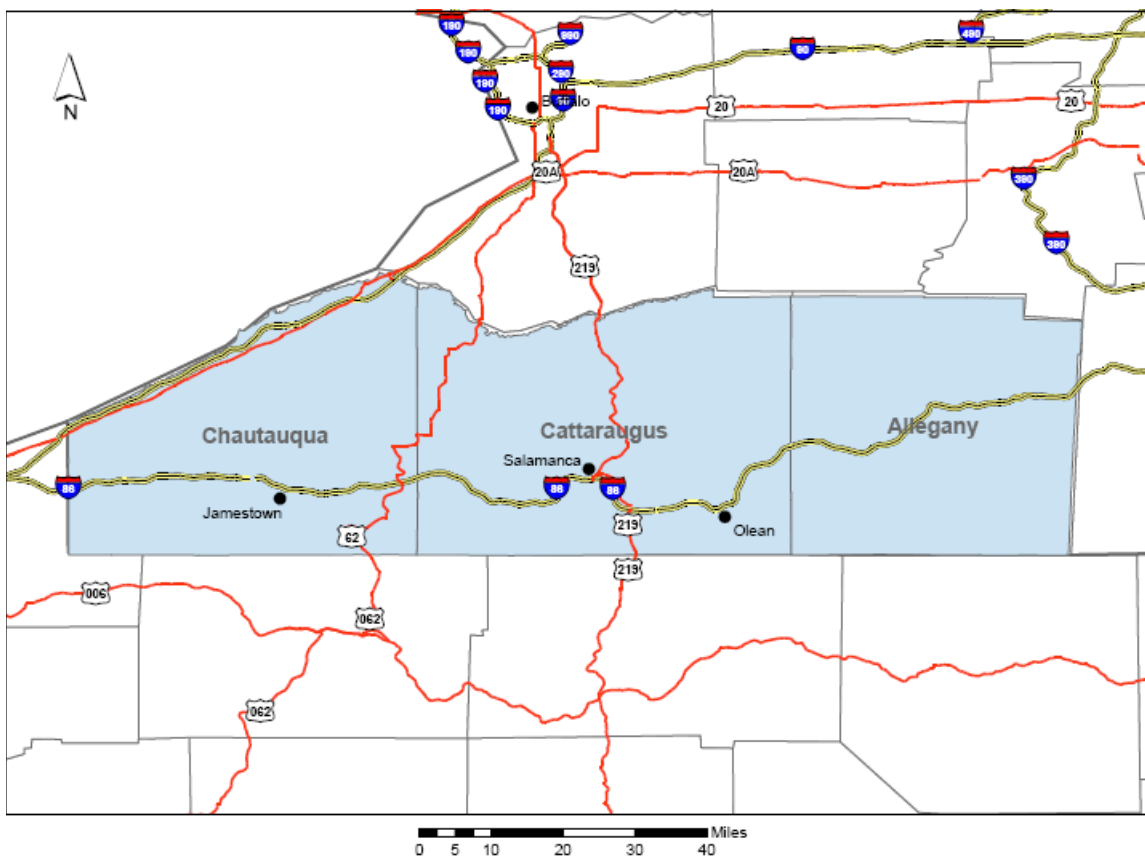
- (a) To study the feasibility of siting a business or industrial park center within the specified three county region,
- (b) To evaluate provided site alternatives and select a preferred site for its location,
- (c) To undertake certain specific planning work at the selected site (e.g., preliminary engineering, etc.),
- (d) To identify likely partners and funding sources for the subsequent implementation phase, and
- (e) To provide a strategic plan and marketing materials for multimodal freight transfer facility and manufacturing center development at the selected site.

This specific report discusses the feasibility of development and sustained operation of a potential freight transfer facility and business park at the previously selected site in Olean, New York, and recommends the most feasible approach for successful implementation of this freight transfer facility and business park (by sue curran).

OVERVIEW

The Southern Tier West Regional Planning & Development Board is a Regional Planning Board, a unit of government created in 1969 by a resolution of the County Legislatures of Allegany, Cattaraugus, and Chautauqua Counties in New York State under the authority of Article 12B of the New York State General Municipal Law. From its headquarters in Salamanca (Cattaraugus County), New York, Southern Tier West serves Allegany, Cattaraugus, and Chautauqua Counties. As a designated Local Development District (LDD) for the Appalachian Region Commission (ARC), STW coordinates and oversees the direction of all ARC-funded investment in the three-county region. As an Economic Development District (EDD) for the US Department of Commerce Economic Development Administration (EDA) STW coordinates and oversees the direction of all EDA-funded investment in the region.

Exhibit 1 – Map of the Southern Tier West Study Area and Highway System



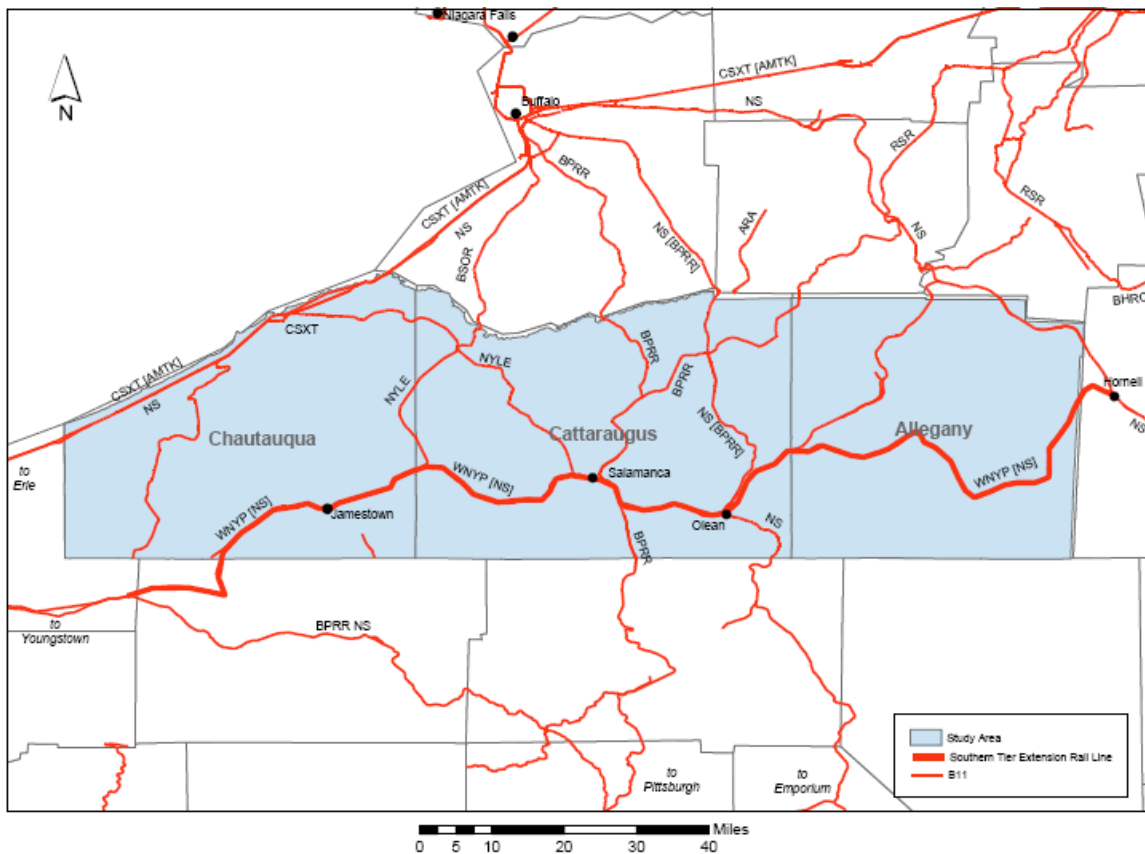
The Study Area includes the counties of Allegany, Cattaraugus, and Chautauqua with a total population of approximately 275,000 and a labor force of approximately 130,000. The major urban areas and population centers are Jamestown (31,730), Olean (15,347), Dunkirk/Fredonia (23,837),

Salamanca (6,097) and Wellsville (5,171).

