An Assessment of the Current Situation of the Palouse River and Coulee City Railroad and the Future Role of the Port of Whitman County

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SFTA Research Report # 6

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SFTA Research Reports:
Background and Purpose

This is the sixth of a series of reports prepared from the Strategic Freight Transportation Analysis (SFTA) study. SFTA is a six year comprehensive research and implementation analysis that will provide information (data and direction) for local, state and national investments and decisions designed to achieve the goal of seamless transportation.

The overall SFTA scope includes the following goals and objectives:

- Improving knowledge about freight corridors.
- Assessing the operations of roadways, rail systems, ports and barges – freight choke points.
- Analyze modal cost structures and competitive mode shares.
- Assess potential economic development opportunities.
- Conduct case studies of public/private transportation costs.
- Evaluate the opportunity for public/private partnerships.

The five specific work tasks identified for SFTA are:

- Work Task 1 - Scoping of Full Project
- Work Task 2 - Statewide Origin and Destination Truck Survey
- Work Task 3 - Shortline Railroad Economic Analysis
- Work Task 4 - Strategic Resources Access Road Network (Critical State and Local Integrated Network)
- Work Task 5 - Adaptive Research Management

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The contents of this report reflect the views of the authors, who are responsible for the facts and accuracy of the data presented herein. The contents do not necessarily reflect the official views or policies of the Washington State Department of Transportation. This report does not constitute a standard, specification or regulation.

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EXECUTIVE SUMMARY

Figure A.1: Port of Whitman County

Railroad transportation serves an integral role in the movement of Washington products to distant markets. Eastern Washington has been favored by the existence of a complete transportation system in the area, meaning the availability of all modes of transportation: truck, rail and barge. Barge has served both a competitive and complementary role in that system. Competition from the barges, along with other marketing issues, has lead to the abandonment of some lines and the creation of short-line railroads on others. In eastern Washington, the dominant short-line railroad is the Palouse River and Coulee City Railroad (PCC).

WATCO, the corporate parent of the PCC, has indicated publicly and privately that these lines now generate such a low level of traffic and revenue that only branch operating costs are covered, while the returns do not cover annual debt service, rehabilitation needs nor return on equity for the railroad entity. WATCO has offered to sell the lines to the State of Washington, with total abandonment as the alternative.

The potential of public ownership has raised questions of operations, rehabilitation needs, local control and interests, and required investments. The Port of Whitman County, along with other ports, counties and regional organizations in eastern Washington, has been considering how to retain service from these lines, whether it is feasible to do so,
and under what organizational structure that would be done. Numerous issues, studies and activities are underway in the region trying to address these issues. Because of the complicated and certainly dynamic situation the Port of Whitman County, with its history of working productively with the State of Washington, decided to investigate the appropriate role of the Port in the situation. This analysis is the back ground of that initial investigation. The overall purpose of the project was to research the current situation of the shortline railroad in eastern Washington, investigate and identify existing public/private alternatives for the citizens of Washington and the Port of Whitman County, either under consideration or potentially useful, that would help in maintaining and improving transportation services available to eastern Washington.

**Study Findings**

- The Port of Whitman County has a role, as outlined in their Mission Statement and their Comprehensive Plan, and the authority, as detailed in at least five powers outlined by the Legislature in relevant RCWs, to be an active participant in this effort.

- It is evident that the viability of the PCC is in question in the short run with the current traffic volume. Equally clear is that with the burden of private ownership and rehabilitation costs taken from the railroad, this railroad can be expected to be viable in the near and long run and provide continued service to the County and region.

- Benefits to the region are preliminarily estimated to be annual savings in avoided pavement impacts of $4-5 million from keeping 29,000 truckloads off the highways, along with annual savings of increased shipper costs of over $2 million. Indirect benefits are the avoidance of losses of $6.4 million annually of wages and benefits in affected rail line dependent industries. Potential and speculative jobs that might not be realized under abandonment could cost another $11.1 million per year in lost wages and benefits. These latter estimates are not affirmed as part of this report.

- Considerable uncertainty exists as to the actual Net Liquidation Value of the lines, the actual costs and revenue of the PCC, rehabilitation costs, and right of way ownership. Current efforts of the WSDOT to provide answers to this uncertainty are critical to the Port’s decisions and specific, defendable numbers are needed.

