

**RAIL SERVICE COMPETITION COUNCIL (RSCC)
COUNCIL MEETING MINUTES**

December 11, 2014
9:00 am – 3:00 pm

Planning Conference Room A
2960 Prospect Avenue
Helena, MT 59624

Conference Call: (712) 432-1212 / Meeting ID: 188-484-591 / Host Pin: 1276

RSCC Members Present: Chairman Mike O’Hara, Senator Bruce Tutvedt, Mayor Jerry Jimison, Director Ron De Yong, Walt Ainsworth, Carla Allen, Russ Hobbs, and Todd O’Hair.

Staff and Public Present: Greg Stordahl, Christopher Dorrington, Diane Myers, Benjamin Tiller, Larry Bonderud, Gary Williamson, Kim Falcon, Katie Hofmann, Barbara Ranf, Jim Lewis, and Melissa Lewis.

Call meeting to order

Chairman O’Hara called the meeting to order at 9:12 a.m.

Introductions

Members of the RSCC and guests introduced themselves.

Approval of September 18 RSCC Meeting Minutes

Mayor Jerry Jimison offered a motion to approve the September 18 RSCC meeting minutes. Carla Allen seconded the motion. The motion carried by unanimous voice vote.

Financial Report

Diane Myers presented the financial report.

Council Transitions, Nominations, Appointments

Chairman Mike O’Hara announced he will be stepping down from the RSCC. Members of the RSCC and staff thanked Chairman O’Hara for his service. Chairman O’Hara thanked the Council for the opportunity to serve.

Carla Allen nominated Jerry Jimison to serve as the new Chair of the RSCC, effective at the close of the December 11 RSCC meeting. Walt Ainsworth seconded the motion. The motion carried by unanimous voice vote.

Mayor Jerry Jimison expressed gratitude to Chairman O’Hara and said he’ll try to keep the RSCC operating in a civil manner.

Chris Dorrington noted that Walt Ainsworth’s term is up, as is Carla Allen’s and Russ Hobbs’.

Russ Hobbs said he will not be continuing as a member of the RSCC. Chairman O’Hara indicated he’d like Russ Hobbs to continue serving on the Economic Development Subcommittee, if possible. Russ Hobbs indicated that he’ll continue to be involved with the subcommittee for the next year.

Chris Dorrington noted that the governor’s office is open to referrals. Governor Bullock will ultimately make the appointment.

Dan Harbeke has also resigned due to a career change. Chairman O’Hara thanked Dan Harbeke for his involvement.

LC 495, State Legislation to Establish a Montana Railroad Development Authority

Senator Tutvedt spoke about LC 495, legislation to establish a Montana Railroad Development Authority. The Graingrowers Association passed a resolution supporting the establishment of a Montana Railroad Development Authority. Senator Tutvedt said the Graingrowers Association would also like to know what types of projects could be funded under such Authority. Senator Tutvedt also explained that the 2015 legislature might not support bonding as a funding mechanism for the legislation. He said the political hurdles associated with bonding might reduce the chances of such legislation passing.

Larry Bonderud indicated that projects could be identified, such as the Central Montana Rail bridge that fell out of service. The establishment of a Railroad Development Authority could provide a funding mechanism for railroad infrastructure. He said each project could be a standalone economic deal that could be passed by the legislature, similar to the Treasure State Endowment Program which funds drinking water, wastewater and bridge infrastructure across the state.

Larry Bonderud indicated the next step is visiting with the governor's office and inviting trade organizations to review the legislation. Industries will need to decide whether they can come to Helena and testify in support of such legislation.

Ron De Yong indicated that he met with the governor's new staff and that the governor's office would like to see examples of projects that could be funded with such legislation and have an understanding of how the current RSCC would change if funding were provided.

Larry Bonderud said that passenger rail could be added to the RSCC to increase the base of the rail authority and represent more diverse rail interests across the state.

Chairman O'Hara indicated that the Farm Bureau and small shippers with pulse industries and the barley growers/malt industry, etc. should be contacted, as they are not geared for large shuttle facilities. He also said that someone outside of the RSCC will probably need to "round up" everyone who might support such legislation.

Mayor Bonderud offered to take the lead on lining up proponents with the help of his economic development staff.

