

**Final Report**  
**Statement of Feasibility**  
**and Feasibility Report**



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**SUBMITTED TO**

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December 2007

## Table of Contents

<b>INTRODUCTION</b>	<b>1</b>
<b>OVERVIEW</b>	<b>2</b>
<b>STATEMENT OF FEASIBILITY</b>	<b>4</b>
<b>PHASING OF PROJECT DEVELOPMENT</b>	<b>11</b>
<b>PREREQUISITES FOR PHASE I SUCCESS</b>	<b>12</b>
<b>PRELIMINARY PHASE PHYSICAL ASSET &amp; PROJECT DESIGN REQUIREMENTS</b>	<b>14</b>
<b>POTENTIAL INSTITUTIONAL AND FUNDING APPROACH</b>	<b>15</b>
<b>RECOMMENDATIONS FOR EVOLUTION FROM PHASE 1 TO PHASES 2 AND 3</b>	<b>17</b>
<b>CONCLUSION</b>	<b>19</b>

## Appendix

<b>PHASE 2 – INTERMODAL CONTAINER TRAFFIC AND SATELLITE MARINE FACILITY</b>	<b>A-1</b>
<b>PREREQUISITES FOR SUCCESSFUL PHASE 2 IMPLEMENTATION AND OPERATION</b>	<b>A-1</b>
<b>KEY TRENDS AND MARKET FACTORS IN THE INTERMODAL MARKET</b>	<b>A-2</b>
<b>ESTIMATE OF THE SIZE AND CHARACTERISTICS OF THE LOCAL INTERMODAL MARKET</b>	<b>A-4</b>
<b>LOCAL INTERMODAL ISSUES AND OPPORTUNITIES</b>	<b>A-5</b>
<b>STRATEGIC DEVELOPMENT OF AN INTERMODAL CONTAINER OPERATION AND SATELLITE MARINE TERMINAL</b>	<b>A-9</b>
<b>MODAL COMPETITION</b>	<b>A-15</b>
<b>PRELIMINARY PHASE 2 PHYSICAL ASSET PROJECT DESIGN REQUIREMENTS</b>	<b>A-17</b>
<b>POTENTIAL INSTITUTIONAL AND FUNDING APPROACH</b>	<b>A-18</b>
<b>PHASE 3 – BUSINESS AND LOGISTICS PARK</b>	<b>A-18</b>
<b>PREREQUISITES FOR SUCCESSFUL PHASE 3 IMPLEMENTATION AND OPERATION</b>	<b>A-19</b>
<b>BUSINESS AND LOGISTICS PARK ISSUES AND OPPORTUNITIES</b>	<b>A-20</b>
<b>STRATEGIC DEVELOPMENT OF A BUSINESS AND LOGISTICS PARK</b>	<b>A-26</b>
<b>PRELIMINARY PHASE 3 PHYSICAL ASSET PROJECT DESIGN REQUIREMENTS</b>	<b>A-31</b>
<b>POTENTIAL INSTITUTIONAL AND FUNDING APPROACH</b>	<b>A-32</b>

## **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:

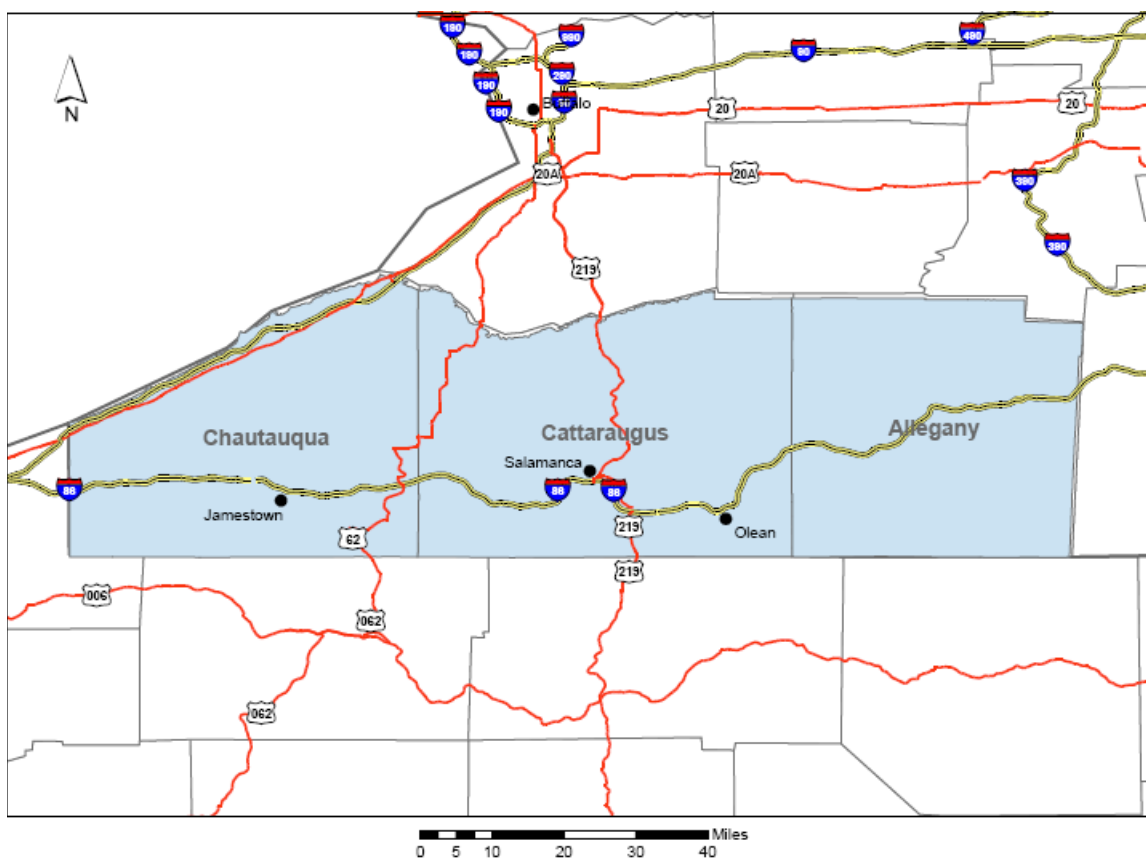
- (a) To study the feasibility of siting a business or industrial park center within the specified three county region,
- (b) To evaluate provided site alternatives and select a preferred site for its location,
- (c) To undertake certain specific planning work at the selected site (e.g., preliminary 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.

## 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**



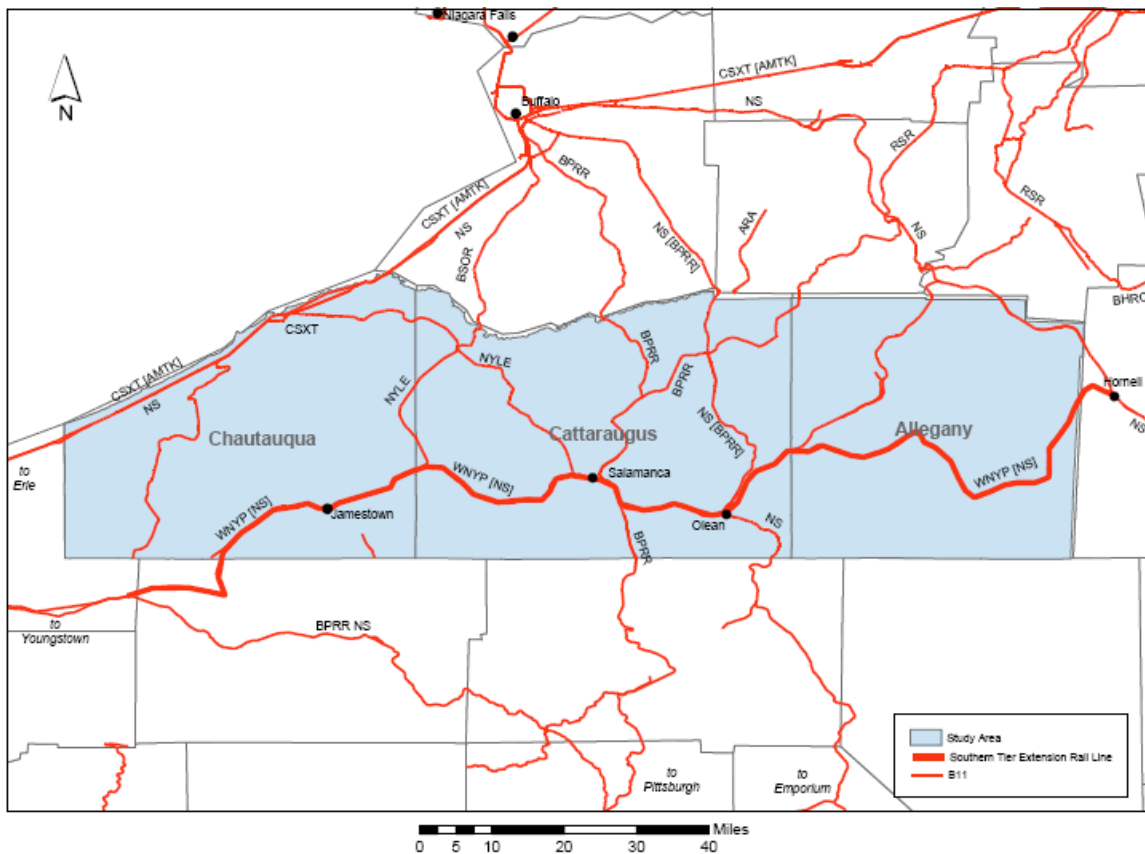
The Study Area includes the counties of Allegany, Cattaraugus, and Chautauqua with a total population of approximately 275,000 and a labor force of approximately 130,000. The major urban areas and population centers are Jamestown (31,730), Olean (15,347), Dunkirk/Fredonia (23,837),

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 states<sup>1</sup>.