- Other uncertainties are evident: the financial information provided by the PCC, the impact of the 286,000 lb cars, the potential for new traffic, Washington State University coal traffic, the Ritzville grain handling facility, and the future of efficient river transportation. Such uncertainties are being reduced as studies proceed and information is generated.
Recommendations

- It may be in the region and State’s best interest for the Port to consider serving as the administrator (operational oversight of a franchised rail operator) of an inter-local agreement among the relevant state, counties and ports interests, working with and managing the operator of the line. In such a role the Port, and its personnel, would serve as the marketing agent, the maintenance monitor, the rehabilitation agency and the representative of the railroad to the people and communities of the region.

- The Port should develop and/or continue its active role as a member of the agency debate and negotiation with WATCO, since much of the negotiation currently underway will affect just what the conditions of the railroad agreement are that will be handed, under this recommendation, to the Port for administration.

- The Port can serve an effective role as the vehicle for full discussion of the issues in the County and the region. Stakeholders and interested parties can be brought together under the auspices of the port either in its traditional role of economic development action agent, or broadened role of administrator/manager of the railroad. Interaction with other regional and agency efforts, such as the Commissioner Mayer’s Transportation and Economic Development Committee, should be very productive. Such citizen involvement will enhance the County and region’s understanding of the issues, while revealing to the State and Port the specific concerns and desires of its taxpayers and clientele interested in development and quality of life in the area.
INTRODUCTION/BACKGROUND

Railroad transportation serves an integral role in the movement of Washington products to distant markets. In fact, without the development of the railroads, especially in eastern Washington, the level of development of agriculture, forestry and mining seen today would simply not have occurred. Access to markets, domestic and international, has made it profitable and productive to live and to farm, harvest and mine in the areas far from those markets.

Eastern Washington has been blessed with the existence of a complete transportation system in the area, meaning the availability of all modes of transportation; truck, rail and barge. With the advent of barge transportation provided by the opening of Lower Granite Dam in 1975, a complementary and competitive role has been played by waterway transportation. Truck and barge work so closely together in moving products to markets that they are often referred to as one mode, “truck-barge”. Past work by the authors of this report show that, in 1994, slightly over 61% of the grains moving out of eastern Washington went by barge; in 2002, that barge share was still at 60%, but interestingly, slightly over 5% was by the combination of rail and barge. In the earlier period the entire movement had been brought to the barge by truck. Hence, this complementary role between barge and the other facilities is pronounced and productive for the region.

But, the barge system also served an effective competitive role in the region, causing railroad rates to be held at stable levels. In fact, a past review of rates by these authors indicates that, as late as 1999, railroad rates were at the 1936 level. This is not because of the benevolence of the large railroads, but it is because of the competitive role of the barge transportation mode.

Competition from the truck-barge mode, then, was very instrumental in holding railroad rates very close to costs of operation on the Class I railroads (BNSF and UPRR), as evidenced by revenue to fully allocated costs in the 80% range. But, these low rates, combined with the low returns being experienced by railroads nationally, and the Staggers Rail Act of 1980 which gave increased flexibility to railroads to abandon or sell off unprofitable lines, lead to massive abandonment of rail lines in the 80’s and 90’s. In Washington State over a third of the lines were abandoned during that period. Because of the low revenue being earned on these lines, most of these lines had not been regularly maintained at the desired level and, as a result, were not in very good physical condition at the time of abandonment or sale.

In lieu of total abandonment and pulling up the tracks, the formation of short-line or regional railroads became common. Such short line railroads were less fettered with labor restrictions, more market oriented and less wage driven, allowing many to succeed where the Class I’s were failing. In eastern Washington two lines were formed, the Palouse River Railroad and the Blue Mountain Railroad; in 1996 these two lines were formally purchased from the BNSF and
combined into the Palouse River and Coulee City Railroad (PCC). These are the subject lines for this report to the Port of Whitman County.

The success of short line railroads throughout the nation has varied. Many railroads, initially purchased by “rail buffs”, lacked the managerial expertise and the marketing knowledge to survive in the long run. Others, especially railroads dependent on bulk agricultural movements, found the revenue too low to sustain operations. These concerns are being expressed here in eastern Washington where the PCC has publicly and privately stated that these lines generate such a low level of traffic and revenue that only branch operating costs are covered, while the returns can’t cover annual debt service, rehabilitation needs or return on equity for the railroad entity. The PCC, through its corporate owner, WATCO Companies, Inc from Pittsburgh, Kansas, has offered to sell these lines to the State of Washington, with the possibility of total abandonment as the alternative.

