

August 8, 2014

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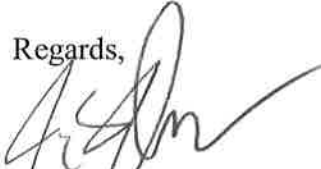
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Re: Finance Docket 35853, Canaveral Port Authority – Construction and Operation
Exemption – Rail Extension to Port Canaveral, Florida

Dear Dave:

In advance of our meeting on Tuesday, August 12, we are providing you with an information paper regarding the Port Canaveral Rail Extension that is being proposed by our client, the Canaveral Port Authority. This information should assist your office in starting the environmental review process for the project. We look forward to discussing it with you in more detail on the 12th.

Regards,



Jay C. Johnson

Information Paper

Port Canaveral Rail Extension Project

I. Canaveral Port Authority Background

In 1953, the year Port Canaveral was dedicated, a Special Act of the Florida state legislature created the Canaveral Port Authority (CPA) as independent governmental agency to operate the Port. CPA's mission is to serve the region, its customers, and constituencies by facilitating domestic and international Maritime commerce, creating positive regional economic impact while maintaining transparency, effective planning and sound fiscal management practices.

CPA is managed by a Board of Commissioners—five elected officials representing five legislatively created regions in central and north Brevard County—that sets fiscal, regulatory and operational policies for the Port. CPA also employs a Chief Executive Officer and numerous staff, who are responsible for administrative and operational duties at the Port.

As a governmental body, CPA can incur indebtedness through the sale of bonds; establish Federal Maritime Commission-regulated tariff rates; and negotiate for government grants. CPA can also levy ad valorem taxes from property owners in the Canaveral Port District, although the Board of Commissioners recognized in 1986 that the Port had become self-sufficient and unanimously voted to stop collecting the annual revenue from ad valorem taxes. The Port has remained self-sufficient since that time, relying primarily on revenues from the successful businesses it has worked to develop: cruises, cargo, land leases and park operations.

II. Project Overview

Port Canaveral is located on a barrier island along Florida's "Space Coast" that is connected to the mainland by the Bennett Causeway. It has a uniquely balanced profile as a growing cargo hub and an established cruise and tourist destination. But the Port's unique geography—especially its link to the mainland over the Bennett Causeway—means increased interactions between cars, buses, and trucks moving freight and passengers in and out of the area. The Port is continually striving to improve the efficiency of current and future cargo operations that will benefit the local and regional economy, while still protecting the environment and its tourist operations, as well as providing a higher quality of life for the citizens of Cape Canaveral.

The Bennett Causeway serves both residents of Cape Canaveral who work on the mainland and Port-related drayage traffic. Any growth in cargo operations at the Port could also grow truck traffic on the causeway, leading not only to increased congestion, but also additional long-term maintenance costs for the causeway.

To alleviate this potential congestion problem and facilitate future cargo growth at the Port, CPA is proposing to construct the Port Canaveral Rail Extension (PCRE)—a rail connection from the Port's North Cargo Area over the Banana River to Merritt Island, north through NASA's Kennedy Space Center (KSC) using existing rail facilities, and across the Jay Jay Bridge to the Florida East Coast Railway (FEC) mainline.

CPA views this rail connection as providing Port Canaveral with the means to move imports and exports—especially dry bulk, vehicles, and containerized goods—by rail instead of by truck. This more efficient transportation option should increase economic competitiveness, while at the same time increasing quality of life and sustainability. The PCRE project will work in conjunction with existing and planned investments in the Port’s cargo facilities, including the Port Canaveral Multi-modal Terminal for Marine Highway Rail Barge and the rebuilding of the south cargo piers.

III. Project Purpose and Need

Port Canaveral is situated on 867 acres, less than three miles from the Atlantic sea buoy. The Port is in the midst of dredging its outer harbor and approach channel to a depth of 46’ MLW and its interior harbor to 44’ MLW. In Florida, only the Port of Miami—portions of which are currently being dredged to 50’—is deeper.