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.

<sup>1</sup> 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.

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<sup>1, 2, 3, 4</sup>.

- 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).

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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"> <li>• Dry Bulk</li> <li>• Liquid Bulk</li> <li>• Aggregates</li> </ul>	<ul style="list-style-type: none"> <li>• Bulk equipment - e.g. conveyor system, pump &amp; tank systems, etc</li> </ul>	<ul style="list-style-type: none"> <li>• Use existing tracks</li> <li>• 2-3 working short-tracks</li> <li>• Spaced for equipment</li> <li>• Hold up to 20 cars</li> </ul>	<ul style="list-style-type: none"> <li>• Warehousing</li> <li>• Cross-dock</li> <li>• Logistics/Distribution</li> <li>• Transloading</li> </ul> <p>(Phase 3)</p>
Commodity Group B (Phase 1)	<ul style="list-style-type: none"> <li>• Break Bulk</li> <li>• Palletized Cargo</li> <li>• Lumber</li> </ul>	<ul style="list-style-type: none"> <li>• Break bulk equipment - e.g. crane, fork lift, etc</li> </ul>	<ul style="list-style-type: none"> <li>• 50-70K SF warehouse</li> <li>• Loading dock along short track</li> <li>• Food-grade ready</li> </ul>	
Commodity Group C (Phase 2)	<ul style="list-style-type: none"> <li>• Containerized</li> </ul>	<ul style="list-style-type: none"> <li>• Container handling equip. - e.g. crane, fork lift, etc</li> </ul>	<ul style="list-style-type: none"> <li>• Initially – Group A tracks</li> <li>• Ultimate - dedicated yard &amp; tracks</li> </ul>	

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 intermodal<sup>1</sup> rail services. While there exist some traditional bulk and breakbulk (box car and carload) services provided by the local short line

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<sup>1</sup> 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.

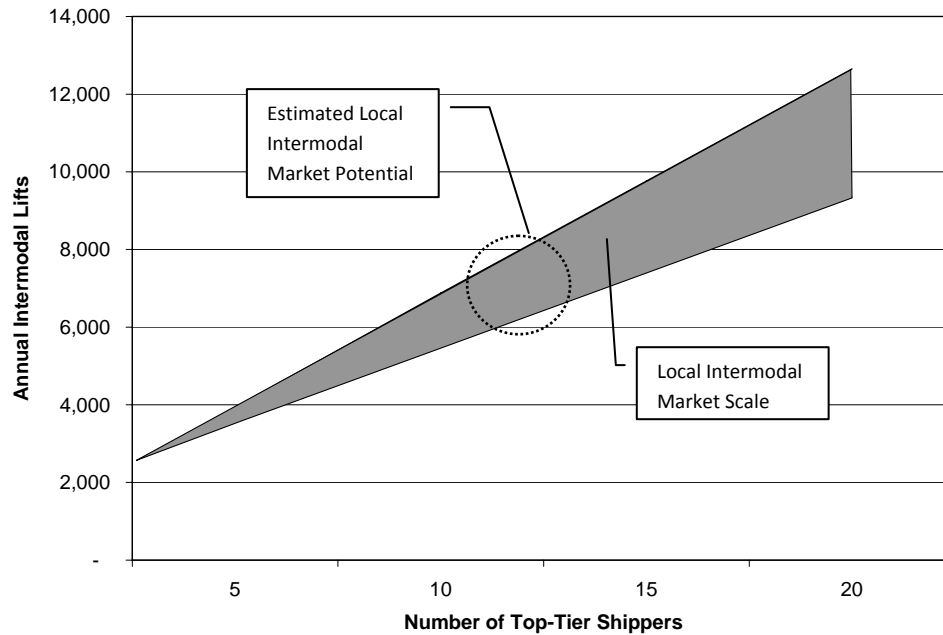
## **ESTIMATE OF THE SIZE AND CHARACTERISTICS OF THE LOCAL INTERMODAL MARKET**

### **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**



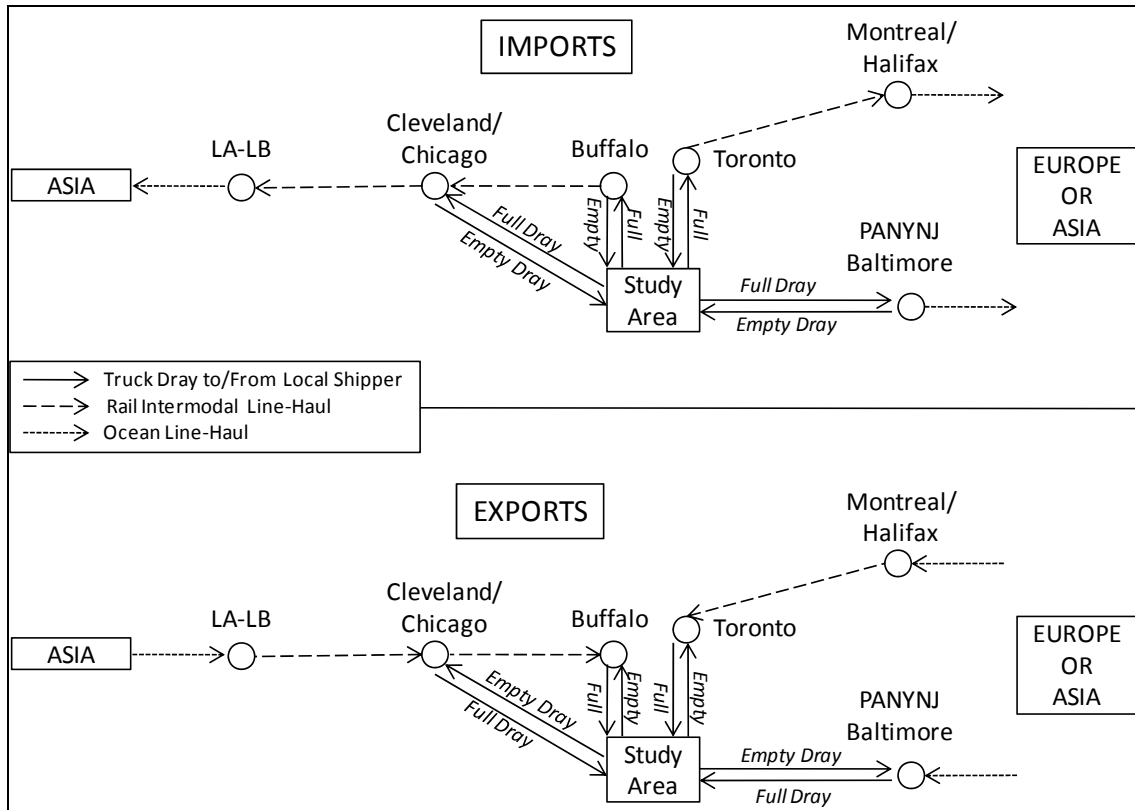
**LOCAL INTERMODAL ISSUES AND OPPORTUNITIES**

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.

**Exhibit 5 – Intermodal Shipments to and from Major Port Gateways Require Long Truck Dray Trips to Rail Yards**



Second, truck costs per mile are significantly higher than rail costs per mile, providing an additional penalty to shipments that have portions with significant truck mileage across the shipping trip chain. This is a growing issue for the Study Area particularly given the increase in all-ocean shipping between Asia and the east coast ports. As the east coast ports continue to gain market share for Asian trade, markets such as the Study Area which are underserved by intermodal service will increasingly be penalized.

**2. Trucking Currently Offers the Best Service and Most Reliable Option**

While local shippers pay a premium for the truck dray, they enjoy premium service and reliability. Local shippers operate on tight schedules and require quick turnarounds on their shipments. Despite the high premium for truck shipments to the New York terminals, local shippers are able to deliver a loaded container within fifteen hours of the time the empty container leaves the New York marine terminal. As a result, the shippers enjoy the luxury of a planning lead time as short as three to five days. This allows the shippers greater flexibility in terms of production, raw materials and warehouse management. The local perception is that a rail intermodal shipment would take significantly longer (several days), and the planning lead time would have to be several weeks out.

However, there also are several **opportunities** that intermodal container service from the Olean Yards could take advantage of.