The region’s primary highway infrastructure includes I-86 which runs along the entire southern section of the region, and I-90 which runs along the western edge of the region. Other highways include NY60, NY62, US219, NY16 and NY19. US 219 is a major north-south corridor that is being upgraded as a four-lane highway southward from Buffalo toward I-86 in Salamanca and to points south, providing direct four-lane access into Canadian markets and the mid-Atlantic states¹.

The primary railroad infrastructure in the region includes mainlines of the CSX and NS Class I railroads, as well as the Southern Tier Extension Mainline, the Buffalo and Pittsburgh, and the NY & Lake Erie short-line railroads.

Exhibit 2 – Map Showing Railway Network in the Southern Tier West Study Area



The primary aviation infrastructure for the region includes Chautauqua County Airport (Jamestown), Chautauqua County Airport (Dunkirk), Olean Municipal Airport and Wellsville Municipal Airport.

¹ The highway is currently 4-laned to Springville.

STATEMENT OF FEASIBILITY

The proposed plan to develop a Multi-Modal Freight Transfer Facility & Manufacturing Center in the Southern Tier West Study Area is feasible at the selected Olean Yards location (Cattaraugus County).

Specifically, this report recommends the **phased development of a freight transfer facility and a business and logistics park**. Given the relatively small size of the current local freight market, this report recommends the initial phase development of non-container transload facilities that are appropriate for current and expected local freight levels and commodity categories. These facilities should provide adequate service and encourage the growth of local freight traffic. This report also recommends that in subsequent phases, as warranted by market demand, additional transload capacity and even intermodal container facilities should be developed. Additionally, this report recommends the development of ancillary business activity operations that would further encourage freight activity, such as warehousing, manufacturing, and logistics operations and a foreign trade zone.

Accordingly, this report recommends that initially, the **first phase** should be the development of an **open forum community transload rail park**. The rationale is to provide cost competitive rail services to local businesses, and especially to those businesses that are not located directly adjacent to a rail spur or yard. Examples of traffic that could be handled in such a transload rail park are bulk freight, break bulk, boxcars, fluids, reefers, plastic pellets, etc. - anything that would involve non-container transloading to or from trucks. At this stage, traditional intermodal container service would not be contemplated. Examples of facilities and freight transload systems that could be developed in this regard include warehousing (with covered rail and truck docks), box cars and fork-lift services, fluid storage and pumps, plastic pellet storage and air pumps, refrigerated systems, gravel loading and unloading capacity, flat-bed and cranes, etc.

A **second phase**, which should be considered as traffic levels project toward the minimum threshold level of 20,000 lifts per year, is the pursuit of **intermodal container service**. This phase would require significant levels of commitment from various partners, including the provision of regular scheduled service from Norfolk Southern Corporation. The development of **satellite marine terminal operations** also would require participation by the Port Authority of New York / New Jersey. This phase also would require the development of additional siding track and the rationalization of existing sidings within the selected Olean Yards location. Also there would need to be additional acreage added to the overall rail transload campus to accommodate intermodal container operations, truck parking, warehousing and consolidation operations, and potential logistics and container pooling operations. Additional facilities to be constructed would include access roads, warehousing and freight transfer facilities, container loading capacity, parking, and other ancillary facilities (by sue curran).

The **third phase** would involve the expansion of business activities through the development of a **business and logistics park**, including shipper operations, manufacturers, freight handling and logistics operations, and foreign trade zone activities. Given available land and alignment in the

vicinity of the selected site for the freight transfer facility, this report advocates the use of a scattered site approach to park development. This could involve additional sidings, transload capacity, local access roads, and buildings to house business activities.

At the projected current local market demand for rail service, basic transload operations are feasible at the Olean Railroad Yard location. Given an increase in traffic levels to a threshold volume of 20,000 rail cars annually, which could be attained through successful implementation of a long term strategic approach to market development, the overall concept, which includes intermodal container operations, satellite marine terminal operations, and a business and logistics park, also would be feasible and sustainable long term.

The main body of this report discusses the feasibility of basic transload operations and a Phase 1 strategy for developing transload operations. The Appendix to this report discusses Phase 2 and 3 strategies for developing intermodal container operations, satellite marine terminal operations, and a business and logistics park.

Factors that Support Feasibility.

There are several factors that support a determination of feasibility: for first phase transload operations are:

- 1. Short Line Partner** – The region’s successful, competitive and profitable short line rail partner operating on the Southern Tier Extension line is evaluating the potential of expanding its service options to local clients, in conjunction with the STW’s efforts to improve multimodal transportation services within the Study Area.
- 2. Rail Network Access** – The Study Area is wholly served by two local short lines that intersect at the heart of the Study Area. They connect to a national network of Class I railroads and intermodal ports and gateways, primarily through the NS, as well as CSX, Canadian Pacific and the Canadian National.
- 3. Feasible Site** – This study has identified a feasible site near the cross-roads of the two local short-lines in Olean. The former NS classification yard in Olean is the ideal location, configuration and size to operate a transload facility and eventually an intermodal container yard.
- 4. Local Demand** – Currently (i.e., without assuming any growth in shipments due to increased business activity induced by the local of a transload facility in the Study Area at the proposed site), the local market could potentially generate between 6,000 and 8,000 shipments annually, within a catchment area of 125 miles. The proposed site is located within the local market catchment area.
- 5. Underserved Market** – Local shippers have very few options for truck competitive rail services. The proposed open forum rail transmodal park will give shippers the option to choose rail service as an alternative to trucking.
- 6. Expansion Opportunities** – There are existing sites adjacent to the proposed Olean location, as well as to the east at the intersection of the two short lines, for the future phase development

of intermodal container operations and ancillary multi-modal logistics, warehouse, distribution, and other shipping activities. These areas are ideal for generating job expansion and investment opportunities for the Study Area.

- 7. Long Term Market Dynamics** – The future market is the sum of projected potential local demand by current shippers and projected potential future local demand by shippers that could be induced to locate within the Study Area or catchment area. However, in addition to the projected potential demand from current and prospective local shippers, the Study Area sits along the watershed of an intermodal captive market of between 160,000 to 260,000 marine containers annually, which will grow by three-fold by 2030. This market is within a 10-hour drive time, west of the proposed location.

These same factors – especially factors 6 and 7 above – also will support the feasibility of Phases 2 and 3 (intermodal container operations, satellite marine terminal operations, and a business and logistics park) operations, should all prerequisites for those phases be attained.

Following is a more detailed discussion of each of these 7 factors supporting the feasibility of Phase 1 basic transload operations.

