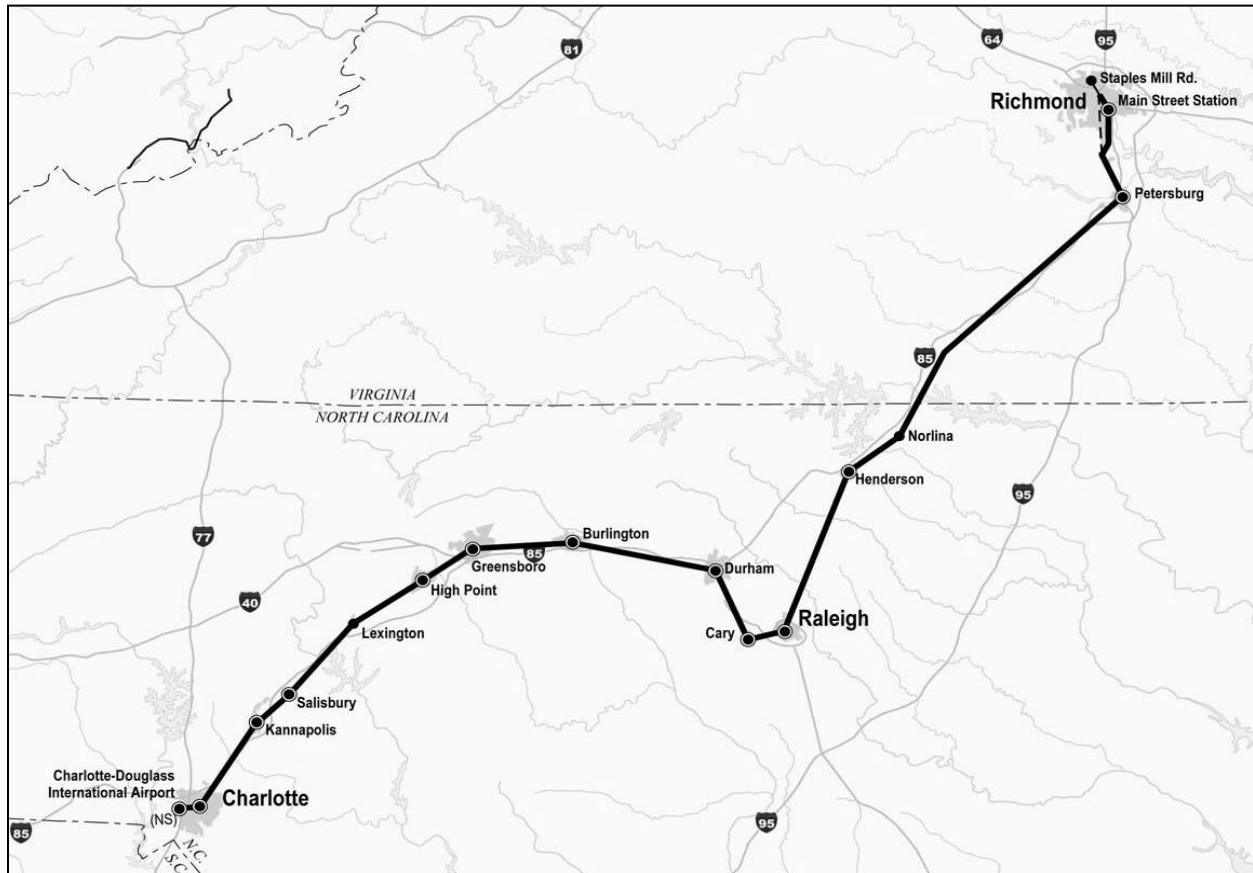


## Due Diligence / Feasibility Analysis

### *North Carolina DOT – Rail Division - Sustainability and Operating Financial Plan for Stimulus Act Funding – **Ten Take-Aways***



In collaboration with Gannett-Fleming, Vanness was pleased to assist the Rail Division of North Carolina Department of Transportation in its financial planning for several successful Stimulus Act applications that are leading to better and more passenger services aimed at “long distance commuting” within North Carolina and beyond to Virginia and Washington, D.C. In the run up to inaugurating Southeast High Speed Rail Service (SEHSR), Vanness continues in its role as technical support for financial reporting and budgeting.