The Port has no on-dock or near-dock rail, and the only access to FEC, NS and CSX is by truck to or from the Port. The Port’s current access to the Interstate Highway System (I-95) requires traveling two miles on SR 401 and a 14-mile stretch of heavily traveled SR 528.

CPA has and continues to make investments in its ability to handle a broad variety of cargoes, an evolution from its traditionally small volume of bulks and break bulks (food-grade salt, aggregates, slag, scrap steel, cement, lumber, urea, fuel, biodiesel and ethanol).

The proposed PCRE will provide freight rail service between Port Canaveral’s cargo terminal in the North Cargo Area and the FEC mainline in the Titusville area. The project will make use of 17 miles of existing and underutilized rail infrastructure on the KSC and be joined by approximately 11 miles of new construction.

The dual purposes of the PCRE project are:

- Capitalizing on the Port’s geographical position and proximity to the Atlantic Ocean to realize its potential to be Central Florida’s cargo gateway, and create thousands of high-paying and sustainable long-term jobs for the region’s citizens; and
- Protecting of the environment and local quality of life by taking thousands of trucks per year off the heavily traveled road network that connects the Port to the Interstate Highway system, and making use of a more efficient and environmentally sustainable means of transportation, i.e., intermodal freight rail. Development of direct freight rail capability at Port Canaveral would eliminate approximately 1,350 loaded truck trips per week. Doubling that number for empty return trips means that a total of 2,700 truck trips per week would be avoided.

Extensive market analysis and face-to-face interviews with current and potential cargo terminal operators at the Port reveal a strong demand for the freight rail service that the PCRE will provide. Currently, Port Canaveral is the only Florida East Coast port without rail connectivity, even though it has

been designated by the Florida Department of Transportation as a Strategic Intermodal System (SIS). CPA recognizes that a direct freight rail connection to the FEC—which interchanges with NS and CSX in Jacksonville—is necessary for it to reach its potential as a Central Florida cargo gateway and major economic engine for the region.

Based on current operations at the Port, the majority of cargoes that would be expected to enter or exit by rail are bulks and break bulk. The most recent projection of the number of rail cars that would be needed, based upon the commodities that could be moved by rail, is 70 hopper cars and 96 box cars per week.

In addition to this current potential for rail shipment, CPA recently announced that its new container terminal at Berths 5 & 6 will be operated by Gultainer, under a lease and operating agreement with CPA. That agreement includes certain traffic provisions, and memorializes CPA’s commitment to invest in the Port’s infrastructure, including efforts to secure direct freight rail connectivity. At present, this new container terminal is expected to have enough annual throughputs after eight years of operation to translate into approximately 300 double stacked container cars per week.

Taking into account projected growth in current bulk and break-bulk traffic, and the container traffic that could be associated with the Gultainer agreement, CPA currently envisions rail traffic of approximately 600 cars per week, split evenly between bulks/break-bulks and containers. CPA is continuing to refine its traffic estimates, however, and anticipates submitting more detailed traffic information when appropriate.

IV. Project Description and Alternatives

As noted above, the PCRE will use approximately 17 miles of marginally active plant rail infrastructure at the KSC. This potential use is already part of the KSC’s Master Plan, which is available on the KSC website. A map from that Master Plan entitled “Future Rail Easement” is attached to this submission.

The KSC rail infrastructure connects to the FEC mainline near Titusville, FL, travels across the Indian River and the Intracoastal Waterway on the Jay-Jay Bridge, and terminates in the KSC’s Industrial Area. While the track, associated rail infrastructure and the Jay-Jay Bridge are currently used just once or twice a year, regular maintenance by the rail crew at the KSC has kept them in excellent condition.

The PCRE will also involve new rail construction that will add approximately 11 miles of track and a water crossing over the Banana River. This new track will join the existing KSC rail at its terminus in the KSC Industrial Area travel south through the lower portion of the KSC on Merritt Island before it turns east to travel over the Banana River into the Port’s North Cargo Area.