The potential of public ownership has raised questions of operations, rehabilitation, local control and interest, and required investments. The Port of Whitman County, along with other ports, counties and regional organizations in eastern Washington has been considering how to retain rail service from the lines, whether it is feasible to do so and under what organizational structure that would be done. Questions of who would own, operate and market the new railroad have been continually raised, usually in the context of what revenue would be available to operate the railroad and would it have to be subsidized by other public funds. Other questions about the necessity of saving all the branch lines, and are there alternative uses for those lines, have been raised as well.

Answering all of these questions has been difficult because there are various studies and information sources dealing with the issue, some of which are currently released to the public and some are not. There are differing estimates of revenue, costs of operation, and past investment in rehabilitation and maintenance from the PCC officials. Further, there is substantial uncertainty surrounding the current market value estimates of net liquidation value of the various line segments being offered to the state for purchase. Simultaneously the officials of the PCC have been talking to major shippers, telling them of the perspective of the railroad and the possibility of abandonment if something financial isn’t done.

The loss of rail service on part or all of the PCC is of such a perceived impact magnitude for the eastern Washington region that numerous activities have been undertaken, in parallel with WSDOT activities. A group of interested stakeholders has met under State Transportation Commissioner Michelle Maher’s leadership; the Department of Agriculture has been discussing alternatives; and the Department of Commerce, Trade and Economic Development has considered developing a Symposium to discuss, debate and develop solutions to this regional issue.

Because of this somewhat confusing and certainly dynamic situation it was felt by the Port of Whitman County and others in the region that it would be useful to review applicable studies, released and unreleased; gain an understanding of the multiple activities occurring in the county and region; complete an assessment of the current situation; and examine the options for the Port that fit its overall mission to the county. The Port has a history of working productively with the
state of Washington, using and/or administrating state and federal funding to provide rehabilitation, railcars and power units for the railroad’s use. The overall question is: What is the real current financial and economic situation surrounding the shortline railroad issues and just what could be an appropriate future role for the Port in this situation?

PORT OF WHITMAN COUNTY’S ROLE AND AUTHORITY

The Port of Whitman County is one of 76 ports, situated in 33 of the 39 counties of Washington. Currently, 69 ports, including the Port of Whitman County, are members of the Washington Ports Association (WPA), along with 107 associate members. The primary purpose of a port district, according to the WPA, is to promote economic development, using legislative broad authority to achieve that development by building and/or operating airports, railroads, industrial development enterprises and even promoting tourism.

Using their legislative taxing authority Ports build and then sell or lease warehouses and office buildings and infrastructure (basic installations such as power, water, communications and roads). The tax revenue is used for many purposes, including the development costs of facilities and infrastructure, and maintenance and operational expenses necessary to for Port operations.

The mission statement of the Port of Whitman County directly corresponds with the role identified above. It states:

“The Port of Whitman County is dedicated to improving the quality of life for all citizens of Whitman County through industrial real estate development, preservation of multi-modal transportation, facilitation of economic development and provision of on-water recreational opportunities.”

Goal # 2 of the current Port comprehensive plan further includes: Encourage a balanced and economical multi modal transportation system serving agriculture, commerce and industry. In striving to achieve that goal, several of the Policies/Objectives are to “formally participate in the State Transportation and Rail Plans on a regular basis and partner with local railroads to preserve and enhance rail service in Whitman County”, “strive to maintain existing rail access at all port sites operated by the District”, and “in conjunction with affected industries, review and participate in the acquisition and operation of short-line rail facilities”. The findings for this goal discuss the benefits of multi modal transportation and the desirability of not relying strictly on one mode (with the result of considerable stress being placed on local, county and state roads, with attendant increases in the public costs of roadway maintenance).

To achieve the goals inherent in the mission statement and the comprehensive plan the Port has available a series of powers provided by the legislature’s RCWs. Several that are specifically relevant to this issue are:

- Provide facilities for all forms of transfer (air, land and marina) such as terminal facilities, airports, multi-use buildings, warehouses, elevators, canals, locks, tidal basins, rail and motor
vehicle freight and passenger handling facilities and improvements needed for industrial and manufacturing activities within the district. (RCW 53.08.20 and others)

- Levy property taxes, subject to constitutional limitation and buy, sell or build properties to finance district operation. (RCW 53.36.020)
- Exercise the right of eminent domain. (RCW 53.25.190)
- Make cooperative agreements with other ports, local or state governmental bodies, thereby providing better services at lower costs. (RCW 29.34.010)
- Acquire, construct, lease and operate rail services, equipment and facilities inside or outside of the district. (RCW 53.08.290)
- It is evident that the authority to stimulate economic development by the use of many tools is available to the Port of Whitman County, including continuing taxing authority.