### **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.

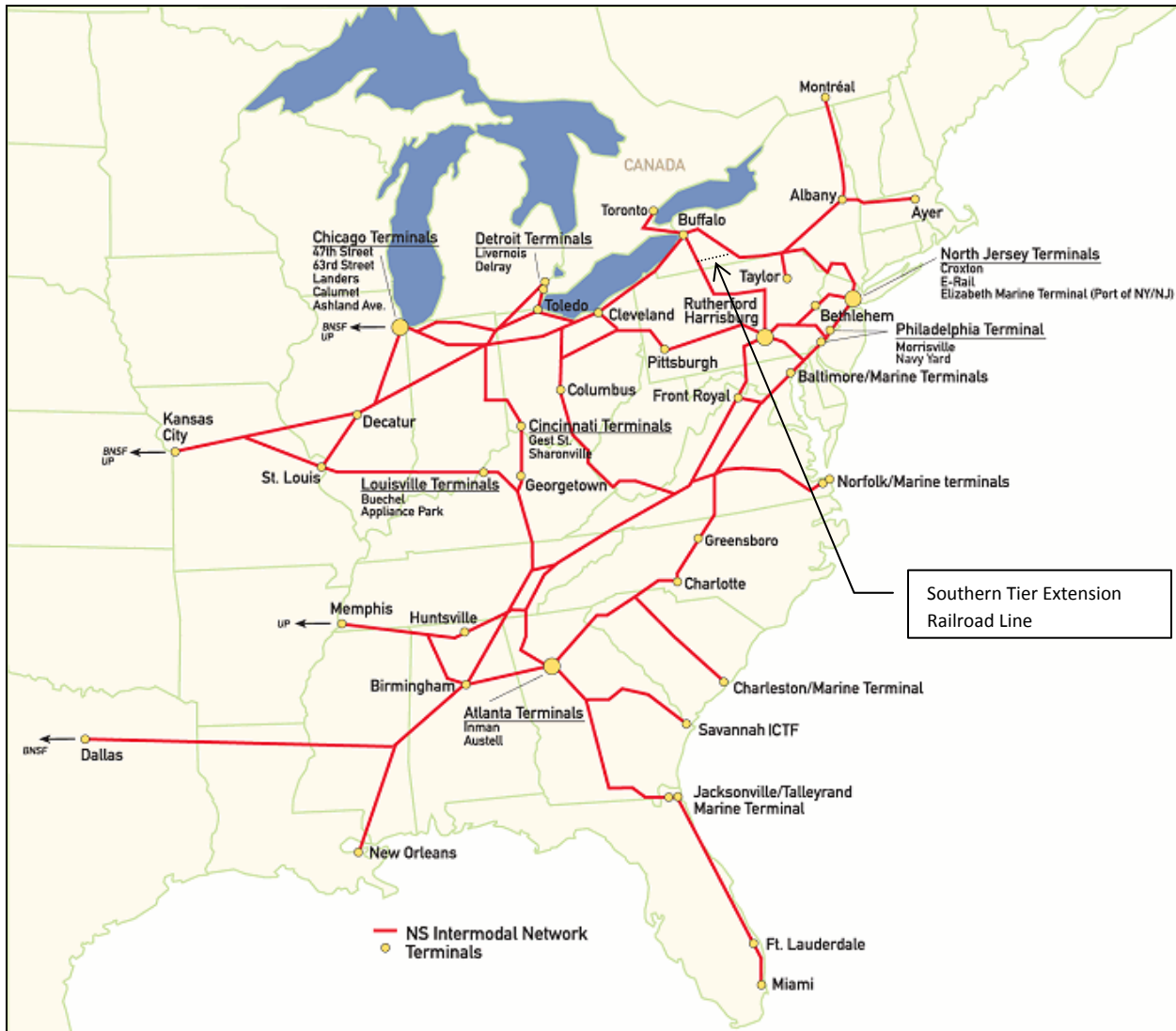
### **2. Part of a National and International Railway Network**

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. Feasible Site for an Intermodal Facility**

The Study Area has an ideal site for developing an intermodal facility. As indicated earlier, in a prior phase of this study, approximately twenty sites were identified and evaluated for their feasibility to develop freight transfer facility operations (general transload operations and ultimately intermodal container operations). Based on its linear characteristics, available trackage, location within the local catchment market, adjacent land, direct access to the Southern Tier Extension line, and other site selection factors, the Olean Yard, a WNYP railroad yard that formerly had been a NS switching yard, was selected as the ideal location for the development of freight transfer facility operations.

**Exhibit 6 – Map of the Norfolk Southern Railroad Intermodal System**



Source: Norfolk Southern.

**4. East Coast Canadian Ports Gaining Market Share**

The east coast Canadian marine container gateways are gaining market share from the U.S. east coast container ports. Largely due to the lower relative truck dray cost to and from the Canadian rail heads in Toronto (compared to New York), combined with reliable intermodal service to the ports in Montreal and Halifax, shippers are increasingly choosing intermodal service through Canada. More accurately stated, logistics service providers and freight forwarders are increasingly offering these types of services to their customers in order to provide lower cost and more competitive service. For example, Hapag/Lloyd recently started pricing a service between Olean and

Montreal/Halifax through Toronto. The service providers are overcoming the service and reliability issue by pooling containers at the terminal in Toronto. The result is a quicker turnaround for the shipper and a shorter production and supply chain planning lead time.

## **5. Long Term Market Dynamics**

In addition to the projected potential current 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. Over time, an aggressive local transload facility that is working to develop container traffic and working to develop a partnership relationship with one or more ports may be able to offer a port, such as the Port Authority of New York / New Jersey, some relief from their incoming freight bottleneck by its ability to act as a satellite marine terminal. The capture of this rapidly expanding Asian market and its impact on the eastern ports will in coming years provide a real opportunity not traditionally available to a transload operation such as that proposed for the Olean Yard.

## **STRATEGIC DEVELOPMENT OF AN INTERMODAL CONTAINER OPERATION AND SATELLITE MARINE TERMINAL**

Given market dynamics and the list of essential elements required for successful implementation and operation of intermodal container operations and a satellite marine terminal at the Olean Yard, strategic development of the intermodal container and satellite marine terminal operations will require the following:

### **1. Secure Class 1 Rail Partnership**

Intermodal capacity in the United States has grown significantly and is projected to continue growing into the future as the intermodal market grows. Traditionally, intermodal lift capacity has been developed by the common carrier railroads to serve their own needs. In addition there have been instances of intermodal projects that have been initially developed by a variety of entities in order to encourage increased intermodal service within specific markets.

History shows that projects developed by the railroads themselves are largely successful. Projects developed by third parties without any railroad involvement have not been sustainable over the long term. Projects developed by third parties that ultimately attracted a railroad partner have usually succeeded.

Therefore it is imperative to develop the intermodal facility in the Study Area with a railroad partner in place. Attracting the WNYP as a partner is an important first step towards success. Building on this partnership by attracting a Class I railroad partner to offer a priced service to and from the proposed intermodal facility at the Olean Yard, either through a dedicated daily train service or to add a partial block train to a regular through service, is equally imperative.



## **2. Attain Local Market Lift Threshold Necessary for a Feasible Intermodal Operation**

As indicated above, intermodal container service at the Olean Yard location will require securing a Class 1 rail partner that will offer price-competitive and reliable scheduled service. However, in order to capture the attention of a Class I partner, a local market needs to generate a significant enough volume. A minimum feasible market threshold is roughly 20,000 lifts annually. In other words, in order to for a Class I railroad to offer a priced service to and from a local intermodal facility, either through a dedicated daily train service or to add a partial block train to a regular through service, a local market should have the capacity to generate at least 70-80 container cars a day.

As indicated above, 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.

Accordingly, to surmount this obstacle, either local market demand will have to grow to meet this threshold volume of 20,000 lifts annually, or the facility will have to attract a partnership with one or more ports as a satellite marine terminal, or some combination of these two strategies.

## **3. Utilize a Hybrid Design Model for Proposed Intermodal Container Facility**

A case study of recent intermodal projects reveals a variety of approaches and models for developing intermodal facilities around the world.

- **Satellite marine terminals** act as extensions of marine container gateway seaports, examples of which are the Virginia Inland Port, Metroport in New Zealand and the Inland Container Depot in Thailand.
- **Multi-modal logistics parks** use a range of multi-modal infrastructure such as air, rail, truck and ocean as the core to developing business and industrial parks, with a focus on anchor tenants that are transportation intensive. Examples include Alliance, Texas, Port of Huntsville, Alabama, Rickenbaker-Columbus Inland Ports, and Logport in Duisburg Germany.
- **Rail intermodal parks** are exclusively rail focused (with truck interface) and are typically developed by the railroads themselves or by public-private entities for the purpose of attracting new intermodal service. Recent examples include the Joliet Arsenal and Global III (both in Chicago), the Port of Quincy in Washington, the Neomodal project in Ohio, the Detroit Intermodal Freight Terminal, and the Port of Montana.
- **Trade processing centers** are developed to shift some of the trade related activity away from congested ports and border crossings to inland locations, with a specific focus on regulatory trade processing functions such as customs. Recent examples include the Port of Battle Creek, the Kingman Arizona Trade Processing Center and the Greater Yuma Port Authority.

The use of a flexible intermodal development model is critical to the success of the development of intermodal service in the Study Area. Given the size of the local market, the need for local consolidation services and economic development to build additional traffic, the Study Area's connectivity to national rail networks and global port gateways, and growing congestion at these ports, it is critical that the intermodal development approach applied in the Study Area contain a blend of the four models discussed above, using elements from each as appropriate.

#### **4. Phase the Intermodal Project and Build upon Specific Models**

This report recommends that the intermodal project in the Study Area be phased, building from one model to the next. A likely feasible approach is to build on the existing carload customer base to attract local intermodal traffic.

The experience with the VIP project reveals that the local intermodal market will likely grow gradually, taking several years to reach the so-called minimum desired threshold of 20,000 lifts annually. While the VIP currently generates in excess of 40,000 lifts annually and enjoys daily scheduled service provided by the NS, the initial years generated less than 10,000 lifts annually.