1. Willing and Able Local Short-Line Operator

The Study Area is served by a profitable short line operator, the Western New York Pennsylvania (WNYP) railroad company which operates on the Southern Tier Extension line. Recent acquisitions have extended its operations to include the Buffalo line formerly operated by the NS. The WNYP operates trains every day, serving local shippers in the Study Area with direct rail service. While its current operation focuses predominately on carload (boxcar, flatbed and tanker) traffic, including particle board, scrap steel, plastic resin, foodstuffs, fertilizer, animal feed, sand and aggregates, the WNYP is evaluating the potential for intermodal service as well.

2. Part of a National and International Railway Network

The Study Area is connected to a national railway network. The WNYP connects to the NS at Meadville Pennsylvania on the west end of the line and Hornell, New York on the east end, as well as at Driftwood, Pennsylvania to the south. With these connections the WNYP provides the Study Area with access to NS's national network. In addition, with its recent acquisition, the WNYP is able to interchange with the Canadian Pacific railroad in Hornell. The WNYP is also able to connect to the national and international networks of the CSX, Canadian Pacific and Canadian National railroads in Buffalo, through its Salamanca interchange with the Buffalo Pittsburgh Railroad.

3. Appropriate Site

In a prior phase of this study, a comprehensive evaluation process resulted in the recommendation of the Olean Railroad Yard as the most appropriate site in the Study Area for the siting of a multi-modal freight transfer facility and business park. The site is of good size, shape, topography, and

alignment, and is currently used as a railroad yard by the short line partner WNYP. The site has proximity to an interstate highway (I86), and is fully served by municipal utilities. The site offers compatibility with surrounding land uses, long-term development potential and parcel compatibility, and flexibility in terms of ownership and jurisdiction. Further, there are additional non-contiguous (“scattered”) sites located in the vicinity that could be rail serviced and be used as site locations for ancillary future-phase development..

The initial Phase 1 transload facility and transload capacity could be built on the unused siding that extends eastward from the Yard siding area and parallels Constitution Avenue. This could be the site of a public warehouse with covered loading docks for direct loading/unloading from rail cars using forklifts and truck docks on the opposite side to the rail accessible docks. This facility would be primarily used for storage and some cross-dock activity between rail and truck, and it would be accessible directly from Constitution Avenue, which connects directly to the Interstate highway I86. As this siding isn’t currently an active yard siding, this initial siting of the first transload capacity would minimize the initial phase impacts on the use of active yard sidings for traditional switching and other yard activities, and would remove trucking and other non-rail activities to a location adjacent to rail yard operations, minimizing potential for safety issues.

4. Local Demand

This analysis identifies and examines that various industry sectors that are represented by the current local shippers (implying commodity category types for freight and, consequently, freight transloading capacity), how many shippers there are, their size and shipping volumes, and their geographic dispersion within the regional catchment area.

Summary of the Existing Local Market - Freight transport traffic in the Study Area is dominated by products that are shipped locally and to/from other markets in the states of New York and Pennsylvania. Approximately 75% of all shipments to and from the region are New York and Pennsylvania based. And 90% of these shipments are trucked. The commodity types are broad, but are dominated by gravel and other aggregates, petroleum products (fuel), non-metallic minerals and chemicals, food and farm products, and mixed shipments (freight of all-kinds). This dominant market share is not a likely target for the proposed facility. The trips are typically too short, and represent a vastly distributed market area, reducing the competitive edge offered by rail.

Currently (i.e., without assuming any growth in shipments due to increased business activity induced by the location of a transload facility in the Study Area at the proposed site), the local market could potentially generate between 6,000 and 8,000 shipments annually within the 125-mile catchment area. The market segments most likely to be targeted for the proposed facility, specifically to capture the forecasted 6,000 - 8,000 locally generated lifts, are shipments to/from distant markets such as Texas, Florida and California as well as Illinois and other Midwestern states, representing approximately 10% of the trucking market. The types of commodity categories include metal products, machinery and transportation equipment, food and farm products, chemicals and allied products, lumber and wood products, merchandise and retail products shipped as mixed freight of

all-kinds.

Predominant Sectors in the Local Catchment Area - The following is a breakdown of the predominant sectors that represent potential shippers through the proposed facility. The information is based on interviews with local shippers and with the local railroad service provider, as well as data from the 2002 Economic Census^{1, 2, 3, 4}.

- The primary sectors representing the potential shippers to be targeted for the proposed facility are manufacturing and wholesale trade.
- The manufacturing sectors that represent the most establishments include:
 - Fabricated metal product manufacturing (20% of establishments)
 - Furniture and related product manufacturing (6% of establishments)
 - Food manufacturing (4% of establishments)
 - Machinery manufacturing (4% of establishments)
 - Wood product manufacturing
 - Nonmetallic mineral product manufacturing
 - Computer and electronic product manufacturing
- The wholesale trade sector is made up of establishments trading in durable goods (60%) and nondurable goods (40%)
 - The dominant durable goods include motor vehicle parts, machinery equipment, and farm and garden equipment.
 - Key examples of non-durable goods wholesale distributors in the catchment area are paper and paper products, grocery products, and chemicals and allied products.

Number of Potential Shippers and Their Size - Based on the local market assessment, between 10 and 20 of the top tier shippers in the Study Area would need to be successfully targeted in order to generate the forecasted local volumes of 6,000 to 8,000 transload (and eventually, potentially intermodal) lifts annually. The overall catchment area has approximately 330 shippers that present an opportunity for targeting. According to the previously cited Census data, the overall catchment area has approximately 550 manufacturing establishments and 400 wholesale trade establishments, of which 35% have 20 or more employees (establishments with less than 20 employees are likely not to generate enough volumes to target).

Geographic Distribution of the Local Market - The local market may be described as follows:

- The bulk of the local market is the area from Olean westward.
- The primary or first tier market catchment area includes the communities of Olean, Salamanca and Jamestown, New York (a 25-50 mile area).

¹ 2002 Economic Census, New York: 2002, Manufacturing, Geographic Area Series, Issued May 2005; U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau.

² 2002 Economic Census, New York: 2002, Wholesale Trade, Geographic Area Series, Issued May 2005; U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau.

³ 2002 Economic Census, Pennsylvania: 2002, Wholesale Trade, Geographic Area Series, Issued May 2005; U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau.

⁴ 2002 Economic Census, Pennsylvania: 2002, Wholesale Trade, Geographic Area Series, Issued May 2005; U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau.

- Within the broader catchment area (within 125 miles), 65% of the potential manufacturing shippers are in New York State and 35% are in Pennsylvania.
 - 40% of the potential manufacturing shippers are located in Chautauqua County, with another 19%, 18% and 13% in Cattaraugus, Potter (PA) and McKean (PA) counties respectively. All four of these counties represent the western segment of the local catchment area. Only 8% of the potential manufacturing shippers are located eastward, specifically in Chautauqua and Potter (PA) counties.
- Of the wholesale traders, 80% are located in New York State and 20% in Pennsylvania.
 - 76% of the potential wholesale trade shippers are located in Chautauqua and Cattaraugus counties.

It is important to note that the proposed site location is within the first tier market catchment area. Hence it is in a strategic location to serve both the first tier catchment area (25-50 miles) as well as the broader local catchment area (up to 125 miles).

5. Underserved Market

Local shippers have very few options for truck-competitive rail services. There are a minimum number of companies with rail sidings, and a minimum number of community-access team track areas on the east-west line, and those team track areas that exist have minimally enhanced transload capacity. The other short lines in the region also are under-served by community team track areas, and are not aggressively marketed to the local market. Accordingly, rail service is difficult to access, especially for shippers not located adjacent to the railroad line.