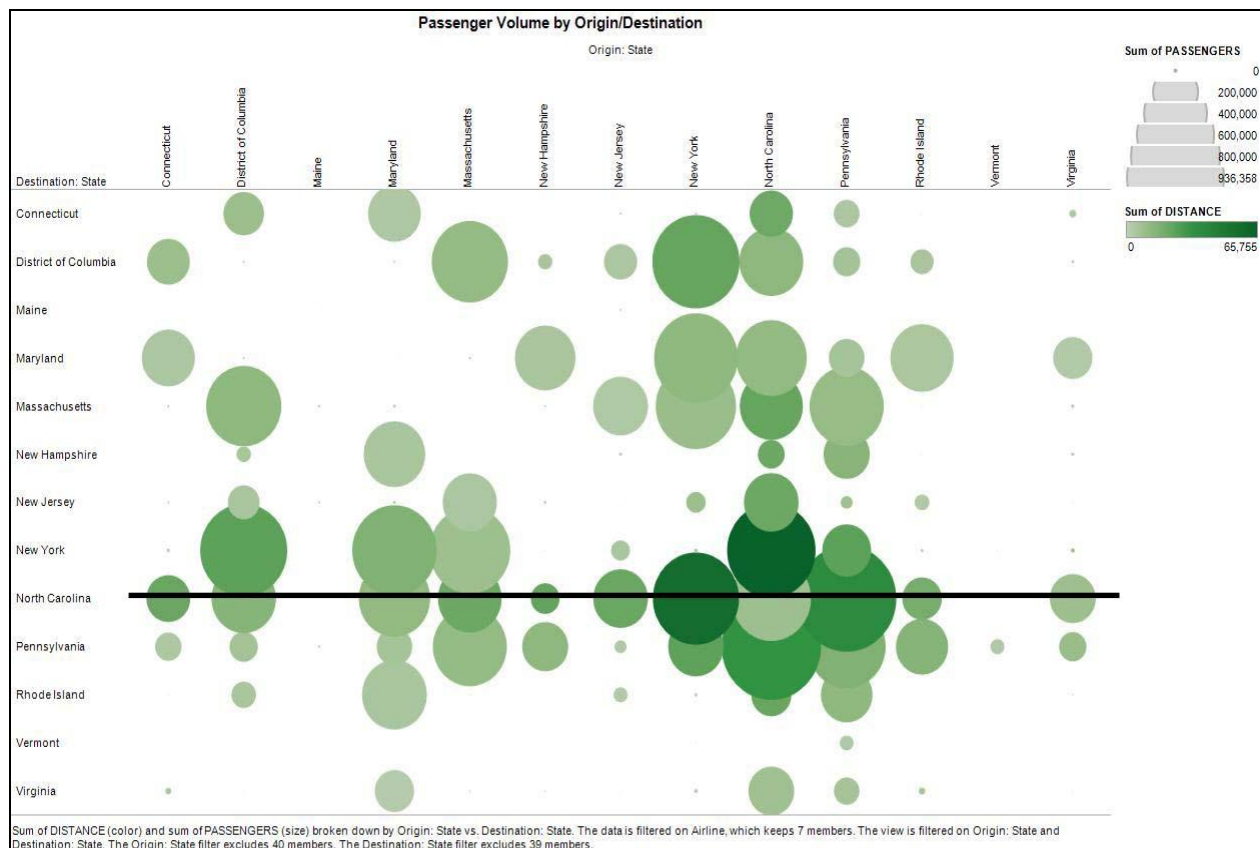
State owned North Carolina Railroad owns the 317 mile intrastate rail line that is leased to Norfolk Southern, which must maintain it. NCRR’s financial position is strong, with no debt and \$20 million rental income. From 2001 until now NC has invested \$200 Million in rail improvements, with future programs budgeted at \$174 Million.

Due diligence and feasibility studies showed that:

1.) Of great importance to the basic business case was that North Carolina had the foresight to become a railroad investor. Therefore on an economic basis it has the luxury of running 175 miles on its own railroad without having to fund acquisition and holding costs *de novo* – a big contribution not shown on the financial statements.

2.) The “carrying costs” for the run-up to SEHSR were controllable. The State has a history of consistently funding rail public transport. The operating deficit in 2016, for example, proposes to move 6.9 million passengers for \$3.55 per passenger – not a bad deal to move a student from Greensboro to Durham or a worker from High Point to Charlotte in terms of net economic contribution to the State.

SEHSR extends intrastate services, linking them to Amtrak’s NEC<sup>1</sup> services, accessing major interstate destinations for North Carolinians and visitors. Frequency, convenience and speed are the key variables of the Amtrak Model used to forecast ridership and revenue.



3.) When SEHSR begins it is Amtrak’s view that both conventional and SEHSR services benefit, and Total Revenues are forecast to handily exceed O&M costs for all State

<sup>1</sup> Amtrak’s Northeast Corridor running from Washington to Boston via New York City

supported services -- 4.) Per conservative assumptions about yield (cents) per passenger mile.

5) The “new build” line from Raleigh to Richmond will re-create a strategic corridor formerly the mainline of the Seaboard Air Line RR between Richmond and rail hub Hamlet, NC. This line can cut significant hours and fuel off both CSX and Amtrak schedules and we believed they would pay reasonable rates to use it – helping to fund a portion of Capital Asset Renewal Costs.

6.) A feature not frequently seen on these analyses is EBITDA<sup>2</sup> – normally a business case concept. SEHSR offered returns strong enough to earn a positive EBITDA, indicating real potential for **Public Private Partnerships** to include operations.

7. Capital Asset Renewal Costs have been fully provided for, including those relating to use of the existing NCRR tracks and those relating to the “new build” tracks, at rates which reflected engineering derived maintenance and renewal.

8.) Another key point to make is that there were important “off balance sheet” sources of funding. For example: NCDOT will enter into MOU’s with NS and CSX for sharing the costs of mutually beneficial upgrading work.

9.) New regulations make it possible for NC to enter into **Public Private Partnerships** for land development projects. The Charlotte Gateway Station project is the best example of using RR air rights and land to leverage private dollars into station development and, potentially, the nearby Charlotte maintenance facility.

10.) NC recently sold its second series of Garvee bonds rated AA by Fitch and S&P and As3 by Moodys, allowing NC to capitalize on future transportation revenue to fund current investments. The net revenues from SEHSR can thus be capitalized into investment dollars if the pump can be primed sufficiently by leveraging Federal dollars.

**The entire report and model can be found on the NCDOT Rail Division website at:  
[www.bytrain.org/fra/track2/financial\\_plan\\_pdf](http://www.bytrain.org/fra/track2/financial_plan_pdf)**

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<sup>2</sup> Earnings before Interest, Taxes, Depreciation and Amortization