Therefore, it is important that the intermodal operator and marketer accomplish the following:

- Extend the model beyond the traditional carload and intermodal operation and evolve it into an extension of a large marine port such as the Port of New York/New Jersey.
- Partner across the entire supply chain to offer marketing and pricing for the entire trip chain between the foreign market and the inland market through the intermodal facility.
- Build local densities by attracting consolidation activities and container management activities at and around the intermodal operation, specifically located at a multi-modal logistics center with foreign trade zone status.
- Partner with the U.S. Customs and Border Protection agencies to offer trade processing services inland from the gateway ports will also increase the attractiveness of the facility.

The following text expands on each of the above recommended strategic initiatives.

#### **5. Develop Role as a Satellite to the Ports of New York/New Jersey**

While there are several factors which make development of an intermodal facility in the Study Area a viable potential, the size and scale of the local market presents a significant challenge to its long-term sustainability. While the Study Area has a viable site which is located on a short line, connected to a national railway network that leads to major intermodal markets and port gateways nationwide, as well as a willing and able local short line operator to provide the service, focusing solely on the local intermodal market will not generate traffic volumes that are significant enough to attract the long-term commitment of a Class I railroad. Attracting a Class I railroad as a long-term partner is an

absolute prerequisite.

One specific market segment that presents significant potential for increased traffic (and result in attracting a Class 1 partner) is Asian trade through the East Coast container gateway ports such as the Port of New York/New Jersey. As a result of growing Asian trade traffic, container traffic through the Port of New York/New Jersey are expected to grow from a current level of approximately 4.7 million TEU's (approximately 2.8 million containers) to a level of 15 million TEU's by 2030 (8.7 million containers). One of the ways in which the port intends to accommodate this growth in traffic is to increase on-dock rail services so as to shift truck traffic to rail and minimize the impact on the highway system.

The challenge is that east coast ports like the Port of New York/New Jersey are predominately truck driven markets. Despite its plans to expand on-dock intermodal capacity from a current level of 227,000 lifts annually to 1 million lifts by 2020 and 2 million lifts by 2040, the current market share served by rail intermodal services will remain constant at around 10% of total traffic (compared to approximately 50-55% for the Ports of Long Beach and Los Angeles and 70-75% at the Port of Tacoma).

In order for the Port of New York/New Jersey to execute its intermodal expansion plan, it plans to rely on a Port Inland Distribution Network (PIDN) to connect the port with clusters of inland origins and destinations. The concept will be setup to attract and collect traditionally truck traffic to inland staging areas for transfer to rail and barge transport modes. In effect, the PIDN moves the truck gates away from the congested ports to more remote inland locations.

The developer and operator of the proposed intermodal facility in the Study Area should make every effort to be folded into the PIDN thereby increasing its role as a satellite to the Ports of New York/ New Jersey.

The bulk of the largest inland origin and destination clusters are within close proximity of the ports, east of the Study Area, and likely do not offer significant potential for the Study Area. However, 33% of the container volumes are trucked to and from locations west of the Study Area. In other words, 1/3 of the Port of New York/New Jersey container market (741 thousand TEUs) are currently being trucked over distances that make them potentially intermodal captive, specifically at an intermodal facility in the Study Area. Moreover, 60% of these shipments originate/terminate from locations within a ten-hour drive time of the Study Area, and 36% are within eight hours of the Study Area.

From a market potential standpoint, between 270,000 TEU's (160,000 containers) and 440,000 TEU's (260,000 containers) could be targeted by an intermodal facility in the Study Area. By 2030, these volumes are expected to triple to between 470,000 and 770,000 containers.

In comparison to the local intermodal market, securing a role as a satellite to the larger gateway ports presents the greatest upside potential for the success of the operation, particularly from the standpoint of securing the long-term partnership with a Class I railroad.

## **6. Partner Across the Entire Supply Chain**

If operating as a satellite to a large gateway port is critical to attracting a Class I partner, then partnering across the entire supply chain becomes an equally important objective. A case study of successful intermodal operations that operate as satellite marine terminals reveal that a comprehensive supply chain based approach to partnering is critical to success as a satellite marine terminal. There are three successful cases that underscore the importance of such an approach, specifically the Virginia Inland Port (VIP), Metroport New Zealand and the Inland Container Depot (ICD) in Bangkok Thailand.

- In the case of the VIP, the Virginia Ports Authority owns and operates the marine terminals at the port of Norfolk as well as the inland port terminal. Norfolk southern provides the rail service and railcars between the inland terminal and the marine terminals. The marine carriers are the customers. The railroad and the port terminal operator work jointly to market and price a service between foreign markets and inland locations through the inland port.
- Much like the VIP, Metroport in New Zealand is used as an extension of the Port of Auckland to access customers in the inland industrial regions. The port and the railroad work jointly to own, operate, market and price services from foreign destinations to inland locations through the inland port.
- The ICD in Thailand was developed jointly by the port authority, the railroad authority, and the ocean carriers. They work jointly to own, operate, market and price services from foreign markets to inland markets through the ICD.

All three are successful projects annually handling approximately 40 thousand, 120 thousand and 1.1 million lifts respectively.

In order for the intermodal operation in the Study Area to successfully evolve into a satellite marine terminal, it needs to partner with a major Class I railroad (as stated earlier to succeed as a basic intermodal operation) as well as with the gateway port owner and operators and with the ocean carriers. Services through the proposed inland location will need to be priced as part of the total trip chain, between the foreign market and the inland market through the intermodal facility.

## **7. Encourage Provision of Consolidation Services**

The price and quality of freight transportation service is typically a function of volume. The larger a specific freight market, given equal access, the better the level of service and lower the overall transportation costs. The Study Area is characteristically small both in terms of aggregate size and in terms of individual shippers. As a result, the market as a whole is underserved, and individual shippers are under-served and pay premium prices.

While the only way to increase service for the overall market is to attract additional volumes into the

market, services and prices for individual shippers could be improved through consolidation. By consolidating small less-than-full-load shipments into full-load shipments, shippers are able to reduce transport costs between 10% and 30%.

The development of a consolidation center near an intermodal facility will allow the consolidation of small shipments across a broader range of shippers, providing significant benefits to the shippers. This is true for traditional carload shipments as well as intermodal container shipments. The consolidation and transloading of small shipments into containers will also increase the potential market for container traffic through the facility thereby improving its viability.

Transload container traffic is one of the fastest growing modal markets in the U.S. Moreover, the de-emphasis of the Class I railroads on the traditional small market carload business presents an additional opportunity for initiating the proposed project. The WNYP currently operates a viable traditional carload operation in the region. As the Class I railroads increasingly de-emphasize this business, it increases the long-term viability and role for the WNYP in serving the Study Area. Moreover, this increases the potential for intermodal business development, setting the stage for accessing and securing intermodal business customers.

## **8. Encourage Provision of Container Pooling Services and Container Management Techniques**

The practice of **pooling containers** at intermodal yards and rail heads improves the level of service offered to local shippers. Container pooling is a practice to compensate for imbalances in the supply chain, specifically with regard to the supply of containers. Imbalances in the supply of containers can occur for a variety of reasons, the most common of which is an imbalance between imports and exports. Underserved small and regional markets, such as the Study Area, typically experience an undersupply of available containers.

In order to improve the level of service to key customers as well as to reduce cycle times, third party logistics service providers often pool containers at a central location within close proximity to key customers. Container pooling services are typically offered in exchange for a guarantee of a threshold level of traffic from the recipient customer.

Container pooling can offer an important advantage for improving intermodal rail cycle times and service levels to compete with trucking. Pooling containers at a location within close proximity of the shippers reduces the required cycle time for ordering equipment as well as reduces the overall transportation time. Pooling at the current yards in Buffalo allows third party logistics service providers to offer a more reliable service to local shippers and reduce lead times.

Storing a market balanced number of containers at the proposed Olean intermodal facility will increase its feasibility. Improving level of service to local shippers (reliability and shorter planning windows) will enhance the marketability of the facility.

State-of-the-art **container management techniques** also offer opportunities for shipper savings and efficiencies. The term “Virtual Container Yards” is used to describe the practice of using

information and communications technology to improve the efficiency and productivity of container handling and movements to, from, and within container yards, including marine terminals and rail terminals. Virtual container yards are also used to match empty containers between importers and exporters thereby reducing the number of trips to and from container yards, improving the efficiency of the supply chain and improving the productivity of the carriers. This report recommends encouraging the adoption of virtual container yard technology at the onset of container operations to provide maximum efficiencies from the start of operations.

## **9. Seek Designation as Foreign Trade Zone and Encourage Trade Processing Services**

This report recommends seeking designation of selected sites as appropriate as either a Foreign Trade Zone (FTZ) or Sub-zone. This designation confers certain freedoms from import duties and regulations for goods imported into an FTZ while those goods are being stored or processed prior to their eventual importation into this country or export to a third country. Accordingly, this designation provides an incentive for the location of certain manufacturing and distribution operations to import sites (e.g., sites affiliated with satellite marine terminals, etc.) that are so designated. This is discussed in greater detail in the Appendix for Phase 3, although activity related to seeking designation or partnering with a parent FTZ could begin in the second phase of operations.

Another related incentive that can attract both importing and exporting operations is the presence of trade processing services on-site at the intermodal container facility. This report recommends partnering with the U.S. Customs and Border Protection agencies to encourage the offering of trade processing services in combination with logistics services. The ability to receive such services at an inland location, removed from the gateway ports, also will increase the attractiveness of the facility and encourage location of trade related activities at the Olean Yard location.