The result has been that truck drayage rates are higher than they would be in a market with effective rail competition. Evidence of this fact has been the drop in trucking rates since 2001 with the rehabilitation and reinstatement of service on the Southern Tier Extension railroad line. Nonetheless, as indicated above, truck-competitive rail access still currently is not an option for most companies in the Study Area.

However, while most local shippers pay a premium for the truck dray, they enjoy premium service and reliability. Shippers operate on tight schedules and require quick turnarounds on their shipments. It has been only in the last five years that the operator WNYP has been able to offer frequent and reliable shipping services to customers located along the line. With increased rail shipping activity and, ultimately, with potential scheduled Class 1 service, the rail system will be able to offer truck-competitive shipping service with respect to timing constraints.

The proposed open forum community transload rail park will give shippers the option to choose rail service as an alternative to trucking.

6. Expansion Opportunities

In addition to the unused rail siding in the Olean Yard, which could be used as the location for the initial development of transload capacity and warehousing, there are existing sites adjacent to the

Olean Yard, adjacent to active and unused sidings, as well as to the east at the intersection of the two short lines, which could be used as the location for the future phase development of ancillary multi-modal logistics and warehouse activities. Certain of these sites are accessible from Constitution Avenue, which is the main access to the Olean Yard. These sites share the same general characteristics as the Olean Yard itself, owing to their adjacency. Additionally, to the east, at the intersection of the two short lines, the site at Buffalo Street also has many desirable general site characteristics and close proximity to the Olean Yard, making it worthy of consideration as the location for developing industrial, transport, trade, warehousing and logistics projects in support of transload and eventually potential intermodal operations, as needed.. These areas are ideal for generating job expansion and investment opportunities for the Study Area.

As the transload operations at the Olean Yard facility grows, market demand for containers gradually will begin to appear. While the existing sidings in the yard, in combination with these transloading operations, could be used to accommodate initial desired container intermodal service prior to fully developing the Phase 2 facility, a larger-scale fully realized intermodal container facility could be developed on land immediately north of and adjacent to the east-west mainline track. There is sufficient acreage here for transload of containers, warehousing, truck movement and parking, container pooling, and other intermodal logistics support activities. The existing sidings in the yard then could be used for building and loading portions of a unit train.

7. Long Term Market Dynamics

The experience of the Virginia Inland Port is that once the transload facility is created, first, the catchment area begins to harvest traffic that was not present previously, and second, there is an increase in traffic due to siting of new shippers within the catchment area in response to the facility's presence. The project Study Area can expect a similar phenomena, differing perhaps somewhat in scale.

In fact, certain rail-shipping businesses in the Study Area had completely stopped using rail services during the Conrail era, because Conrail had engaged in customer management practices that were designed to deter small volume shippers from using the rail system. In the case of the Study Area, not only is there a Class 1 railroad company (Norfolk Southern Corporation) operating on the line currently, there also is a short line operator (WNYP) that is aggressively promoting utilization of rail shipping services by small volume shippers. The short term effect of WNYP's aggressive marketing and operating practices will be to encourage former shippers to return to using rail service and other existing shippers in the local market that previously have not used rail service to begin to use rail service. However, the long term impact will be the attraction and siting of new rail shipping businesses into the Study Area or catchment area, as the benefits of utilization of the WNYP service and northeastern location become apparent.

WNYP's parent Livonia Avon and Lakeville Railroad has empirical experience of this attraction and siting phenomena, with its success in attracting Barille America to an Avon, NY location, based in no small part upon the ability to offer competitive in-bound shipping of bulk wheat from the Midwest. Barilla America spent nearly \$100 million to build a pasta plant and warehouse and

distribution center in the village of Avon, Livingston County. Over three years, the company will create at least 125 direct full time jobs at the facility.

In addition to the projected potential current local demand, and the open-ended potential future local demand, the Study Area sits along the watershed of an intermodal captive market of between 160,000 to 260,000 marine containers annually, which will grow by three-fold by 2030. This market is within a 10-hour drive time, west of the proposed location.

PHASING OF PROJECT DEVELOPMENT

The project, as it stands today, is a concept. A great deal of work has to be undertaken to design, fund, construct, market, and operate the facility. The project needs to proceed at a pace in which the amount and level of transload and other related freight movement capacity is directly justified by market conditions, so that the initiative remains commercially viable and supports ongoing public and private investment.

Accordingly, the project must be phased, with the initial phase building on the carload services currently offered by the WNYF, to attract and secure an initial set of transload customers. Phases should be as follows:

- **Phase I** should be an “open forum” **community transload rail park**, focused on the local market.
- **Phase 2** should involve the evolution into a **satellite marine terminal** with **intermodal container operations**.
- **Phase 3** should be the complete development into a multi-modal **business and logistics park**. This would include additional off-site development of business operations of shippers, logistics, warehousing, distribution operations, etc. Concurrent should be the addition of trade processing services, including foreign trade zone status, customs and regulatory processes, etc.

PREREQUISITES FOR PHASE 1 SUCCESS

Aside from the standard project development and implementation steps that need to be pursued, there are at least four major prerequisites for successful implementation and operation during Phase 1.

1. **Develop specific transload capacities appropriate for the current local market** – As discussed below, the current transload market initially will support certain specific types of transload capacity at the proposed community transload rail park site. This report recommends initially developing dry and liquid bulk and aggregate transload capacity, and a warehouse with covered rail transload dock and truck dock capacity to support the transload of bulk and break

bulk freight onto tankers, boxcars, and flatbed cars. As market conditions warrant, additional investment could be made to allow for the specific requirements of certain types of non-container-based transload (e.g., fluids, reefers, plastic pellets, gravel, logs and lumber, etc., including anything that would involve non-container transloading to or from trucks).

2. **Develop partnering relationships with an appropriate third party entity or entities to own and operate appropriate elements of the transload capacity** – Certain transload assets (e.g., cranes, etc.) may be appropriate for ownership and operation by WNYP, while other transload assets (e.g., warehouse with rail transload dock and truck dock) may be more appropriate for ownership and operation by an entity other than WNYP. Such third party entities may include STERA, a non-profit corporation to be formed, or a private for-profit concern. Securing these strategic commitments is essential to moving forward with Phase 1. This element is to be discussed in more detail in the Strategic Development Plan in a latter phase of this study project.
3. **Develop warehousing capacities appropriate for the current local market** – As is mentioned above, the discussion below will examine how the current transload market initially will support certain specific types of transload capacity at the proposed community transload rail park site. Warehousing capacity type will correlate with transload capacity type. As indicated above, this report recommends initially developing warehouse with covered rail transload dock and truck dock capacity to support the transload of bulk and break bulk freight onto boxcars and flat cars. Bulk fluid tanks, plastic resin tanks, and aggregate facilities also would most likely be appropriate initially, and other more specialized facilities (e.g., refrigeration capacity, etc.) could be added as needed as market conditions warrant, etc.
4. **Undertake marketing activities** – In addition to the development of physical assets and the development of strategic ownership and operating relationships, an ongoing effort must be made to engage in certain specific marketing activities that will be crucial to both Phase 1 success and the ultimate likelihood of the facility operations evolving into the more complex subsequent phase operations (i.e., intermodal container and satellite marine terminal operations). These marketing activities should include marketing to attract:
 - **Consolidation service operations** – The local market currently consists of predominantly small shippers that typically generate shipments less than full-load. As a result, local shippers pay a premium for service. Locally based consolidation services could alleviate this issue by improving service and lowering costs for shippers.
 - **Manufacturing operations that will utilize shipping capacity** – Consistent with the overall economic development goal of increasing local and regional value-added regional export operations, manufacturing operations that are transportation-cost-sensitive and that are appropriate for rail shipping will increase traffic flow through the transload facility. To the extent that these concerns are susceptible to using container shipping, this activity also supports Phase 2 development.
 - **Warehousing and distribution operations** – Similarly, the attraction of warehousing and

distribution operations that serve the regional multi-state market will increase traffic flow through the transload facility. Again, to the extent that these concerns are susceptible to using container shipping, this activity also supports Phase 2 development.