Under its Mission Statement and statutory authority the Port is considering, in its long-term strategy, partnering with the state by again serving as a local administrator and/or operator of state owned equipment or rail lines. Such a potential decision is the reason for this report.

WHAT IS THE CURRENT SITUATION?

Railroads in Washington

Washington State’s rail system currently has approximately 3,123 miles of rail line, having lost 1,885 miles to rail abandonment since 1970, or about 38 percent of the total. Of those 3,123 miles remaining in Washington, about 1,824 or 58 percent are east of the Cascade Crest. Of the approximately 1,885 rail lines lost to abandonment, about 1,263 rail line miles or 67 percent were in eastern Washington.

Branch lines comprise slightly over half of all the lines in the state, 1,634 of the total 3,123 miles. The Palouse River and Coulee City Railroad has about 372, or 23 percent, of those branch lines, covering or touching most of the counties in central eastern Washington (See Figure 1).

Financial Viability

A substantial amount of information exists on the current revenue and cost picture for the PCC, however it is produced in different forms, is sometimes slightly conflicting and is difficult to compare. Three specific sources of information on the operating costs and revenue balance are discussed here.
Presentations to shippers, state government and other interested stakeholders by WATCO include the most recent data available, based on the railroads experience in 2002. The information provided emphasizes WATCO’s perspective on the individual line segments, the traffic hauled, the costs incurred and the revenue generated. Specific line segments were presented by WATCO as the Coulee City to Cheney, the Marshall to Moscow, the Pullman to Hooper and the Thornton to Winona segments.

Data from the PCC show a positive cash flow of revenue over operating costs for all of the line segments except for the Pullman to Hooper branch. Operating costs were mainly in the categories of track repair, weed control, locomotive leases, repair and fuel, labor, car hire and other railroad expenses. Total net profit for the system was an annual $642,963, even after a $147,047 loss on the Pullman to Hooper line. Total system operating costs were presented as $2,562,235 and revenues were $3,205,198. A total of 7,308 carloads were handled on these lines for the various shippers in 2002. What is noticeable is that other revenue of $550,440, or an additional 21 percent, from leases, etc. was added to the carload revenue of $2,654,758 to generate the total annual revenue.
Forty two shippers were served on the entire line, ranging from 3 on the Pullman to Hooper line to 25 on the Marshall to Moscow line (See Appendix). All lines have 90 lb. rail except for the Thornton to Winona line, comprised of 75 lb. rail. The Thornton to Winona line is also notable because it carries, on average for the past three years, 547 shuttle loads of grain to the river.

The above figures, however, do not include the track preservation costs that should have been invested to keep the lines from deteriorating. WATCO suggests another $1,188,000 of track repair and maintenance is necessary to keep the line at its current level of service. These funds have not been expended because revenue was not high enough to warrant the investment, from WATCO’s perspective. Further it was estimated that when earnings before interest and taxes and depreciation allowance (EBITDA) at 30 percent were considered, another $1,607,244 would be required. When these ownership and depreciation costs are added to the other costs, WATCO estimates an annual loss of $2,152,281 for 2002.

WATCO argues there are legitimate concerns of continued deterioration of the track due to the insufficient revenue. Further, the continued economic instability of the line may cause current customers to look for alternative ways to move their product to market. WATCO also cites increased costs from derailments and insurance rates, again due to the lack of funding to maintain the railroad at a safe Class II level of operation (25 mph).

**Tolliver Study**

WSDOT has funded several substantial and comprehensive studies dealing with different parts of the overall concern of the loss of short-line/branch lines in the Washington. One of these, by Dr. Denver Tolliver, deals directly with the viability of short-line railroads in the Palouse and Blue Mountain regions of Washington. The purpose of that report, recently released by the WSDOT, was to provide an independent analysis of the viability of the rail-lines. The rail-lines were analyzed as if they were operated under contract by a hypothetical carrier as a private entity. This operator could be the PCC or another short-line railroad. Tolliver derived independent estimates of operating costs, track net liquidation values and normalized maintenance costs from detailed field data, track charts and engineering models.

In contrast to the presentations from WATCO, the set of lines or subsystems in the PCC networks that were analyzed included four lines: Cheney to Coulee City, Marshall to Pullman, the Blue Mountain Railroad North, and the Blue Mountain Railroad South. The first three lines cover the four lines presented by WATCO; the Blue Mountain Railroad South extends form the UP mainline at Wallula Junction to Walla Walla, where it connects with another line running from Dayton, Washington to Weston, Oregon.