Walt Ainsworth asked if typical RSCC activities would continue. Larry Bonderud said yes, RSCC activities would continue and the council's responsibilities would increase to review potential projects and identify ways to make shipping more affordable and accessible. The new responsibilities would be in keeping with the RSCC's current mission—to address infrastructure, increase competition and address bottlenecks.

Todd O'Hair asked if grade crossings be eligible for funding. Mayor Bonderud said yes, those types of projects could be eligible, and added that the credit worthiness of the applicant would need to be reviewed.

Walt Ainsworth asked how Glendive's grade crossings were funded. Mayor Jimison explained the city had existing infrastructure such as lights and gates--and only needed to install approximately \$16,000 in supplemental safety measures to establish quiet zones in Glendive.

Larry Bonderud indicated that the City of Shelby received a quote of \$750,000 for supplemental safety measures to make two city crossings quiet zones.

Chris Dorrington explained that MDT currently does not have a funding mechanism for such improvements, outside of the Montana Essential Freight Rail Loan program and the Rail Safety

Program. The Montana Essential Freight Rail Loan program has a balance of approximately \$170,000 and the Rail Safety Program allocates approximately \$3.3 million per year for safety improvements at rail crossings. There are about 4,000 crossings in Montana, of which roughly 2,000 are public crossings.

Chairman O'Hara asked, so how does the RSCC help get this legislation going?

Larry Bonderud said the RSCC cannot support legislation as a Council. He explained that *individual members* of the RSCC could express support and provide feedback and leads to him or his economic development staff.

Jim Lewis said aspects of the proposal draw interest but other aspects could be troublesome. Montana Rail Link's (MRL's) support depends on what the proposed projects could be. Would one of the projects open the Great Falls line? He said MRL's support depends on what types of projects would get proposed.

Barb Ranf indicated that perhaps the legislation could be phased, and that the first two years could be used to study Montana's railroad infrastructure needs.

Chris Dorrington said a study of that nature would likely still be within the current scope of the RSCC.

Larry Bonderud said that studies can get expensive. The Great Northern Corridor Coalition is spending \$1M on Multistate Corridor Operations and Management (MCOM) grants I and II combined.

Walt Ainsworth explained some confusion over the purpose of the Authority. Would it be a centralized clearinghouse for rail projects?

Larry Bonderud said currently communities don't really have a place to go for help in terms of rail infrastructure improvements.

Walt Ainsworth said Shelby has been successful on their own.

Larry Bonderud indicated the city received a \$10M Transportation Infrastructure Generating Economic Recovery (TIGER) grant and had to come up with a \$10M match, and didn't have anywhere to turn for matching funds.

Chris Dorrington said MDT continues to receive requests for financial help and assistance in terms of reviewing grant proposals. He said there's a lack of capacity and understanding regarding what it actually takes to get a project done. What communities really need to do is plan and create a 5 and 10 year strategy, assess environmental impacts and evaluate market drivers. In general, people think of projects first. But on the environmental side and on the funding side, preliminary work needs to be done. That's how Shelby was successful. They had non-construction activities such as planning and environmental work either underway or complete--and that gave them a competitive edge.

Ron de Yong said this is a really good discussion. He supports the idea of the study for a number of reasons. He felt the need to do some bill tweaking, line up supporters, and get a crowd behind Senator Tutvedt. A study fits as a feasible step forward.

Barb Ranf asked if the RSCC mission would be rewritten or could MDT do this through an existing section.

Chris Dorrington said if money were appropriated through the 2015 legislative session, acting within its administrative capacity, MDT would manage the process and likely hire a consultant to conduct the study and coordinate the public involvement process. The work would be within the scope of the RSCC, but not financially. Additional funding beyond the current \$50,000 annual appropriation (no carry-forward) would be needed to study inventory infrastructure needs.

Discussion ensued about railroad infrastructure needs across the state.

Senator Tutvedt said there appears to be more support and impetus behind a study, versus the establishment of a Railroad Development Authority this legislative session.

Chairman O'Hara asked Senator Tutvedt if he would carry legislation to fund a study.

Senator Tutvedt said he'd work with the governor's office and MDT and put in a bill.

Mayor Jerry Jimison agreed that would be a logical start.

Ron de Yong indicated that we are well past the time to submit a \$300,000 request to the governor's office. He asked if MDT typically requests funding for the RSCC. Chris Dorrington said no, that the funding for the RSCC is handled in committee and an annual appropriation for the biennium is common.