- **Logistics, warehousing and trucking companies** – These operations provide additional service capacity to support increased traffic flow, both in Phase 1 and in subsequent phases of facility development.

The marketing process is to be discussed in more detail in the Strategic Development Plan that will be prepared in a latter phase of this study project.

PRELIMINARY PHASE 1 PHYSICAL ASSET PROJECT DESIGN REQUIREMENTS

This report recommends a phased approach for developing the proposed facility. The project design requirements correlate with the materials handling requirements for the various commodity groups.

Exhibit 3 – Site Development and Materials Handling Requirements

	COMMODITY TYPES	MATERIALS HANDLING NEEDS	SITE DEVELOPMENT ISSUES	ANCILLARY ACTIVITIES
Commodity Group A (Phase 1)	<ul style="list-style-type: none"> • Dry Bulk • Liquid Bulk • Aggregates 	<ul style="list-style-type: none"> • Bulk equipment - e.g. conveyor system, pump & tank systems, etc 	<ul style="list-style-type: none"> • Use existing tracks • 2-3 working short-tracks • Spaced for equipment • Hold up to 20 cars 	<ul style="list-style-type: none"> • Warehousing • Cross-dock • Logistics/Distribution • Transloading <p>(Phase 3)</p>
Commodity Group B (Phase 1)	<ul style="list-style-type: none"> • Break Bulk • Palletized Cargo • Lumber 	<ul style="list-style-type: none"> • Break bulk equipment - e.g. crane, fork lift, etc 	<ul style="list-style-type: none"> • 50-70K SF warehouse • Loading dock along short track • Food-grade ready 	
Commodity Group C (Phase 2)	<ul style="list-style-type: none"> • Containerized 	<ul style="list-style-type: none"> • Container handling equip. - e.g. crane, fork lift, etc 	<ul style="list-style-type: none"> • Initially – Group A tracks • Ultimate - dedicated yard & tracks 	

The anticipated materials handling needs can be divided into three commodity groups. Phase 1 requires developing transload capacity for the first two commodity groups, Commodity Groups A and B. Phases 2 and 3 require developing freight handling capacity for Commodity Group C.

- 1. Commodity Group A** – Currently the local carload traffic is mostly inbound and is dominated by particle board, scrap metal, plastic resin, food products, and bulk materials such as fertilizer, animal feed, sand and aggregate. Therefore, during the initial phase (Phase 1) the nature of the facility will be predominately a staging and consolidation point for local carload traffic. Such a facility would need to be designed to handle boxcars, tankers and flatbeds carrying dry bulk, liquid bulk and commodities. The location for handling these commodities should be coordinated with the rail yard owner and operator.
- 2. Commodity Group B** – Phase 1 also will need to be designed to handle a second group of commodities, specifically break-bulk, palletized and lumber. The facilities to handle these cargo types should include a public warehouse sized at 50,000 to 70,000 square feet. The warehouse should be located along a working track, with covered loading docks to allow direct loading/unloading from rail cars using forklifts. The warehouse should also be designed with truck docks on the opposite side to the rail accessible docks. The functional role of the facility should be primarily for storage (adequate ceiling height and load bearing capacity) as well as to facilitate some cross-dock activity between rail and truck. The location for handling these commodities should be coordinated with the rail yard owner and operator.
- 3. Commodity Group C** – Phase 2 is to build on the Phase 1 activity to attract local intermodal traffic and is anticipated develop within 3-5 years of operation. The Phase 2 facilities should be designed to handle intermodal container chassis. Initially, local intermodal container traffic volumes would be staged on the same tracks used to stage the Group A Commodities. However, a key element in the market development would be to evolve into an extension of a marine container port gateway such as the Port of New York/New Jersey, as well as, in Phase 3, to attract industries and logistics service providers to locate facilities adjacent to the intermodal rail yard. Phase 3 of the facility would build on the intermodal market development success. To serve intermodal container traffic, and especially to serve the unit train needs of a satellite marine terminal, the facility would need adequate space for handling and storing containers, as well as linear track long enough for building/loading portions of a unit train. The location for handling these commodities should be coordinated with the rail yard owner and operator. Phase 3 will likely generate ancillary activities such as warehousing, cross-dock, logistics/distribution and transloading. These activities would be developed by private entities on available land near the intermodal rail park. The site selection phase of this study identified several sites that are available for such development activities.

The preliminary engineering work to be conducted subsequent to this report will provide greater design and cost detail. As is described above, the types of commodities to be anticipated will evolve through various phases of development. The initial preliminary engineering and design should focus on the facilities needed for Phase I (Commodity Groups A and B), but also show the overall space and layout requirements for the subsequent phases. Phase 1 should be sized to handle approximately 6,000 rail cars annually. Phases 2 and 3 should be designed to handle 20,000 rail cars annually.

POTENTIAL INSTITUTIONAL AND FUNDING APPROACH

The successful development of the proposed facility will likely be a long and complicated process, requiring significant resources, cooperation among many public and private entities and the deployment of a strategically significant market implementation program. Therefore it is likely that the ownership and operating structure for the propose entity will include several players, both public and private. Given that the proposed facility will evolve through several phases, it is conceivable that the institutional structure will also evolve based on the requisite partners for success. The recommended approach outlined herein is based on various case studies, but largely on the Somerset Community Rail Park developed by the Southeast Kentucky Economic Development Corporation (SKED) in Somerset Kentucky, in partnership with the NS.

- 1. Phase 1 (Group A Commodities)** – This phase is critical in that success leads to success. In other words, this phase is intended to incrementally develop new traffic, beyond the level of traffic currently handled by the WNYP. If this phase is successful, then subsequent phases are likely to evolve. Therefore, the institutional approach should be kept as flexible and simple as possible. Key initial partners should be the local economic development agency (STW) and the WNYP. Since the WNYP has jurisdiction over the proposed site, it should likely lead the development of the Phase 1 facilities, with direct support from the STW. WNYP, STW, STERA, a private developer, or a non-profit Local Development Corporation (LDC) would be the owner and operator of the rail transload operations. The STW would provide support by securing funding from state and federal sources. Due to the lack of significant rail and intermodal funding policies in the United States, the likely most successful source would be Federal earmarks. However, the state of New York also has funding opportunities.
- 2. Phase 1 (Group B Commodities)** – Either STW, STERA, or a non-profit Local Development Corporation (LDC) would likely be needed to play the lead role in owning and developing the public warehouse for the Group B Commodities. Ownership and operation would most likely be vested in some combination of STERA, an LDC, or a for-profit corporation (e.g., ownership by a non-profit LDC, with operations leased to a for-profit corporation).