## **MODAL COMPETITION**

The development of a multi-modal freight transfer facility and manufacturing center raises specific questions about modal competition and the success of such a facility given existing and future modal market competitive factors. There are essentially two fundamental mode competitive factors that influence the success of the proposed facility. The first is competition from the trucking industry and the second is competition from other proposed intermodal facilities.

### **Potential Competition from the Trucking Industry**

In understanding the first fundamental factor it is important to outline the overall modal market segmentation of the Study Area. The Study Area is dominated by trucking which handles approximately 90% of the tonnage volume of all shipments to and from. Rail handles approximately 10%. Inbound and outbound traffic is generally evenly balanced for trucking, with 40% inbound and 60% outbound. The rail volumes are predominately inbound (85%). The trucking sector, because of its market dominance, represents the greatest competitive threat for the success of the proposed

facility.

History shows that the introduction of a new modal service typically results in improved service and lower pricing from the trucking industry. Therefore, it is very likely that if a rail intermodal facility and service is successfully developed in the Study Area, trucking prices along competing lanes will be reduced to maintain market share. In past cases, operators and owners of new modal services have partnered with freight forwarders to help sell their services. But because freight forwarders provide a service to (and remain loyal to) shippers whereby they secure the lowest cost with predictable service levels, their typical response is to initiate competition with the trucking industry to secure lower prices from that mode. Often times this leads to comparable prices across the modes, leaving trucking with the advantage of service reliability and hence gaining back market share. The best approach for developing a long-term sustainable pricing structure is to partner with a Class I railroad as well as with the ports and the ocean carriers who are more likely to remain committed to long-term mode shift policy objectives that reduce congestion at the ports and improve overall service reliability to their overseas customers.

It is also important to note that the development of the proposed facility does not pose a major threat to the success of the trucking industry. The proposed volumes through the facility likely represent approximately 5-10% of the incremental growth in the local market. Moreover, the proposed facility is to be developed in the future and is hence likely to target a share of the growth increment of future demand, as opposed to current demand in the Study Area. As an example, 90% of the volumes through the Virginia Inland Port is new traffic, not existing traffic.

### **Potential Competition from Other Intermodal Facilities**

The second area of competition is from the development of other intermodal facilities that could potentially tap into the local catchment area. One example is the proposed development of a CSX intermodal facility in Lackawanna near Buffalo. This report recommends an aggressive effort to attract a partnership relationship with the NS railroad. Rail carriers essentially serve their markets and customers using their own respective networks. By partnering with the NS, the proposed facility will secure access to one of two primary Class I railroads that serve this market and surrounding states, hence improving its competitive position versus other competing intermodal facilities. Given that the NS, if it partners with the proposed facility, will factor the new facility into the overall network and market system, careful not to create competition within its own network. Hence, competition from a rail perspective is elevated to the network/system level, NS versus CSX, as opposed to facility versus facility.

It is important to emphasize that competition from another yet to be developed intermodal facility is less imposing than competition from the trucking sector. The success of the proposed facility hinges on an aggressive strategy to capture market share from trucking, specifically a share of the incremental growth in future truck traffic. Success will not result from a strategy focused on competing for conventional rail traffic. A truck focused market development strategy essentially neutralizes competition from one or more yet to be developed intermodal facilities.

## **PRELIMINARY PHASE 2 PHYSICAL ASSET PROJECT DESIGN REQUIREMENTS**

The intent of Phase 2 of the project is to have the facility evolve into intermodal container operations and subsequently into a functional relationship with the Port Authority of New York / New Jersey as a satellite marine terminal for the Port gateway. As is discussed in the Appendix section on Phase 3 of the project, success in attracting shipping companies and logistics service providers to locate facilities adjacent to the intermodal rail yard also will be crucial in growing market demand for the freight transfer facility. All of these elements are crucial as regards increasing sustained market demand for the freight transfer facility to threshold levels for sustainable intermodal container operations and satellite marine terminal operations. These three elements – intermodal container service, satellite marine terminal status, and increased shipping activities by shippers attracted to site facilities near the project facility – all thus are mutually interdependent and required for sustainable success. Of course, the long term competitive health of Study Area businesses – both existing and those attracted to siting new operations in the Study Area – and the jobs and tax base created by those businesses, are the ultimate goals of the freight transfer facility project.

The intermodal container facility developed in Phase 2 will require adequate space for handling and storing containers and for truck parking and movement. Initial expected volumes are at 6,000 rail cars annually. However, the intermodal container facility operations need to be sized for an ultimate anticipated volume of 20,000 rail cars annually.

The physical specification of the intermodal container facility also should take into account the need to make Phase 2 build-out not inconsistent with the build-out requirements (or at least desires) of Phase 3. Phase 3 will involve ancillary activities such as warehousing, cross-dock, logistics/distribution and transloading, some of which might most effectively be located within the intermodal container facility. Other such facilities and operations could be located at various scattered sites that in total comprise the Business and Logistics Park.

The preliminary engineering work to be conducted subsequent to this report will provide greater design and cost detail for facilities and other required site improvements to be constructed. As has been noted elsewhere herein, the types of commodities to be anticipated will evolve through various phases of facility development. Consequently, the preliminary engineering conducted subsequent to this report may need to be revised per changing circumstances. Hence, Phase 1 of this report notes that the initial preliminary engineering and design should focus on the facilities needed for Phase I (Commodity Groups A and B), but also show the prospective overall space and layout requirements for the subsequent phases. Additional project specification and updated preliminary engineering would be prepared as the project evolves. As indicated above, final intermodal facility build-out should reflect a design capacity of 20,000 rail cars annually.

## **POTENTIAL INSTITUTIONAL AND FUNDING APPROACH**

There are several alternative opportunities for the involvement of the private sector in Phase 2 of the project.



- Owner / operator or lessee /operator of the intermodal container facility contemplated in Phase 2 of the project
- Real estate developer and lessor of other facilities within the intermodal container facility to project tenant businesses

These alternatives imply potentially differing levels of expectation regarding the need for incentivizing and subsidizing their operations on behalf of the project. In particular, it may be necessary to subsidize operations of the intermodal container facility during the initial period until traffic volumes exceed threshold breakeven levels. Incentives also might be required to induce private sector build-out of the intermodal container operation.

An alternative that should be considered, and which will be explored in greater detail in the Strategic Development Plan phase of this study project, is public sector or private non-profit corporate (Local Development Corporation, or LDC) development of the intermodal container facility, combined with a lease to a private sector operator and possibly ultimately a sale to a private sector owner.

There should be some consideration given to recouping substantial public sector investment in access, infrastructure, and other improvements to the intermodal container facility. It may be possible to structure a private sector development deal, or in the case of a public sector or non-profit development scenario, a private sector sale transaction, so that it recoups from profits the municipal or LDC costs of implementing site improvements (e.g., site work, build-to-suit facilities, infrastructure improvements, access roads, etc.) essential to intermodal container facility operations on that site.

The potential use of existing institutional tools provided by project partners (e.g., County of Cattaraugus Industrial Development Agency, Cattaraugus Empire Zone, STERA, etc.) and the potential use of an existing LDC or LDC- or LDC's-to-be-formed have been discussed in the Phase 1 discussion. These organizations may provide the legal capacity to undertake certain projects (including real estate projects) and the statutory eligibility to receive state, federal, foundation, and other sources of grants and loans that would be useful to fund individual project components of the overall project.

The project partners also can expect that there will be eligibility for funding from various state and federal funding programs for various elements of Phase 2 build-out, including:

- intermodal facility and equipment funding
- railroad rehabilitation, railroad yard alteration, and rail siding construction funding
- infrastructure and access road funding
- building construction funding

- general business development incentives, discussed elsewhere herein

In all cases, funding applications should be supported by an eligible sponsor, conform to program eligibility, be supported by preliminary engineering and marketing documentation, and contain commitments by private sector beneficiaries that will create jobs and invest funds in their operations on site.

### **PHASE 3 – BUSINESS AND LOGISTICS PARK**

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, discussed below, involves the development of a Business and Logistics Park, with foreign trade zone designation.

A **Business and Logistics Park**, as the term is used in this report, refers to a scattered site development of acreage on which businesses would be sited. These sites might variously be located in Olean, Allegany, and Hinsdale. Further away, other potential business development sites exist in the Towns of Franklinville and Portville, and in Chautauqua County, western Cattaraugus County, and at the Crossroads Site in Allegany County. Target businesses for location at the proposed park and at these sites would be rail shippers, or vendors to rail shippers. (The siting and operation of companies that are vendors to rail shippers in the Business and Logistics Park would help to encourage the siting of additional rail shippers in the Business and Logistics Park.)

Business and Logistics Park tenants would include manufacturing, warehousing, distribution, logistics, and trucking operations. These companies' operations would involve rail shipment, and the additional traffic represented by these siting of these companies in the Business and Logistics Park would contribute to the success of, first, transload operations at the Olean Yard location, and second, contribute to the evolution to and success of operations to include scheduled Class 1 service, intermodal container operations, and satellite marine terminal operations.

The eventual development of a Business and Logistics Park also is consistent with the overall objective of the initiative, which is economic development, job development, and tax base development.