This technical study used the Uniform Railroad Costing System (URCS), applied on a regional basis, to estimate operating costs. Normalized track maintenance costs were estimated using detailed data from extensive field studies conducted in 1998 and 1999 by Wilbur Smith Associates and track factors published by the American Railway Engineering and Maintenance of Way Association (AREMA). Track ownership costs were estimated by applying the railroad cost of capital to the net liquidation value (NLV) of each line (the amount invested by mile times the opportunity return in the market).
The overall conclusion of this study is that, based on current revenue divisions (split of the tariff between the short line railroad and the BNSF and/or UPRR) the lines are projected to incur losses, if operated as private entities, when normalized track maintenance and track ownership costs are considered. Relief of the ownership costs of over $1,000,000 per year and lower costs from rehabilitated lines could make the lines viable for an operator. Tolliver further states that the PCC rail lines are an important part of the Washington state transportation system, serving important grain producing regions and providing service to food and forest products industries.

The lines were examined on a per car basis, using the existing level of traffic in 2000. For the Cheney to Coulee City line the on-branch train, car and clerical costs are $244 per car. Track maintenance cost is $231 and track ownership cost was $53 per cars, which sums to $528 per carload. If the on-branch car-day cost is absorbed by the BNSF, as is currently done, then the cost drops to $453 per car. In comparison, the current revenue division is $400 per car, thus making it marginally unprofitable/nonviable.

The Marshall to Pullman line has estimated operating costs of $202, with $75 of that internalized by the BNSF, for a net operating cost of $127. Track ownership and normalized maintenance costs are $207 and $304 per car, respectively. Collectively, these annual costs significantly exceed the average revenue per carload, making this line not viable as a private entity.

The Blue Mountain North line is comprised of The Hooper Junction to Moscow and the Winona to Thornton lines identified by WATCO earlier. The operating cost on this line combination is estimated at $136 per car, after $90 of car hire costs are internalized by the UPRR. Track ownership and normalized maintenance costs are $102 and $233 per car, respectively. The annual cost per car is then $471, again making this line appear nonviable in the long run as a private entity.

The line from Zanger Junction to Walla Walla and on to Dayton also was found to be nonviable. In fact, the full value of costs of just the maintenance, ownership and needed replacement of light rail was over $1,000 per car, contrasted to revenue currently in the $400 per car range. This estimate did not include the operating and car ownership.

In summary, Tolliver’s analysis of a “hypothetical model of a railroad” suggests that, similar to the WATCO presentations, the existing revenue will cover the private operating costs, but not the normalized maintenance and private ownership costs. He further states “If these lines cannot be operated profitably as a private entity the state may be faced with a difficult choice-acquire the lines or let them be abandoned.” Several in-between options dealing with rehabilitation of portions of the network for the private operator, with the attendant decrease in normalized maintenance costs, are offered.

**WSDOT Marketing Study**

In their continuing effort to learn as much as possible about the real financial and economic parameters surrounding the short line railroad situation in eastern Washington, the Washington State Department of Transportation commissioned a marketing, economic and operational
This study, which has not been released in final form, was reviewed and evaluated as part of this report to the Port of Whitman County. The consultant, Railroad Industries Incorporated, found that three of the four lines provide a significant benefit to the local communities, shippers and the State. It further found that there is significant volume of traffic that can utilize rail if the “appropriate marketing plans, rates and rail services” are in place.

The four lines have around 58 million bushels of grain storage, or about 38 percent of the total capacity in the state, located on the lines. The study finds that, although traffic on the lines has been declining, the decline does not need to continue. Railroad Industries found that, with the appropriate efforts, the traffic on three of the four lines can increase to the level that it will cover all costs and produce a profit in the long run.

The four lines evaluated by Railroad Industries were the Coulee City Line, the Palouse River Line, the Blue Mountain North line and the Blue Mountain South Line, similar to the Tolliver study. Using the concept of “Going Concern Value” Railroad Industries evaluated the line segment on an existing base case, the potential base case (including volume projections from shipper interviews and new opportunities) and a break-even case. For the Coulee City line a current Going Concern Value of between $1.6 and $1.8 million was determined, meaning the net value of the return of revenue over costs. Assuming new traffic levels were achieved from an aggressive marketing plan, the value increases to $2.2 to $2.6 million. Results of the break-even case indicated that this railroad segment could remain viable with either a 25 percent rate reduction or a 22 percent carload reduction, but not both.