In the SKED case study, the local economic development agency secured the funding for the warehouse (Federal earmark, as well as some state and local matching funds), led the development of the warehouse, and leased the warehouse back to the rail operator (NS) for \$1 per year. The NS in turn leases the building to a third party logistics operator.

In this case, the STW would be the lead partner to develop and lease the proposed warehouse to the WNYP, who would in turn lease it to a third party operator. The WNYP would manage all of the rail related operations, while the third party handler would be responsible for managing the loading/unloading of rail cars, the storage of commodities in the warehouse, tankers, etc. (An alternate approach would be the direct lease of the facilities by the facility owner to the third party operator.)

In order to generate revenues, and create a sustainable operation, SKED generates additional

revenue from warehouse storage fees (\$2/s.f. per month collected by the third party handler and passed on to SKED) as well as from property taxes (on the warehouse) that are directed to a Tax Increment Finance district. In the SKED example, the third party operator also plays a key role in marketing rail services to local industries. Given the WNYP's strong marketing presence in the Study Area, it is recommended that they lead the marketing effort.

From a manpower standpoint, it is recommended that the third party logistics operator utilize a local manpower resources company (job finder agency) on an as-needed basis to provide labor to operate fork lifts, conveyors, etc. In the SKED example, one full-time manager was initially employed, with a full-time assistant (with computer and logistics software knowledge) added after 6 months. The manager reserves 2-3 additional staff 3-5 days in advance of major loads.

- 3. Phase 2 (Group C Commodities)** – As the intermodal traffic expands, the WNYP, STW, and STERA would still have to play key roles, whereby the WNYP (or alternatively either a third party private sector owner/operator or the combination of a public owner and private operator) owns and operates the intermodal yard, with the STW and STERA providing funding support. Southern Tier West may wish to consider using a non-profit Local Development Corporation (LDC) created especially for this purpose, or one currently in existence with a mission consistent with this purpose, in a continuing or permanent property ownership role. The third party for-profit logistics operator would manage the handling of containers - unloading, stacking and loading. However, the institutional structure would also need to aggressively pursue a partnership with a Class I rail company (specifically the NS) to provide access to national and international intermodal markets. In addition, the Port Authority of New York/New Jersey as well as the major ocean carriers would need to be pursued as partners, specifically as strategic marketing partners.
- 4. Phase 3 (Logistics/Distribution, Transloading)** – The key players during this phase will likely (or at least preferably) all be private sector. The public sector's role probably will be limited to preserving/securing available land for locating warehousing and logistics activities.

RECOMMENDATIONS FOR EVOLUTION FROM PHASE 1 TO PHASES 2 AND 3

Although the focus of development during Phase 1 will have to be on the transload operations essential to serve the local shipping market, the initiative also should contemplate the desired ultimate Phase 2 and 3 goals of intermodal container operations, satellite marine terminal operations, and business and logistics park development. This will require a long term vision, so that Phase 1 investments and physical site improvements are not inconsistent with the type, footprint, alignment, and institutional structure of investments required for success in the subsequent second and third phases. Similarly, this report recommends that certain proactive activities be undertaken that will provide a foundation for and catalyze these subsequent phases.

- 1. Make Preparations for Developing Intermodal Container Operations** – The following are steps that are either essential or highly recommended for evolving from simple transload

operations to intermodal container operations:

- **Secure a Class I Railroad Partner** – The project will not be able to develop container operations and will not be sustainable without a long term partnership with a Class I railroad. The history of similar projects developed around the country point to this one fundamental prerequisite. A Class I partner is imperative for a variety of reasons, including access to national rail networks, intermodal gateways and markets, provision of reliable and scheduled service, truck competitive pricing, marketing and sales clout, growth and development opportunities, etc.

In order to attract a Class I partner, the facility needs to have the potential to generate at least 20,000 containers annually. The current local market will not support such an operation, without attracting new customers and shippers to the Study Area. While this is possible to attract new customers and shippers, such as the case of the Virginia Inland Port, it will take time and require significant subsidy or incentives to reach this threshold level. The alternative approach for attracting additional volumes is to operate as an extension or satellite of an existing major international gateway port such as the Port of New York/New Jersey. Both approaches are recommended, and if both approaches are implemented per the recommendations of this report, they will be cross-reinforcing. The satellite marine terminal approach is discussed in the second element below.

- **Container Pooling** – In order to improve customer service, trip turnarounds, and reduce lead times, the operation should pool equipment typically used by the local customers. This is an important step toward providing truck competitive service.
 - **Truck Competitive Pricing and Service** – A likely response to the new intermodal service will be a reduction in trucking costs in the Study Area, primarily to protect market share. Therefore, solely relying on a lower priced rail service will not suffice. The intermodal service has to be price competitive, and offer truck equivalent levels of service, turnarounds and reliability. Partnering with entities that are committed to the long term policy and operational goals of maintaining a reliable and uncongested transport system is critical to this approach.
2. **Make Preparations for Evolving into a Satellite Marine Terminal** – This report recommends developing relationships to operate as an extension or satellite of one or more existing major international gateway ports, such as the Port of New York/New Jersey. In addition to regular scheduled Class 1 service to the facility and container pooling, discussed above, the following will be necessary:
- **Partner Across the Entire Supply Chain** – In order to succeed as a satellite operation, the location must be priced and sold as a service by all the major players along the entire marine container supply chain, including the Class I partner, the gateway port owner, operator and tenants, and the ocean carriers. The service must be priced wholly from the foreign location of origin/destination to the final inland origin/destination, through the inland port.

3. **Make Preparations for Evolving into a Business and Logistics Park** – As mentioned above, one strategy for attracting a Class 1 partnership (i.e., with NS) will be the presence of a minimum threshold volume of traffic – specifically container traffic – into and out of the facility. Accordingly, one strategy must be the development of operations within the catchment area of shipping companies and shipping services companies, including manufacturing companies, warehouse and distribution companies, and logistics companies. This strategy also is consistent with the overall strategy of business development within the region and local area. Essential steps, which will be more fully described in the subsequent Strategic Development Plan stage of this study, include the following:
- **Secure land control for future development** – The amount of acreage owned by STERA and under control by WNYP at the project site is not in itself adequate for the subsequent Phase 3 development of a Business and Logistics Park, wherein manufacturing, warehousing, and distribution operations could be developed. Adequate acreage is present in total in several adjacent and scattered locations in the project vicinity, but land control should be sought to permit site improvements, access siding and road development, infrastructure service development, and eventual development of business operations therein.
 - **Site and access preparation** – There will be a need for the development of access roads, rail sidings, and infrastructure services to development sites. Individual sites will require site preparation, etc.
 - **Secure foreign trade zone designation** – STW should consider the designation of existing local manufacturing and/or shipping operations and other undeveloped acreage having the potential for the siting of future manufacturing or logistics operations, as a foreign trade zone or sub-zone, to provide incentives for the location of businesses that will require such incentives and also rail transportation services.

CONCLUSION

The development and operation of a transload facility at the Olean Yard location on the Southern Tier Extension is a feasible proposition. Further, assuming the eventual success in achieving several objective benchmarks, including shipping volume, regularly scheduled Class 1 service, etc., and certain strategic ancillary services (container pooling, etc.), the facility may be able to evolve into intermodal container operations and become a satellite marine terminal, both of which also would then be feasible and sustainable operations. Also feasible is the development of a Business and Logistics Park at and around the Olean Yard location.