### **PREREQUISITES FOR SUCCESSFUL PHASE 3 IMPLEMENTATION AND OPERATION**

As indicated elsewhere herein, 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. As these efforts proceed, given that Phase 3 development is likely to require several years too implement, it may become evident that a simultaneous approach to Phase 2 and 3 development might be beneficial in terms of bringing the Phase 3 Business and Logistics Park online in a timely fashion.

Accordingly, many of the prerequisites for successful implementation of the Business and Logistics Park are standard project development and implementation steps for business park or industrial park development. These steps can be outlined as follows:

- Project conceptualization
- Development of a strategic development plan
- Intermunicipal coordination and development of intermunicipal agreements
- Site control
- Regulatory review
- Development of necessary site access and infrastructure to serve sites
- Marketing activities to encourage participation by private sector partners and / or tenants
- Provision of business development assistance and incentives to private sector partners and / or tenants as appropriate

The proposed Business and Logistics Park does present several unique aspects, which also have certain requirements that need to be pursued.

- Foreign Trade Zone or Sub-zone designation
- Customs or Homeland Security regulatory approval for providing trade processing services on-site at the intermodal container facility.

Unlike the intermodal container facility, successful operation of the Business and Logistics Park is likely to be entirely market-driven and dependent upon the operations of private sector for-profit businesses. Accordingly, without a requirement for operations at a sub-break-even level of traffic, ongoing operations of the Business and Logistics Park will not require any ongoing initial subsidization of operations. Once sites are acquired by private sector tenants, public sector involvement in the form of ongoing subsidization of operations will not be present.

## **BUSINESS AND LOGISTICS PARK ISSUES AND OPPORTUNITIES**

There are a number of **issues** related to the development of a Business and Logistics Park:

### **1. Site Control**

As is indicated below, the concept for the Business and Logistics Park is a scattered site park in the area surrounding the proposed Olean Yard facility, as opposed to a single large park. Individual

sites comprising the proposed park are not currently under public control, and may be located in more than one municipality. Some of the sites, including sites north of and adjacent to the east-west mainline, would need to be acquired and aggregated to maximize development potential. The process of acquisition can sometimes be a complex and costly business, and most economic development officials and communities prefer to avoid the occasional need to resort to eminent domain activities if possible.

## **2. Multiple Sites Require Multiple Development Projects**

Planning and developing a scattered site Business and Industrial Park is inherently more complex than planning and developing a Business and Industrial Park on a single contiguous site made up of one or more parcels. In essence, each parcel becomes a separate development project. This is not a total impediment to development. In fact, from one perspective, since various business development initiatives will present themselves at random times over the coming years, it may be advantageous, or at least simpler, to advance and implement each development opportunity separately, as compared to attempting to successfully implement them simultaneously in a much more complex project.

## **3. Multiple Municipalities**

There is an inherent difficulty of coordinating projects that span more than one municipality. Portions of the Olean Yard are located in three municipalities, the City of Olean, the Town of Olean, and the Town of Allegany. The scattered sites that are proposed to comprise the Business and Logistics Park variously are located within these same municipalities. Other developable sites that are relatively nearby are located within the Towns of Hinsdale, Franklinville, and Portville. It is not impossible to coordinate a multi-municipal development project. Constitution Avenue, which is adjacent to the Olean Yard and which is the primary site access to the Olean Yard from the interstate highway I86, was designed and built as a project to create an access corridor highway serving a business park. However, the presence of three municipalities does make the task more complex and politically sensitive.

## **4. Access and Infrastructure**

Certain prospective sites are served by one or more types of infrastructure. Others would need one or more types of infrastructure service extended. In certain sites that could be contemplated as being part of the proposed Business and Logistics Park, there is no infrastructure capacity at all.

Notable in this latter regard is the site comprised of multi-parcel acreage north of and immediately adjacent to the Olean Yard, which is identified herein as the primary site for a potential intermodal container operation. This site would have to be provided access, which would be somewhat problematic. Although this site is nearby the interchange from the interstate highway, direct access would be problematic because it would require developing access through a residential area, and because of the need to create a narrow radius switchback turn for traffic exiting the interstate eastbound and desiring to enter the facility from that position. Access directly from Buffalo Street

would require a bridge over the interstate, a costly proposition. The cost of this access concept could be ameliorated somewhat by additional egress/ingress ramps from the eastbound lane on I86, but not solved entirely. Another option for access to the proposed site from I86 would be to utilize Buffalo Street to Seventh Street in Allegany, and access the site from Seventh Street. This alternative access concept would impact a smaller residential area than the first option and probably involve a lower construction cost than the second option.

The proposed intermodal facility site north of and immediately adjacent to the Olean Yard is a greenfield site, and accordingly it is not served by municipal water and wastewater services, nor by natural gas, electricity, and telephone and data transmission utilities.

Accordingly, the development of intermodal operations at the acreage north of and immediately adjacent to the Olean Yard should be seen as a large scale public-private sector partnership initiative, as opposed to a more simple private sector business development initiative. It will require the marshalling of political will across several municipalities, plus County and State involvement, as well as private sector commitment, to bring it to fruition.

In contrast, all of the other individual scattered sites in the immediate proximity to the Olean Yard have access and some if not full municipal infrastructure and utility service, making them easier for development by private sector business operations. The Homer Street sites would require rail siding construction.

The potential for business development activities at the more geographically removed greenfield sites in the Towns of Hinsdale, Franklinville, and Portville are perhaps intermediate between the two cases discussed above. While these sites share a lack of municipal infrastructure services and potential under-service by utilities, the sites themselves do not feature the access issues and multi-municipal character that creates the political complexity of the proposed intermodal facility site. Typically, a commonality of these sites would be a need for public truck access to the site.

However, in addition to the issues outlined above, there also are a number of **opportunities** present that may facilitate the development of a Business and Logistics Park:

## **1. Adjacent and Nearby Properties Appropriate for Development of a Business and Logistics Park**

Investigation of the selected site and the surrounding area has lead to an identification of a number of scattered sites that collectively might be considered to be the footprint of a Business and Logistics Park

- The single largest contiguous group of parcels is adjacent and immediately north of the east-west mainline. The discussion above refers to this site as the preferred site for the full build-out of intermodal container operations. While the existing sidings in the yard, in combination with the Phase 1 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 would require a larger footprint, which could

be available on the land that is 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, and other intermodal logistics support activities. The sidings in the yard then could be used for building and loading portions of a unit train. Southern Tier West has discussed options for access from I86 to this site with regional New York State Department of Transportation staff and Cattaraugus County Department of Public Works staff.

- There also are smaller individual sites located along Constitution Avenue, south of and serviceable by the Olean Yard and north of Constitution Avenue. As indicated previously, these smaller sites individually might be considered to be sites that could be developed for or by warehousing and distribution operations and by other multi-modal logistics support companies that would support transload and consolidation activities. In addition, these sites are also ideal for attracting and locating shippers (manufacturers, third party logistics service providers, and retail distribution centers) that would rely on the facility's transload operations (and perhaps, subsequently, on intermodal container operations).
- There also is a site bordered on the north by the east west line and the east by the north-south line, at the southwest quadrant of the diamond interchange between the two lines. Similarly, this site might be considered for the location of warehousing and distribution operations, and other multi-modal logistics support companies to support transload and consolidation activities, and other shippers (manufacturers, third party logistics service providers, and retail distribution centers) that would rely on the facility's transload operations (and perhaps, subsequently, on intermodal container operations).
- There also is a site bordered on the south by the east west line and the east by the north-south line, at the northwest quadrant of the diamond interchange between the two lines. This site is also bounded on the north by Franklin Street, a City of Olean city street. North of Franklin Street is another parcel of developable land, which could be aggregated with the parcel south of Franklin Street, resulting in a larger site with more potentially greater potential for development. Realignment of Franklin Street would then need to be considered. There also is another site adjacent and to the west of this acreage, which could be combined, and a capped Superfund landfill site that conceivably could have limited redevelopment potential, e.g., as paved truck parking. Again, these sites might be considered for the location of warehousing and distribution operations, and other multi-modal logistics support companies to support transload and consolidation activities, and other shippers (manufacturers, third party logistics service providers, and retail distribution centers) that would rely on the facility's transload operations (and perhaps, subsequently, on intermodal container operations).
- There also is a site bordered on the south by the east west line, to the east of the diamond interchange between the two lines, currently used as a common or public team track transload facility. Although small in acreage, this site might hold limited potential for the location of logistics companies, warehousing and distribution operations, and small

manufacturers and other shippers desiring good access to rail shipping transload capacity.

- There also is a site bordered on the south by I86 and the north by Homer Street in the City of Olean, which could be served by a siding that could be constructed off the north-south line. Two potential shippers, a recycling company and a trucking company, are currently located in this corridor, and again, although small in acreage, the sites in this corridor site might hold limited potential for the location of logistics companies, warehousing and distribution operations, and small manufacturers and other shippers desiring good access to rail shipping.
- There also may be sites along the north south line in the Towns of Hinsdale, Franklinville, and Portville that would be located within 20 miles of the proposed facility, which offer good developable acreage but limited existing infrastructure and access. These sites might be considered for the location of logistics companies, warehousing and distribution operations, and manufacturers and other shippers desiring good access to rail shipping.

Collectively, these sites offer enormous potential for development of business operations that could augment shipping volumes through the facility.