Larry Bonderud said MDT never requests funding for the RSCC and that it is just part of the state budget.

Barb Ranf said HB 2 could be amended.

Chairman O'Hara said this is a great discussion and asked if there is any action needed.

Walt Ainsworth said if the group really wants to move forward with study funding, someone would need to take the lead on moving this legislation.

Todd O'Hair asked what the funding would be used for.

Chris Dorrington said MDT could share language from analogous freight studies. The State Rail Plan and MCOM studies could be referenced to determine the cost of a consultant contract.

Chairman O'Hara said it appears as though action *is* needed.

Senator Tutvedt said we need MDT to develop a study scope and cost that the RSCC could have for a number to take to the legislature.

Barb Ranf said let's make sure the study isn't just for short lines.

Carla Allen said the study should be focused on Montana communities and their needs.

Katie Hofmann said it'll be important to frame the discussion to focus on community needs, not necessarily on rail service provider capacity.

Todd O'Hair indicated that Montana's proximity to the west coast will become increasingly important as export markets expand.

Katie Hofmann said it's equally important to develop partnerships to address *service* issues.

Russ Hobbs indicated that the study will help define projects and that the study fits well within the RSCC Economic Development Subcommittee. The study would give the RSCC a tool we don't have right now. He said he firmly believes that it will be helpful in the future. He said the study could be used to help find projects, similar to what the Economic Development Subcommittee is trying to do.

Todd O'Hair said we're ready for a motion for a funding study.

Ben Tiller shared insight about the attractiveness of bonds proposed in LC0495 and likely investment for non-state-backed debt. Mayor Larry Bonderud concurred and indicated his bond counsel had reviewed the legislative draft and provided substantial input.

Ben Tiller suggested the Council consider the following language from the current LC: "To study the economics of maintaining and improving rail service within the state while attracting agriculture, commerce and industry to the state and avoiding duplicate research. To designate Mr. Dorrington and MDT to come up with a funding number for this study prior to January 5."

Todd O'Hair offered a motion "to study the economics of maintaining and improving rail service within the state while attracting agriculture, commerce and industry to the state and avoiding duplicate research, and requesting a \$500,000 biennial appropriation for such study."

Jerry Jimison seconded the motion. The motion carried by unanimous voice vote.

Port of Northern Montana Update

Larry Bonderud provided a brief presentation about the Port of Northern Montana. He said the Port of Northern Montana is now 100% complete. It is all done. It is all real. All the paving is complete. The punch list is done.

He said there are ten prospects in various stages of projects. He said there is a construction meeting on December 14/15 in Shelby. One prospect has retained a firm and has cored the site. It'll be an \$8.5M value-added agricultural site on the south end of 14 acres. They'll have 26-car setout capabilities at the facility. He said BNSF will be the operator of the facility. The facility will have 7 day/week switching.

Larry Bonderud reported that Cenex Harvest States (CHS) Cooperatives is also fully operational. He said you'll see your local farmer dump grain at the facility and then drive 100 yards to pick up fertilizer and go back home.

Russ Hobbs asked Larry Bonderud where the Port of Northern Montana is at with containers.

Larry Bonderud said he's working on that. He said it'll take about two years to address containers.

Larry Bonderud said the site is 640-acres and has 3,500 lineal feet of rail. The facility essentially has 25 five-acre lots. He said he purposely didn't subdivide the area so it can be flexed to fit tenant needs. The roads are fixed but everything inside the site is flexible. He said the City of Shelby coordinated with BNSF to design the three tracks and make sure they would be fully accessible.

Chairman O'Hara asked Larry Bonderud if tenants own or lease the land.

Larry Bonderud said his preference is to lease the land instead of sell it, but land titles can be transferred if necessary. He said they had a thorough appraisal to justify the price of land in the facility. The appraisal looked at utilities, access to transportation, etc. One tenant wanted to buy the

land and they paid full appraisal value. People with nationwide interests helped identify prices that are in line with the regional market in the Pacific Northwest.

Railroad Reports

BNSF Railway

Barb Ranf indicated that BNSF Railway plans to invest approximately \$6B in 2015. BNSF spent about \$5.5B in 2014 and sees the need to invest more in 2015. Specific projects will likely be announced in early 2015.

Mayor Jerry Jimison asked how far BNSF Railway got with double-tracking in 2014.