CPA began studying the feasibility of a rail connection more than 18 months ago. In January 2013, it released a Phase 1 study that compared several different potential routes that would connect the Port to the FEC mainline. After rejecting several potential routes as infeasible, the Phase 1 study compared two routes through the KSC using ten weighted criteria. The study concluded that both routes were potentially viable, and recommended additional review.

In November 2013, CPA published a Phase 2 study that built on the work completed during Phase 1. This Phase 2 study evaluated the condition of the existing rail infrastructure at the KSC, described in more detail the potential rail alignment, and addressed known environmental considerations. Taking all of these factors into consideration, the Phase 2 study recommended that CPA proceed with design and permitting of the PCRE project.

Based on the work that it has already performed, CPA recognizes that the undeveloped portion of the KSC south of the industrial complex—where the new rail connection will be located—contains a number of environmental and physical constraints that would affect the alignment of the new rail connection. These constraints include at least one protected species, wetlands, sea grasses and setbacks from the radar installations.

As part of the work conducted during the Phase 2 study, several rail alignments were evaluated and reviewed by staff of the KSC, the U.S. Fish and Wildlife Service (FWS), and the Air Force. The preferred alignment through the southern portion of the KSC has been selected to minimize the impacts on the environment while observing the setbacks from the radar installations, and was agreed to by the parties who reviewed the alignment.

Although CPA believes that it has identified the most feasible, environmentally protective route through the southern portion of the KSC, it has retained two options for crossing the Banana River to the Port. One crossing leaves Merritt Island at a more northerly point, crosses the river, then turns south into the Port. The other crossing leaves Merritt Island at a more southerly point and crosses the river on a more-or-less straight line into the Port. Both of these proposed alternatives, shown on the attached map, remain subject to further refinement. At the present time, CPA prefers the northerly crossing.

The only alternative to developing the PCRE is to rely on trucks to move cargo to and from the Port. The incremental cost of double- and triple-handling lower margin cargo as it changes modes of transportation dramatically reduces the economic viability of trucking cargoes to or from FEC, NS or CSX rail yards within a reasonable distance of the Port. Cargoes moved to and from the Port will be almost entirely truck-borne. The absence of freight rail capability would limit future growth of Port Canaveral's cargo handling capability, and thus its ability to generate regional employment.

V. Required Permits and Approvals

At present, CPA anticipates obtaining the following permits and authorizations during the regulatory approval process for the PCRE project:

1. Authorization to construct a new rail line from the Surface Transportation Board;
2. An easement grant from the KSC;
3. An Individual Permit under section 404 of the Clean Water Act, and a section 10 permit under the Rivers and Harbors Act, from the U.S. Army Corps of Engineers;

4. An Environmental Resource Permit (ERP) from the Florida Department of Environmental Protection (FDEP) under Rule Chapter 62-330, Florida Administrative Code, which would be filed with FDEP and coordinated with the Florida Fish and Wildlife Conservation Commission (FWC) and the State Historic Preservation Officer to address wetlands, sea grasses, manatees and cultural resources;
5. A Bridge Permit under Section 9 of the Rivers and Harbors Act of 1899 and the General Bridge Act of 1946 from the U.S. Coast Guard; and
6. A Sovereign Submerged Lands Easement from FDEP under Chapter 18-21 Florida Administrative Code.

Given these requirements, CPA anticipates that the KSC (NASA), the U.S. Army Corps of Engineers, the Coast Guard, and the FDEP could participate in the environmental review process as cooperating agencies. The U.S. Fish and Wildlife Service (USFWS), the U.S. Environmental Protection Agency (USEPA), and the National Marine Fisheries Service (NMFS) are also expected to participate in the environmental review process for the PCRE. The proposed alignment avoids and minimizes environmental effects to the greatest extent practicable for a rail project. But the proposed project will likely impact Florida scrub-jay habitat, wetlands and sea grass, and require some gopher tortoises to be relocated.

Future Rail Easement

