

BEFORE THE SURFACE TRANSPORTATION BOARD

STB Docket No AB-515 (Sub-No 2)

223422

CENTRAL OREGON & PACIFIC RAILROAD INC – ABANDONMENT AND
DISCONTINUANCE OF SERVICE – IN COOS, DOUGLAS, AND LAND COUNTIES, OR

STB Finance Docket No 35160

223423

OREGON INTERNATIONAL PORT OF COOS BAY – FEDDER LINE APPLICATION
COOS BAY LINE OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC

Testimony of Edward Immel

My name is Edward Immel and I reside at 715 SE Lexington Street, Portland, Oregon 97202 and I am representing myself

From May of 1982 through March 2004 I was employed by the Oregon Department of Transportation as the State Rail Planner. My duties included preparing testimony relating to the abandonment, sale and conversion of rail lines in Oregon before the Interstate Commerce Commission. I was also responsible for the administration of the federal Local Rail Service Assistance program. The program provided financial assistance to railroads for upgrading their infrastructure.

I observed the transformation that took place in the state's rail infrastructure resulting from the freedoms granted under the Staggers Rail Act. Prior to the Staggers Act the majority of the rail lines in Oregon were owned and operating by Class One carriers – namely the Southern Pacific Transportation Company, Burlington Northern Railroad and the Union Pacific Railroad.

Within basically ten years, the major carriers spun off most of their trackage. Today, over 50% of the rail lines in Oregon are owned and operated by either shortline or regional railroads.

I was present at the birth of the Central Oregon & Pacific Railroad and it was quite different from the other lines the SP spun off in Oregon. Prior to this action, the SP leased their lines in the Willamette Valley and the state was an active partner in this activity. For some reason, the CORP transaction was a sale and was shrouded in secrecy. Even today, I have no idea what were the financial terms associated with the CORP spin off. However, I do know that under the normal SP lease terms, the new carrier was contractually obligated to not let the condition of the lines fall below that present at the time of the transaction.

Early on in the formation of CORP the railroad met with state officials and shippers to present themselves as the potential new operator. At one of these meetings they provided their proposed business plan. It was quickly noted by the Oregon PUC and myself that their planned maintenance expenditures of \$3,000 per mile per year were wholly inadequate for the property. In fact, the state was prepared to formally oppose the transaction before the appropriate federal agencies. The railroad agreed to up this figure to \$6,000+ per mile but the state still considered that below the \$10,000 it felt was needed.

The state PUC regularly inspected the trackage and probably had a better idea of the condition of the line than the acquiring party. In some cases they had worked for the SP and had been in charge of the day-to-day operations and maintenance of the line. It was clearly known by state personnel that the Coos Bay line had bridge and tunnel problems that required constant investment. My impression is that the purchasers of the line did not undertake a thorough due diligence study of what they were acquiring.

Several years later the railroad came to the state requesting financial assistance to undertake repairs to the draw bridge at Coos Bay. Using ISTEA funds, \$5 million was set aside to begin these needed repairs. This was followed up several years later by an additional \$8 million obtained through the efforts of our Congressional delegation. At no time did CORP give any impression that they were going to close the line.

I also noted the gradual deterioration of the infrastructure on the Coos Bay line. What was once stretches of 40 mph trackage under SP ownership was reduced to 30 mph, then 20 mph and finally 10 mph.

In 2003, the Oregon Legislature created the ConnectOregon program that provided \$100 million in funds to assist in non-highway related infrastructure projects. This was the first provision of major amounts of state public assistance funds to railroads. Funds from ConnectOregon program were requested and received by the International Port of Coos Bay for the draw bridge.

Shortly after that I left the state and retired. However, I was subsequently hired by a consulting firm selected by the state to provide a first review of applications under the ConnectOregon program. I was taken aback when CORP's number one priority was the construction of a new yard at Winchester, Oregon just north of Roseburg. It appeared to me that this was quite inappropriate given the known bridge, tunnel and track conditions on the railroad. When I raised the question I was told that my task was to review the financial details of the application and not its appropriateness. Other committees would undertake that examination. To me it looked like refinishing the hard wood floors in a house while the roof constantly leaked.

My impression of the ownership of the railroad under Raitex and then Rail America was disinvestment in the infrastructure. At some point, the raising scrap value of the line outweighed its potential to earn revenue to retire the original debt along with providing adequate maintenance. I believe it was at this time that Fortress Group decided that the line was not financially sound and did not provide anticipated value to their portfolio of investments. The impact on the line's shippers probably did not enter into the equation.

I support the Port's Feeder Line application since if the Port does not obtain use of the line to effect a direct connection with the Union Pacific in Eugene the future of the line is doomed. In my experience I believe that there is not enough in the revenue pie to permit a sharing of dollars between the Port and CORP. The Port must purchase all of the line into Eugene or there will be a constant source of irritation between the two parties.

In closure, I believe that the Coos Bay line was a victim of deferred maintenance since its inception. Supporting this belief is the fact that the railroad (outside of the draw bridge) did not ask for public financial assistance on the line when it became available. Its increase in value had no connection to investments made by the railroad but by the increases in the value of scrap metal.

Also, if the Port does not acquire all of the line into Eugene the operation of this line is doomed to be a constant loser.