Looking at both the Blue Mountain North and the Palouse River Line, which Railroad Industries suggests should be operated as one entity, it was determined that under current loads there was no Going Concern Value. However, if the loads identified in this study as possible under an aggressive marketing plan were achieved, the lines would increase to a Going Concern Value of $2.0 million. In other words, under existing loads the revenues would cover costs of operation but not all the ownership and maintenance costs; again, this is similar to the findings of the Tolliver study.

The Blue Mountain Line South segment, which is already almost all in public ownership, was determined to have no Going Concern Value at either the current or increased volume. No statement about covering operating costs versus track ownership and maintenance was made, for either the long or short run. It was found that the line would have to reach 2,168 carloads to reach break-even traffic, up from its current 768 carloads and the identified potential of 1,518 carloads.

This study, when it is finalized and available to the public, will give detailed analysis on the existing revenue/cost ratio, potential traffic, and suggestions for operational improvements for whichever railroad operates on these lines. It also provides some useful detail on the competitive structure among transportation modes and production facilities that will ultimately be useful to the Port of Whitman County in its deliberations on the proper Port role in the future.
In summary, all of these major studies and information sets suggest that the viability of the PCC is in question, but that some revenue over operating costs can be realized. The data relied upon by several of the studies are several years old and the analysis doesn’t directly correspond, due to differing line segments. Questions of the revenue, costs, apportionment of costs, net liquidation value and future traffic, track ownership and loan status are not fully considered in these analyses.

**Net Liquidation Value (NLV)**

Estimating the NLV is critical in this circumstance since WATCO is suggesting that they are willing to sell the lines for that value. NLV is a measure of the current value of a line based on the market prices of individual assets such as rails, ties and other track material. NLV accounts for the removal, restoration and transportation costs to the location where the asset will be used or scrapped. It does not include land costs.

The history of estimates of NLV of these lines is long. Initially, based on conversations between WATCO and WSDOT, an estimate of $12 million was used, both in early negotiations and as a basis for the funding request in the 2002 Washington State Referendum 51. This value has dropped substantially as the discussion in the region became broader and with more specific analyses.

The Tolliver Study uses the values from an analysis done by Wilbur Smith Associates, based on detailed field surveys undertaken in 1998 and 1999. Excluding the Walla Walla to Dayton branch (Blue Mountain South), the NLV of track operated by the PCC in Washington was $9.86 million. However, when the Zangar Jct. To Walla Walla is excluded from the analysis, since it is owned by the UP, the NLV estimate drops to about $8.418 million. The Tolliver estimation.

The presentations by WATCO to the Commissioner Maher Transportation and Economic Development Meeting also include estimates of the NLV. Estimates of NLV were: Coulee City to Cheney ($1,794,110), Marshall to Moscow ($3,644,512), Pullman to Hooper ($2,274,316), and Thornton to Winona ($705,266), for a total of $8.418 million. It is difficult to accept that WATCO has done any independent evaluation of the NLV; instead, it appears they have chosen, for some reason, to use the values developed in 1998-1999 by Wilbur Smith Associates and utilized by Tolliver in his work.

Again, the NLV value is a moving target. It is known that the market value for used rail and ties has softened in recent years. Further, a discussion with a consultant hired by the WSDOT to do “due diligence” on determining the actual revenues, costs and net liquidation value, suggests, very preliminarily, that the current value could be less than previous estimates. However, even more recent reviews suggest the market for used ties and rail has been very erratic, with recent short-line repair needs in the nation raising the value of some kinds of relays and rail.

Recognizing the importance of this NLV estimate, the Rail Office of WSDOT has several activities under way to determine the relevant range of estimates. R. L. Banks has produced an
initial overall estimate and another consultant is working on a specific estimate for the lines under consideration. Current estimates seem to fall at or near the $8.4 million commonly discussed, though R. L. Banks estimate is higher.

This value can be expected to serve as another data point needing verification as further negotiations among the State, region and WATCO proceed. The two studies are just now being finished and final estimates have not been released. When released, these estimates will provide information that region and the Port of Whitman County will find useful in considering the Port’s future role.

**Ownership of Right of Way**

Initial discussions with WATCO and WSDOT assumed that WATCO owned the right of way and that any purchase by the state would include this component, including the value as a telecommunications corridor. However, work by the Washington State Attorney General, WSDOT, and subsequent concurrence by WATCO reveals that the corridor rights for telecommunications and other utilities were retained by the BNSF and the UPRR. WSDOT and the Attorneys General office currently have commissioned an attorney, Michael Blaszak of La Grange, Illinois, to examine to the extent possible this complex ownership situation.