Because the current local shipping market is rather small and rural in nature, the project must be phased. The initial phase (Phase 1) will focus on existing and potential shipping traffic in the current market. Phase 2 (intermodal container operations and satellite marine terminal operations) and Phase 3 (Business and Logistics Park) would follow if and when all prerequisites were present for their implementation.

Phase 1 operations will focus on certain specific commodities (dry and liquid bulk, aggregate, break-bulk, etc.) and Phases 2 and 3 will involve intermodal container operations. The type of Phase 1 transload capacity, including buildings and other assets (e.g., tanks, etc.) will depend on the commodities involved. Location will depend on input from the operator WNYP, and should be developed consistent with a long term vision for the subsequent evolution of shipping operations at the facility.

Development and subsequent ownership and operation of Phase 1 facilities will likely be a combination of partnerships between WNYP, STERA, STW, a non-profit Local Development Corporation (LDC), and/or a for-profit corporation. Development and construction may be appropriate for certain entities, while operation of certain facilities may be more appropriate for other entities. Funding for Phase 1 improvements will likely be some combination of federal, state and private funds. There should be a public sector role in advancing development and funding of these improvements.

In addition to a focus on Phase 1 activities, STW and its partners should be attentive to other activities and initiatives, including marketing and the development of strategic relationships, that will be essential for the evolution from Phase 1 transload operations to Phase 2 (intermodal container operations and satellite marine terminal operations) and Phase 3 (Business and Logistics Park) operations.

NEXT STEPS

Prepare Marketing Package

Prepare a marketing package for the selected site that will provide the necessary information to engage a potential private sector developer/investor/owner/operator/business to participate in the project.

Prepare Preliminary Engineering on Chosen Site Location

Assist STW in preparation of a land use analysis and plan, with a preliminary site plan of freight transfer facility and manufacturing park. Develop preliminary engineering cost estimates for the development of recommended facilities on the selected site, based on preliminary plan.

Undertake Site Work on Chosen Site Location

Obtain survey data for the selected site. Prepare Environmental Site Assessments (Phase 1 Report) for the selected site. Provide digital aerial photos of the selected site. Investigate soil conditions for the selected site (test borings). Assist STW in its development of GIS mapping for the selected site.

Strategic Development Plan

Assist the STW in the development of a specific strategic development plan for the selected site. The strategic development plan will outline proposed alternative uses for the site, discuss the necessary steps that the public sector must undertake to facilitate the subsequent construction and operations phases, and outline the planned structure for marketing, construction, ownership, financing, and operation.

APPENDIX

PHASE 2 – INTERMODAL CONTAINER TRAFFIC AND SATELLITE MARINE FACILITY

As mentioned in the body of this report, this report recommends phasing the project, with Phase 1 focusing on transload services for the existing and potential local market. Phase 2 involves the evolution of operations so as to permit the development of intermodal container operations and a satellite marine terminal. Phase 3, which is discussed below, involves the development of a Business and Logistics Park, with foreign trade zone designation.

PREREQUISITES FOR SUCCESSFUL PHASE 2 IMPLEMENTATION AND OPERATION

Once Phase 1 operations are in place and can be demonstrated to be successful, STW and its partners can begin to move toward the development of Phase 2 operations. Aside from the standard project development and implementation steps that need to be pursued, there are at least three additional major prerequisites for successful implementation and operation.

- 1. Secure a Class I Railroad Partner** – The project is not sustainable without a long term partnership with a Class I railroad. The history of similar projects developed around the country point to this one fundamental prerequisite. A Class I partner is imperative for a variety of reasons, including access to national rail networks, intermodal gateways and markets, provision of reliable and scheduled service, truck competitive pricing, marketing and sales clout, growth and development opportunities, etc.
- 2. Evolve into a Satellite Marine Terminal** – In order to attract a Class I partner, the facility needs to have the potential to generate at least 20,000 containers annually. The current local market will not support such an operation, without attracting new customers and shippers to the Study Area. While this is possible to do, such as the case of the Virginia Inland Port, it will take time and require significant subsidy to reach this threshold level. The alternative approach for attracting additional volumes is to operate as an extension or satellite of an existing major international gateway port such as the Port of New York/New Jersey.
- 3. Partner Across the Entire Supply Chain** – In order to succeed as a satellite operation, the location must be priced and sold as a service by all the major players along the entire marine container supply chain, including the Class I partner, the gateway port owner, operator and tenants, and the ocean carriers. The service must be priced wholly from the foreign location of origin/destination to the final inland origin/destination, through the local intermodal facility.

In addition to these top-tier pre-requisites, there are several other important factors to consider in operating the proposed facility:

- 1. Container Pooling** – In order to improve customer service, trip turnarounds, and reduce lead times, the operation should pool equipment typically used by the local customers. This is an important step toward providing truck competitive service.

2. **Consolidation Services** – The local market consists of predominantly small shippers that typically generate shipments less than full-load. As a result, local shippers pay a premium for service. Locally based consolidation services could alleviate this issue by improving service and lowering costs for shippers.
3. **Truck Competitive Pricing and Service** – A likely response to the new intermodal service will be a reduction in trucking costs in the Study Area, primarily to protect market share. Therefore, solely relying on a lower priced rail service will not suffice. The intermodal service has to be price competitive, and offer truck equivalent levels of service, turnarounds and reliability. Partnering with entities that are committed to the long term policy and operational goals of maintaining a reliable and uncongested transport system is critical to this approach.

KEY TRENDS AND MARKET FACTORS IN THE INTERMODAL MARKET

1. Class I Railroads are De-Marketing the Smaller Domestic Car-Load Markets

The Class I railroads are undergoing significant shifts in their market focus. In addition to historically unloading major portions of their rail networks, as well as owning increasingly less of the overall rolling stock inventory (roughly 10% of all rail intermodal shipments are on equipment owned by the common carriers), they are solidly focused on building and moving whole unit trains between major markets. The most lucrative market segments for generating whole unit trains are traditional bulk sectors such as coal and grain, as well as intermodal containers between major gateway ports and major intermodal markets (such as Chicago, Kansas City, Dallas, Atlanta, New York, etc.). As a result, Class I railroads are de-emphasizing services to smaller domestic markets. The impact for the Study Area is significant in that traditional carload services to shippers and manufactures serving largely domestic markets are seeing a declining level of service. In addition, container intermodal service to shippers and manufactures in the Study Area are also being de-marketed by the Class I railroads. While this makes good business sense for the Class I railroads, ultimately making them more competitive and reliable from a national and global economic and policy perspective, it has significant downside impacts for the Study Area.

2. The Intermodal Market is Predominantly Containerized

Rail intermodal traffic consists largely of containerized traffic, representing 81% of approximately 14 million nationwide rail intermodal moves annually. The remaining 19% are trailers on flat cars. Of the 11 million containers, 8 million or roughly 58% are international and 3 million or roughly 23% are domestic.

3. The Region is an Underserved Container Intermodal Market

The three-county Study Area is underserved by container intermodal¹ rail services. While there exist some traditional bulk and breakbulk (box car and carload) services provided by the local short line

¹ For purposes of this report, the containerized intermodal market is referred to as intermodal.

railroads, rail intermodal service to and from the Study Area does not exist currently. All containerized intermodal shipments are drayed by truck to and from rail heads as close as Buffalo and Toronto as well as to Cleveland, Chicago and New York and other major intermodal rail centers.