## **2. Manufacturing Opportunities – Location, Business Development Activities, and Incentives**

Especially coupled with Foreign Trade Zone and New York State Empire Zone designation, both of which are discussed elsewhere herein, there are opportunities for siting of manufacturing operations that could utilize rail shipping services in the surrounding project area. The Olean area has a history as a regional center for manufacturing operations, and the surrounding area offers an experienced and productive manufacturing labor force.

New York State has made manufacturing business development a priority in terms of economic development initiatives, and has created a number of economic development incentive programs to encourage investment in manufacturing businesses in areas such as the project area. Local economic development officials work together to offer seamless assistance to manufacturing companies considering locating a facility in the project area.

## **3. Warehousing and Distribution Opportunities – Location, Business Development Activities, and Incentives**

The proposed facility's adjacency to an interstate highway (I86) and US Route 219, and its central location in the eastern portion of the Great Lakes area, provides location advantages for the development of warehousing and distribution businesses. From the facility, a large portion of the northeast is servable by truck within less than a day's travel.

New York State offers significant business development incentives to distribution businesses that locate facilities within the State. Local economic development officials work together to offer seamless assistance to distribution businesses considering locating a facility in the project area.

#### **4. Logistics Opportunities – Location, Business Development Activities, and Incentives**

The adjacency of the region to a number of locations in the northeast provides an ability to serve companies on a just in time basis, providing opportunities for the development of logistics companies. From the facility, a large portion of the northeast is servable by truck within less than a day's travel.

New York State offers significant business development incentives to logistics businesses that locate facilities within the State. Local economic development officials work together to offer seamless assistance to logistics businesses considering locating a facility in the project area.

#### **5. Foreign Trade Zone**

The success of the proposed facility can be improved by taking advantage of the benefits of operating as a Foreign Trade Zone (FTZ). An FTZ offers marketing and business development benefits, allowing the proposed facility to offer certain advantages and services to trade related businesses.

More specifically, Foreign Trade Zones provide special customs procedures to U.S. plants engaged in international trade-related activities. Duty-free treatment is accorded to items that are processed in FTZ's and then re-exported, and duty payment is deferred on items until they are brought out of the FTZ for sale in the U.S. market.

FTZ's are defined either as general-purpose zones or sub-zones. General-purpose zones involve public facilities that can be used by more than one firm, and are most commonly ports or industrial parks used by small to medium sized businesses for warehousing/distribution and some processing/assembly. Sub-zones, on the other hand, are sponsored by general-purpose zones, but typically involving a single firm's site which is used for more extensive manufacturing/processing or warehousing/distribution that cannot easily be accomplished in a general-purpose zone. It is generally easier to obtain designation of a sub-zone, provided that there has been the prior development of a strategic relationship with a parent general-purpose zone.

This traditional economic development tool has applicability at the project facility site, given access to the east coast ports. With respect to the project, one approach would be to seek designation of one or more facilities or sites as a sub-zone, as appropriate given current and prospective use of the facility and/or site(s). On the other hand, a general-purpose zone would provide more flexibility in future land use decisions and would allow for greater ability to attract trading companies to a wide assortment of local sites and buildings.



## **6. Business Improvement Districts**

The success of the proposed facility also can be improved by taking advantage of the benefits of designation of the facility and business development sites as a **Business Improvement District (BID)**. A Business Improvement District is a formal organization made up of property owners and commercial tenants who agree to pay a special assessment tax into the district, in return for services. BIDs deliver supplemental services such as sanitation and maintenance, public safety and visitor services, marketing and promotional programs, capital improvements, and beautification for the area. There are generally two kinds of improvement districts: business and rural. Business districts typically promote economic development, while rural ones usually concentrate on basic things like drainage and roads.

Locally, there have been some issues in the past with the creation of a downtown retail BID, and the BID format has not been used successfully in the City of Olean. However, a more directed BID that relied exclusively on assessments on new firms siting facilities in the area of the project facility might receive greater popular acceptance locally.

In New York State, there also is another type of geographic business incentive district, which is called the **Empire Zone (EZ)**. EZ designation of a site confers certain statutory incentives on businesses developing that site, including tax abatement, employee tax credits, utility rate reduction, and access to business development financing. There is a County-level EZ in Cattaraugus County, in which the proposed site is located, and it is operated by an experienced group of economic developers who are familiar with the use of geographic-based incentives to encourage economic development.

## **STRATEGIC DEVELOPMENT OF A BUSINESS AND LOGISTICS PARK**

This element will be more completely detailed in a subsequent phase of this study project, in a separate report entitled “Strategic Development Plan.” However, this report can make several general strategic recommendations at the current time.

### **1. Utilize Proper Media Management Practices**

During this multi-year project conceptualization, development and implementation process, media management will be an important element. Successful media management will make the overall enterprise much easier. There is a need for complete transparency so that the public can understand and support the undertaking. However, certain issues, such as site control, will require judgment as to the release of information so as to minimize any obstacles that might be created by project adversaries or others acting in self-interest.

Proper media management practices will include designation of a media officer responsible for releasing all media reports and responding to inquiries, reliance on a regular and ongoing series of multi-media press releases to keep the public informed and keep the project in the forefront in the public’s eye, and creation of and maintenance of a web site where current and archived project

information can be made available to the public and to project partners.

## **2. Obtain Shared Consensus by WNYP, NYS DOT, NS, and Affected Political Subdivisions Regarding Approach**

As the overall project is a phased, multi-year, multi-municipal, public-private partnership project requiring a series of public and private projects to make the overall project a success, it is by definition a complex project. All affected parties will need to understand the vision for the final end state of the overall project, and the need for undertaking the project in phases in a multi-municipal, multi-sectoral approach.

Each potential project partner has its own agenda, and the project will require differing levels of commitment and investment by individual partners. Because a project such as this is not costless, either from a simple financial prospective or from a time and community impact perspective, participants can expect that at least initially there will be something less than complete positive agreement on all aspects of the project.

To date, WNYP has been an agreeable participant in the process, and as a ground floor partner, WNYP needs to be kept in the planning loop so that the development of the project remains consistent with its operations. Accordingly, WNYP's ongoing participation is essential.

NYS DOT is a first level of technical and regulatory review, and as a prospective financial participant in various stages of the project as it develops, it needs to be in agreement with major project elements and their implementation. Accordingly, NYS DOT's ongoing participation is essential.

Although it can be expected that Norfolk Southern Corporation initially will not be completely convinced in the potential of the overall project, Southern Tier West at an early stage needs to contact Norfolk Southern Corporation and apprise them of the project to secure their initial blessing for Southern Tier West to proceed in this direction without providing its (NS's) commitment. Southern Tier West needs to keep in mind that Norfolk Southern's commitment to Phases 2 and 3 of the project will need to be earned by successes in Phase 1, and by successful planning for the implementation of subsequent phases of the overall project. Ultimately, the participation by Norfolk Southern by scheduling regular intermodal container service to the Olean Yards, and the participation by Norfolk Southern as a carrier to the Port of New York, both are essential to the overall project as conceived. Accordingly, bringing Norfolk Southern on board will be essential.

Each of the affected municipalities will be required to approve proposed land uses and in some cases provide assistance with project development and implementation. In some cases, there will be publicly managed access and infrastructure projects that will need to be completed, which will require active municipal partnerships. In this regard, Southern Tier West can provide an incentive for municipal participation by obtaining or channeling funding for the project that will reduce the cost of participation by the municipality. It will be essential to have all affected municipalities on board with the project.

A number of other partnering organizations may be required, including New York State Empire State Development Corporation, the County of Cattaraugus Industrial Development Agency, etc. The need for obtaining the participation of these organization will fall on the project sponsors.

Because in a multi-year project, there will be personnel changes at these partnering organizations, there will be a need to undertake ongoing educational activities and provide regular reporting and information sessions.

### **3. Create Local Development Corporation**

Among Southern Tier West, the County of Cattaraugus Industrial Development Agency, the Cattaraugus Empire Zone, the Southern Tier Extension Railroad Authority, WNYP, and the affected municipalities, there collectively may be sufficient institutional legal capacity and mission to undertake al of the required projects in all three phases of the overall project. However, this may not be the case, and it may be necessary to create one or more non-profit Local Development Corporations (LDC's) to undertake various aspects of the project. For example, an LDC may be created to construct, own, and lease or sell buildings to private sector tenants, as in the case of warehousing or distribution facilities or general logistics or manufacturing facilities. Optimally, there would be a plan for the eventual exit and sunset of these LDC's, given that an ultimate project goal would be that all real property assets would be under private sector control and on local property tax rolls. Nonetheless, one or more LDC's may be essential to advance various components of the project.

### **4. Prepare Site Concept, Site Plan, Preliminary Engineering, and Complete Regulatory Review**

A future phase of this study project involves the preparation of a site concept and site plans and preliminary engineering for the overall project. Accordingly, there already is a process in place for these elements to be provided.

However, consensus on the project amongst project partners has not yet been obtained, and information is less than perfect. Accordingly, the project sponsors can expect that there will be an evolution in project site concept and site plan. Further, as information improves, there will eventually be development of a consensus regarding infrastructure and access projects. This also leads to the expectation that there will be additional evolution in project site concept and site plan, and in preliminary engineering.

At some point, the project concept will be finalized and there will be a final site concept and site plans and preliminary engineering for the overall project. This can be used to seek regulatory review, permits, and project funding.