**How to Achieve Viability?**

The above analyses do indicate that the lines are, in most cases, capable or potentially capable of covering the current operating costs. All of the studies suggest that most lines do not cover ownership, maintenance and rehabilitation investments under current traffic levels and funding agreements.

Railroad Industries found an aggressive marketing plan with some rehabilitation investment may be successful in achieving viability in the long run. Tolliver suggests that the state may be faced with a difficult choice, acquire the lines or let them be abandoned. Current expenditures on the lines appear to be only half of what normalized maintenance should be $4,000 per mile of $7,900 per mile on average for the different lines. Public rehabilitation will lower private ownership costs and lower normalized maintenance costs.

WATCO, in its presentations to the Maher Transportation and Economic Development Group, was more direct. Initially, it estimated that sale of the lines to a public entity ($8.418 million) resizing the locomotive fleet, improving the track infrastructure ($1,619,600 in speed and safety), and growing the revenue on the line were solutions that would bring continued viability. In the second meeting of the Group, WATCO added $2,000,000 for crossing improvements (closing 60 crossing and replacing 140 crossings with concrete), seeking a change in the rate division between the Class I Railroads and the PCC, and what they referred to as “public Interest” as means to viability. The latter referred to a request for an additional $250,000 per year for maintenance from the state, and $80,000 per year in property tax reduction. WATCO stated, “These adjustments allow the PCC Railroad to achieve long-term operational success.” It was further discussed that the current loans to the state, roughly $1.5 million could be used against the line purchase, although subsequent action by the 2003 legislature appears to have removed
this option, as the repaid funds were pledged to future projects, including theses railroad projects. It should be noted that no specific information on many of these issues was offered on a segment by segment basis, only general estimates.

**HOW CERTAIN OR UNCERTAIN IS THE CURRENT SITUATION?**

**Financial**

As indicated in the above detailed review, there is considerable uncertainty about the financial information and situation of the PCC. A critical need is for a full understanding of the actual financial position of the PCC. Due diligence should be, and is, being done by WSDOT on the actual operating costs, real maintenance expenditures, specific rehabilitation needs and the net liquidation value of the lines. The contemplated PCC due diligence study by Strategic Rail Finance, Inc. and the two NLV studies will go a long way to providing known and agreed upon estimates of this vital financial information, particularly in light of the fact that the WATCO estimates of NLV are apparently based on the 1998-1999 studies of Wilbur Smith Associates as reported by Tolliver. Without a full understanding, based on examination of the actual expenditures and revenues associated with the PCC lines (not WATCO’s estimate of what they spent and the overhead and administrative salaries charged to the PCC), of the full financial experience of these lines, the State, region and the Port are left negotiating a deal with inferior or inaccurate information.

The preliminary study by Railroad Associates suggests that existing traffic from the region might be moved more heavily on the PCC if an aggressive marketing campaign were initiated. The level of traffic that could be achieved and the net result on railroad profits are still uncertain, but what is certain is that a local knowledgeable marketing person will be essential to traffic recovery and maintenance.

**Impact of 286,000 lb. Railcars**

A transition to heavier railcars has been underway in the U.S. for some time. All recent new car purchases have been at the higher rate of 286,000 pounds gross vehicle weight compared to the historic 220,000 to 263,000 lbs. that branch lines had been restricted to. Work done by Casavant and Tolliver found that with the current innovative short run solutions underway, these lines can survive in the near term. In the longer run, investment in upgrading trackage appears to be the desired solution, although the current innovative solutions do push it quite far into the future. The Washington State Grain Train program, combined with shuttle train efficiencies and loading only to 198,000 pounds has successfully provided service and needed capacity. Light-rail sections (70-80 lbs.), some of which are found on the PCC, can perform adequately under heavy axle loads when trains are restricted to very slow speeds. Such slow speeds do increase labor and operating costs in the short run to some degree.

Even in current uncertain market times, that study recommended that 480 miles of the 1,500 miles of branch lines in the state should be upgraded. One hundred fifty three miles of the PCC would need some or all of that rehabilitation to be economical in the long run. The cost and
The competitiveness of the PCC in the future would be negatively affected if such investment to such a standard does not occur. However, the full details on where and how much each segment would cost, and how far in the future before this issue becomes critical, is uncertain at this time, though cost estimates are in the $250,000 to $300,000 per mile range, exclusive of bridge rehabilitation costs. If such rehabilitation does not occur, the lines in the long run will become competitively obsolete and candidates for abandonment, though currently competitive in the near to mid term.