4. There are Four Types of Containerized Intermodal Markets in the Study Area

The Study Area's intermodal market can be broken up into four distinct components: domestic intermodal, NAFTA intermodal (specifically Canada), West Coast maritime intermodal, and East Coast maritime intermodal.

- 1. Domestic Intermodal** – The containerized intermodal market is traditionally international. U.S. domestic trade is overwhelmingly served by trucks. The national road network is such that large portions of the U.S. market can be reached within a reasonable drive time. As such, the domestic containerized intermodal volumes represent approximately one quarter (25%) of all containerized intermodal flows. The larger share of the domestic container intermodal flows is long-haul, specifically transcontinental. For the Study Area, the predominant domestic container intermodal flows are to and from west coast markets such as Las Vegas, Salt Lake City and Los Angeles (non maritime domestic).
- 2. NAFTA Intermodal** – While there exists significant truck traffic volumes between Canada and the Study Area, the potential for rail containerized intermodal volumes are limited with the exception of containerized rail flows to/from the ports of Montreal and Halifax, as well as to/from west coast Canadian markets. Due to its relative close proximity to the major Canadian markets such as Toronto and Montreal, the bulk of NAFTA freight volumes to and from the Study Area are by truck.
- 3. West Coast Maritime Intermodal** – Containerized traffic to and from the west coast ports, mostly Asian imports destined for the Study Area, are drayed by truck between intermodal rail heads in nearby cities such as Buffalo. The dominant west coast maritime container gateway for the Study Area is southern California (the Ports of Long Beach and Los Angeles). The other gateways are in the northwest, specifically the ports of Seattle and Tacoma in Washington and the port of Vancouver in British Columbia. While local shippers and manufactures historically generated a balanced volume of export traffic to Asia, growth in exports has declined and is significantly outpaced by import volumes.
- 4. East Coast Maritime Intermodal** – In terms of containerized intermodal traffic, the Study Area is oriented towards east coast marine ports, largely due to proximity. The dominant east coast maritime container gateways for the Study Area are the marine terminals at the Ports of New York and New Jersey. However, Canadian maritime container ports at Montreal and Halifax are the fastest growing east coast gateways for the Study Area. Other U.S. east coast ports include Philadelphia and Baltimore. Currently, container traffic between the U.S. east coast port gateways and the Study Area are exclusively trucked directly to/from the marine terminals, adding a significant transport penalty to local shippers.

Container traffic to and from east coast Canadian ports are predominately trucked to and from rail heads in Toronto and railed onward to the marine terminals in Montreal/ Halifax.

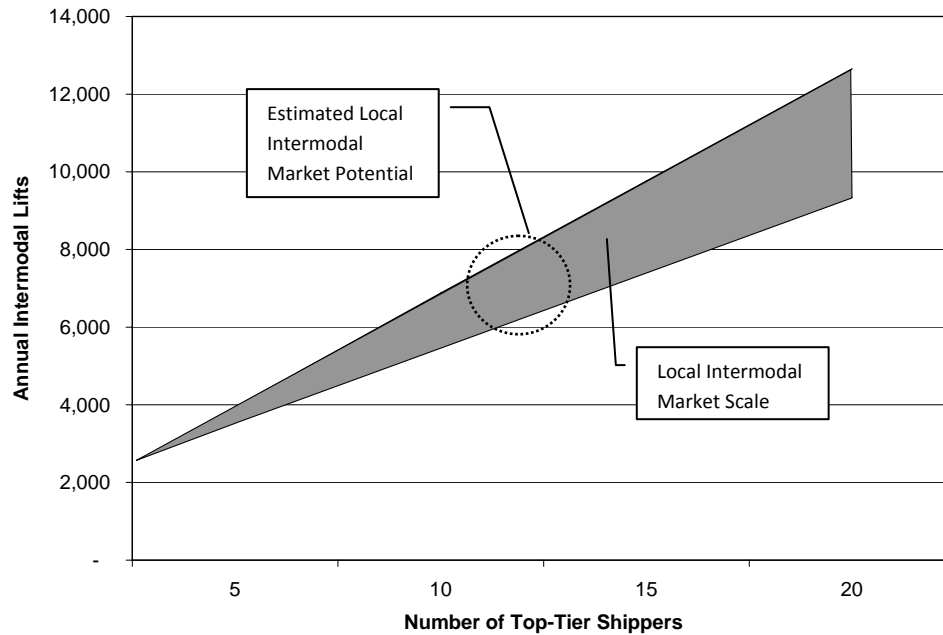
ESTIMATE OF THE SIZE AND CHARACTERISTICS OF THE LOCAL INTERMODAL MARKET

Estimate of the Current Local Intermodal Market

The Study Area's intermodal market is limited. Based on a sample-sized market survey conducted as part of the study, the Study Area is characteristically small in terms of the size of the shippers and the size of the aggregate market. The top tier shippers in the Study Area generate a range of 100 to 1,000 containers each annually. If five of the Study Area's top-tier shippers were convinced to use a local intermodal yard, it would generate between 3,500 and 4,000 lifts annually. With ten of the top tier shippers, it would generate 5,600 to 6,500 lifts annually. With twenty, it would generate 9,000 to 13,000 annual lifts. Based on the level of detail used for this market analysis it is difficult to accurately estimate the number of top tier shippers that exist and their propensity to shift to intermodal rail. On the other hand, it is important to note that this level of market analysis will inadvertently underestimate the potential for containerized traffic. The reason is that this market is characteristically a truck market. In other words, the potential containerized market is not fully measurable since the bulk of the shipments is shipped by truck and hence is not containerized. Due to the lack of intermodal service in the region, the full potential for container service is not yet realized. A good illustration of this point is the now successful Virginia Inland Port (VIP) where 95% of the intermodal traffic it handles for the port of Norfolk is new business, which either was not measurable before the project was developed, or existed in a latent form, or has been generated as a result of improved cost efficiencies in the local market.

Another good measure is the overall rail market in the Study Area, specifically the carload business. The WNYP, after its recent acquisition activities, handles approximately 6,000 to 7,000 cars annually. While it is important to note that there is a significant difference between intermodal markets and carload markets, the carload market does provide a measure of scale. Based on the market survey data and the scale of the existing carload market, it is estimated that the local intermodal market could generate 6,000 to 8,000 lifts annually.

Exhibit 4 –Graph Illustrating the Potential Local Intermodal Market Scale



LOCAL INTERMODAL ISSUES AND OPPORTUNITIES

There are several **issues** relating to potential intermodal operations at the Olean Yard.

1. Study Area Shippers Burdened By Significant Freight Transport Costs

Local shippers pay a significant freight penalty (through high truck drayage costs) to ship containerized traffic. The Study Area does not have a direct rail intermodal service, therefore shippers are forced to pay a premium for truck drayage service to and from intermodal rail heads in surrounding markets. Shippers using the east coast U.S. ports pay the largest premium. The two-way cost to dray a container between the Study Area and the New York terminals is approximately \$1,500, representing roughly 40% of the total transport cost for a shipment between the Study Area and Europe, and 25% of the total transport cost between the Study Area and Hong Kong. In comparison, for traffic through the west coast ports, a two-way return cost for a tuck dray between the Study Area and Buffalo is \$350, representing roughly 6% of the total transport cost between the Study Area and Hong Kong. Two factors contribute to this price disparity. First, the truck dray distance between the New York marine terminals and the Study Area is significantly longer than between the Study Area and Buffalo.