Barb Ranf said she'd need to look, but thinks it's about 60-100 miles and that work should continue in 2015.

Katie Hofmann reported that from an agricultural perspective, we've seen a lot of improvement. Shuttle velocity is averaging 2.6 or 2.5 to the Pacific Northwest. Past dues are about 13.3 average days late due to an accident and a slowdown. We'll probably see that improve as shuttle activity starts to slow down. The shuttle traffic will be turned back to the general fleet.

Barb Ranf asked Chris Dorrington if he has everything he needs from BNSF Railway for 2014 to advance work on the Montana Transportation Toolkit.

Chris Dorrington said he has a lot of information but does not have all the information in one document.

Senator Tutvedt said Cost of Transportation (COT) values have declined, which is good.

Katie Hofmann said BNSF Railway had a COT auction and received no bids. She credited efficiencies, a better balance of commodities and improved velocity. She said there has also been a drop in corn because the market has not been clearly defined.

Mayor Jerry Jimison asked how BNSF Railway has been able to improve shuttle times when they have to yield to Amtrak.

Katie Hofmann said this is the peak season for Amtrak and that UPS also has priority over BNSF Railway.

Barb Ranf said BNSF Railway will continue to work with Amtrak and as velocity improves, so will online performance.

Mayor Jerry Jimison said everyone in the room knows the economy of our state rides on the back of rail service. BNSF Railway and other rail service providers can take credit for expanding our shipping base and the state's economic base. Is there any other industry that our state depends on?

Chairman O'Hara said trucking.

Barb Ranf agreed. She said trucks and rail are the true partnership network.

Chris Dorrington asked if BNSF Railway's Economic Development staff is receiving a higher volume of calls lately.

Katie Hofmann said BNSF's Economic Development team is being called upon to meet small shipper needs. She said Montana will continue to be an economic driver and BNSF Railway needs to make sure everyone has a seat at the table.

Chris Dorrington asked if BNSF Railway continues to look at reopening lines, like Helena to Great Falls.

Barb Ranf said yes, we continue to look at the economics. At some point we'll bring it back online, when the customers and economics are there.

Chris Dorrington asked if BNSF sees a global market balance for unit trains versus non unit trains.

Katie Hofmann said BNSF Railway is looking at that, and that they have to have the origination and destination lined up to be able to accurately assess the market.

Todd O'Hair asked with the reduction in oil prices, is BNSF getting any sort of indication as to how long oil traffic will last?

Barb Ranf said the North Dakota industrial committee is looking at requiring the reduction of volatile gases before oil is loaded.

Katie Hofmann said USDOT is also looking at rail safety and environmental regulations that could impact the market. Oil and gas is an evolving and changing market.

Barb Ranf said BSNF sees the recession and recovery before the rest of the world sees it.

Mayor Jerry Jimison said to answer Todd O'Hair's question, North Dakota and the Bakken has had record production levels for the last three years.

Montana Rail Link (MRL)

Jim Lewis indicated MRL spent \$60M in 2014 and we're still doing work. MRL just completed a big project in the Helena yard and added a Townsend siding to better move traffic from there to Billings and we're still working. We're working on a siding near Austin and we're continuing to invest big. This year was a record. \$20M to \$30M was our previous record. For 2015, MRL has committed another \$60M. \$11M of that amount will address capacity issues.

In terms of employment, we've added 200 employees. Many of those new hires are operators. We've seen guys come in fresh out of school and get a great job. With payroll and profit sharing, these jobs are paying \$75K a year and we're paying \$15M per year in payroll.

Chris Dorrington asked is it hard to find those workers, and is there a workforce to draw from in Montana?

Jim Lewis said Montana Rail Link is a premier employer. He said we post a job and we get 400-500 applications and a lot of the applicants realize they'll have to relocate and start at the bottom, work their way up. Right out of the gate, they're making \$60K per year. Within five years, those people can make six figures. That word has gotten out, we get lots of applications.

He said MRL just hosted a round of holiday parties in Billings, Livingston, Helena and Missoula. You can literally see the younger generation rising up through the ranks. Many of the people who turned out were 25 year olds and they brought their young families with them.

Jim Lewis said MRL has an hourly goal to move trains across the system. It doesn't take us days, it takes hours. Our service has increased by 20 percent. General merchandise traffic has also increased. Coal has decreased. Some intermodal trains are going across our line. Last month it was a 50/50 split between carloads and intermodal freight in the US. Intermodal freight will continue to grow and move across our lines as well.