Regulatory review will include New York State Environmental Quality Review Act Compliance, New York State Department of Transportation review, New York State Historic Preservation Office Review, U.S. Fish and Wildlife Review, etc.

## **5. Obtain Site Control**

At a point after a site concept and site plan has been developed, it will be necessary to obtain site control.

In some cases, this will be through acquisition of fee simple title to individual parcels, while in other cases, a preferred route might be securing options to purchase, which “lock in” the acquisition price and forestall any conflicting development of the parcel in question, but allow for completion of the transaction once the commitment of a private sector purchase / tenant is secured and /or the funding for either the parcel development or on-site infrastructure or access road improvements has been obtained.

Because the project will be phased and because individual developers and / or parcel tenants may appear at various times over a period of a number of years, acquiring a fee simple title in all the potentially useful parcels in the scattered site proposed Business and Logistics Park would involve a significantly large speculative investment in a rural area in which the funds available for such an investment are relatively scarce. Further, certain site improvements, including infrastructure improvements and access road construction, may be phased over time and only implemented on an as-needed basis. This adds to the speculative front-end-loading cost of the acquisition of a fee simple title in all the potentially useful parcels in the scattered site proposed Business and Logistics Park. This is another reason to contemplate using the alternative of securing options for the acquisition of the relevant parcel(s).

In the cases where state or federal public sector funding is contemplated for either the parcel development or on-site infrastructure or access road improvements, often the acquisition price also is eligible for reimbursement if the acquisition occurs after funding approval by the funding agency. In those cases, it is advisable to secure options for the acquisition of the parcel(s) after funding approval by the funding agency.

As has been indicated elsewhere herein, speculation by passive real estate investors may lead to a significant increase in real estate prices, raising the difficulty of advancing the real estate elements of the project. Accordingly, appropriate media management techniques should be implemented, so as not to encourage real estate activity that will work against the success of the project. In these cases, options also are useful tools, as they can prevent parcel acquisition prices from increasing artificially.

There may be instances where the sponsors may wish to delay seeking full-blown preliminary engineering and regulatory review until site control of parcels is obtained. However, general end-state vision level site concepts, conceptual site drawings, site plans, and preliminary engineering may be useful at an early stage of consensus seeking and project development, especially with respect to the multi-parcel area planned for the intermodal container operations, where regulatory and compliance review might also be sought at an early planning-phase stage.

## **6. Prepare and Implement Marketing Strategy to Secure Private Sector Participation**

As is indicated below, there are a number of types of opportunities and roles for private sector businesses to become involved as partners in the overall project, including real estate development, operator of transload facilities, operator of container operations, logistics operators, consolidators, trade processors, warehouse operators, distributors, manufacturers, etc. Each of these types of companies is in a different market or sector, and each has a different profit-motivated evaluation procedure for determining its interest in participating in the overall project.

Accordingly, the project sponsors must recognize that they must reach decision-making staff contacts in companies in each company category indicated above that are interested in considering developing additional operations in new locations such as Olean, NY. They must reach these individuals at their place of business, and must provide them with a proposal in a format that they will be willing to review and evaluate. Further, that proposal must contain sufficient information for them to evaluate the Olean, NY project and that information must tell the desired story. Finally, there must be backup by a project closing team, which will include professional economic developers authorized to make decisions and offer incentives, informed sufficiently to answer questions, and skilled enough to obtain commitments.

This report recommends a targeted approach, as opposed to a shotgun approach (e.g., advertising in generic site selection magazines, etc.). The targeted approach requires much greater up-front investment of energy and resources, but should yield much higher probabilities of positive responses by attractive pre-screened prospective private sector partners.

The sponsors should begin by identifying companies in each of the categories identified above, researching their corporate positions and trends and expansion profiles, and identifying decision makers within each targeted organization. This is a time intensive approach, for which a consultant's assistance may be desired.

Next, the sponsors should develop targeted professional-quality proposals and collateral materials outlining the project, the principals, the opportunities for participation, and the prospective rewards for participating.

The sponsor should develop teams, perhaps by category, to respond to individual target companies. Each team should be provided with a guide for the project, what project constraints exist, what project resources are available, what their roles are, and what needs to be secured from the target.

Teams should provide ongoing regular reports of activities and contact and target decision status, and the sponsors should communicate the non-confidential aspects of this information back to the participating project partners, so as to encourage continued commitment and participation.

## **7. Develop and Implement and Required Infrastructure and Access Projects**

With consensus amongst project partners as to this feasibility study and the subsequent phase

Strategic Development Plan, there will begin to be consensus regarding the scope and strategic path for implementing any required infrastructure and access projects. Most probably there will be a need for creating or updating preliminary engineering information to support regulatory review and grantsmanship for these initiatives.

It is possible that there will be a phasing of infrastructure and access road projects on a site-by-site basis as appropriate for the individual site. The initial project would be any infrastructure or access road needed by the Phase 1 transload facility. Subsequent projects might include any infrastructure or access road / bridges / etc. needed by the intermodal container facility operation. Subsequently, there may be infrastructure or access improvements or sidings necessary for development of the other scattered sites. Finally, the additional sites in the Towns of Hinsdale, Franklinville, and Portville also would require infrastructure and access improvements.

### **8. Obtain Foreign Trade Zone or Sub-Zone Designation**

Foreign Trade Zone designation will require an approach and application to the US Department of Commerce Foreign Trade Zones Board. Sub-zone designation additionally will require partnership with and advocacy by a parent Zone.

In both cases, it will be necessary to set up an administrator of the Zone or Sub-zone, and it will be necessary to identify sites and operations and goals and missions of the Zone or Sub-zone. The overall approach may be assisted by consultants, as it is somewhat complex and requiring a certain level of expertise.

### **9. Develop Relationships with Homeland Security for Trade Processing Services**

Similarly, approval for offering trade processing services on site will require a partnership to be established between the Department of Homeland Security and either a public or private sector entity to be identified locally. The relationship will require an approach and application to the Department of Homeland Security. The overall approach may be assisted by consultants, as it is somewhat complex and requiring a certain level of expertise.

## **PRELIMINARY PHASE 3 PHYSICAL ASSET PROJECT DESIGN REQUIREMENTS**

As noted earlier in this report, in Phase 2 of the project, a key element in market development would be for the facility to evolve into an extension of a marine container port gateway such as the Port of New York/New Jersey. Similarly important in Phase 3 of the project will be the attraction of industries and logistics service providers to locate facilities adjacent to the intermodal rail yard. These three elements – intermodal container service, satellite marine terminal status, and increased shipping activities by shippers attracted so site facilities near the project facility – all thus are mutually interdependent and required for success.

The intermodal container facility developed in Phase 2 will require adequate space for handling and storing containers and for truck parking and movement. Phase 3 ancillary activities such as warehousing, cross-dock, logistics/distribution and transloading may include some facilities and operations located within the intermodal container facility and some facilities and operations located at various scattered sites that in total comprise the Business and Logistics Park.

The preliminary engineering work to be conducted subsequent to this report will provide greater design and cost detail for facilities and other required site improvements to be constructed. As has been noted elsewhere herein, the types of commodities to be anticipated will evolve through various phases of facility development. Consequently, the preliminary engineering conducted subsequent to this report may need to be revised per changing circumstances. Hence, Phase 1 of this report notes that 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. Additional project specification and updated preliminary engineering would be prepared as the project evolves. As indicated previously, final intermodal facility build-out should reflect a design capacity of 20,000 rail cars annually. These concepts should be advanced in a manner consistent with the concept for complimentary Phase 3 development.

## **POTENTIAL INSTITUTIONAL AND FUNDING APPROACH**

There are a number of opportunities for the involvement of the private sector in the various phases of the project as it moves forward.

- Owner / operator or lessee /operator of a transload facility to be constructed in Phase 1 of the project.
- Owner / operator or lessee /operator of the intermodal container facility contemplated in Phase 2 of the project
- Owner / operator or lessee /operator of a other facilities to be constructed in various phases of the project (e.g., warehousing and distribution companies, logistics companies, manufacturing companies, etc.)
- Real estate developer and lessor of real estate to project tenant businesses

These varying roles carry with them individually differing levels of expectation regarding the need for incentivizing and subsidizing their operations on behalf of the project. In some cases, on the other hand, it may be possible to charge companies fees to subsidize municipal or LDC costs of implementing site improvements (e.g., suite work, build-to-suit facilities, infrastructure improvements, access roads, etc.) essential to their operations on that site. This is a market decision to be made on a case-by-case basis.

The potential use of existing institutional tools provided by project partners (e.g., County of Cattaraugus Industrial Development Agency, Cattaraugus Empire Zone, STERA, etc.) and the

potential use of an LDC-or-LDC's-to-be-formed both have been discussed elsewhere herein. These organizations may provide the legal capacity to undertake certain projects (including real estate projects) and the statutory eligibility to receive state, federal, foundation, and other sources of grants and loans that would be useful to fund individual project components of the overall project.

The project partners also can expect that there will be eligibility for funding from various state and federal funding programs for various elements of the overall project, including:

- railroad transload and intermodal facility and equipment funding
- railroad rehabilitation, railroad yard alteration, and rail siding construction funding
- infrastructure and access road funding
- building construction funding
- general business development incentives, discussed elsewhere herein

In all cases, funding applications should be supported by an eligible sponsor, conform to program eligibility, be supported by preliminary engineering and marketing documentation, and contain commitments by private sector beneficiaries that will create jobs and invest funds in their operations on site.