Central Montana Rail

Carla Allen reported that work on the Judith Gap trestle is complete. The first train ran Nov 6. It was a unique project. Dowl HKM was awarded judge's choice award from MT Contractors Association. We continue to work on our track to get the rest of it up and running but the big project is done.

Subcommittee Reports

Economic Development Subcommittee

Russ Hobbs said the Economic Development Subcommittee held a call earlier this month and outlined three tasks. The first job is being a funnel for general economic development opportunities. However, we're not sure the funnel is needed since the Governor's office and rail service providers are receiving calls.

He said the second task is the MT Transportation Toolkit. The toolkit would augment an online mapping tool that is already available and point shippers to the right resources for their specific needs. One of the things we talked about is re-loads and then we got a little off into a discussion on economic development with industrial property. He said the subcommittee didn't quite resolve what to do with that.

As requested, Chris Dorrington gave a short presentation of the online Agricultural Commodity Storage Facilities web map: <http://bit.ly/1se3Jf1> currently maintained by MDT with a data actively managed by the Montana Department of Agriculture. Chris Dorrington requested updated contact information from BNSF and MRL to complete the contact links for the mainline rail infrastructure represented in the map.

Russ Hobbs said the subcommittee's third project is looking at the MT World Trade Center Study. He said Kathy Fasso is trying to find names of the people contacted for the study, in addition to information about commodities and markets. He said these people should have the contacts they need to do business in Montana.

Russ Hobbs also said Plum Creek has been working to be one of the examples for product movements from Columbia Falls through Silver Bow. He said adequate car supplies are necessary. If they don't load 14 cars per day, they get behind and in trouble. As a good business person/company, we need alternatives. It is harder than you think. Getting the Union Pacific to allocate the right number of cars to come up to Silver Bow is not easy. Walt Ainsworth had said his company would be happy to help with ground transportation, but we need boxcars. Russ indicated he was working with Kathy to see if they can reload something that is already there.

Chairman O'Hara thanked Russ. He said Russ has put in a lot of work and that he's a quality contributor.

Agricultural Subcommittee

Carla Allen said the Agricultural Subcommittee didn't meet this quarter. Director De Yong said the MT Department of Agriculture will continue to talk with BNSF Railway about pulse crops and capacity issues/logistics.

Katie Hofmann said BNSF will continue to have these discussions and said the issue isn't just transportation—you also need a grower, an origin and a destination.

Chairman O'Hara said we also need more acres in agricultural production. There's only so many acres to go around.

Energy Shipping Subcommittee

Mayor Jerry Jimison said the Energy Shipping Subcommittee didn't meet, but oil/gas activity continues while coal is on the decline. He also said he will find a new subcommittee chairman before the March RSCC meeting.

Other Business

Barb Ranf said BNSF Railway is looking at adding 5,000 new cars once USDOT finalizes rules on tank car standards.

Chris Dorrington said the final MCOM I report should be completed and submitted to the website before December 31. He indicated the next MCOM meeting will be in Seattle on January 27 to wrap up MCOM I and kickoff MCOM II. He said all five technical memos are complete, well written and content rich. The final report is about 130 pages, not counting the appendix.

Chris Dorrington also indicated that his section (Diane Myers, in particular) is commencing a rail grade separation needs assessment, driven by data. That will be starting soon and completed in 2015. It will analyze the highway-rail crossings and provide information that is helpful to local communities.

Chris Dorrington also noted that in 2015, MDT will work to kick off development of a Montana freight plan. Driven by language in the current federal transportation bill, future federal funding may be tied to freight planning. A state that has a current and compliant freight plan may be eligible for these federal dollars.

Next Council meeting date, location and agenda items

The next meeting will take place in Helena in March. Agenda items include study funding legislation and the Montana Transportation Toolkit.

Comments from Council Members

Mayor Jerry Jimison asked Larry Bonderud if there are any chokepoints for moving large wind turbine blades from the Pacific Northwest to Shelby. Larry Bonderud said yes—there are height restrictions in snow sheds and tunnels. These chokepoints are generically identified in the MCOM I study.

Public Comment

None

Adjournment

Chairman O'Hara adjourned the meeting at 1:45 p.m.