The WSDOT currently has a team from HDR Engineers in the field estimating the actual rehabilitation costs for the PCC. This information, estimated to be available in early September, will indicate overall need, to be used in funding estimates and strategies, but also suggest strategies and sequencing of rehabilitation efforts, segment by segment. Initial informal findings are that the lines and bridges may be in better condition than first suggested. The timing of this effort is critical.

**New Traffic Potential**

The near term future of the PCC is dependent on retention and growth of existing traffic and customers. It is a simple fact that for shippers, existing or potential, to include railroads in their transportation and logistics plans, they have to be certain that those railroads will be there in the future. (Such incidences of derailment of urea cars east of Colfax do little to provide that certainty). It is this uncertainty that the current rail restructuring may be able to eliminate, thus increasing the level of traffic from existing shippers, the heart of economic viability for the railroad.

The many discussions in the region, and presentations by shippers and the railroads, do suggest, in addition to the critical retention and growth of current traffic, that there is substantial potential traffic for the railroad. However, much of it is uncertain at this time. A regional plan from Hoodoo Resources, Inc. identifies industrial minerals from Latah County, Idaho (probably through Alchemy Ventures, Ltd), ethanol plants and small log lumber mills as future traffic possibilities.

The Maher Group meetings identified numerous potential traffic growth areas, but many are in the very tentative stage. Included in the list of developments currently taking place in the region were, for example, a strawboard plant in La Crosse, two industrial parks in Lincoln County, new feed mill in Creston, bio-diesel manufacturing in SE Washington, continuation and expansion of business (metal fabrication plant, expanded plants) on the Geiger spur and 600 carloads of existing grain traffic to be diverted to the PCC. Businesses that were identified to be at risk if abandonment occurred included a metal fabrication plant, phosphate/acid trade, local grain facilities, chemical and fertilizer agencies, etc.

The marketing study by Railroad Industries indicated that increases in gas, fertilizer, canned food products and farm machinery, as well as movements from new businesses from the ports, could be possible. Further, increases of up to 3,000 to 4,000 carloads of grain traffic are projected as a result of the aggressive marketing plan, including competitive rate reductions.
It should be noted that any increased or sustained traffic, from whatever site or county, serves to help pay for the overhead of the existing railroad. Thus, movements from, for example, the Alchemy Ventures development in Idaho, can serve to help shippers in Whitman County by lowering per unit costs of operation. Tolliver gives the example that an increase of traffic density from 37 cars per mile to 55 cars per mile (from 4,000 to 6,000 annual carloads) decreases costs per car by $73 in his models, a decrease that can go directly to the bottom line of the operating railroad.

**Washington State University Coal Traffic**

One traffic flow that is only slightly uncertain is the movement of coal to the Washington State University’s steam plant. This traffic will go away in the near future. Coal movements have historically been in the range of 150 to 170 carloads per year, with 280 last year and 200 projected for the current year. Current plans are for about 10 carloads per month for several months; normally there are no shipments in July-October. Now, after that period, the shipment level is expected to go to zero.

The University is converting to natural gas, backed by diesel and is eliminating its usage of coal. The reasons are economic and convenience. Several derailments have occurred in the past with no service for several weeks, forcing switching to alternative fuels. The plant is now under construction and the June shipments of coal are expected to be the last.

The loss of this traffic will have a definite effect on the revenue stream for PCC and for the Pullman to Marshall line. The only item that is uncertain is how important this specific revenue stream will be in the future.

**Ritzville Grain Handling Facility**

A 110-car shuttle grain facility has opened at Ritzville. It is unclear thus far how that facility will affect the viability of the Coulee City to Cheney line. The pricing policy of the BNSF is uncertain at this time and is certainly one of the most important factors. Initial rates indicate about a 10 cents per bushel advantage to the Ritzville facility over the elevators on the Coulee City line. But, trucking costs to the Ritzville facility are currently in the range of 10-12 cents per bushel. This cost comparison, with the double handling charge, suggests that many of the existing shippers will continue to use the Coulee City line. In any case, this issue is very volatile and any change in rates offered by the Ritzville Warehouse, the BNSF or a combination of each, can affect the traffic on the line.

**River Transportation as a Continuing Competitor or Partner**

The region has, as indicated earlier, been blessed by the continuing availability of all three major modes of transportation. Barge navigation has served a vital role in transporting the products of eastern Washington to distant markets and bringing the necessary inputs for production and consumption into the region. It has long served as a partner in the truck-barge mode of transportation and, in recent years, has received slightly over five percent of the region’s grain from its new partner, the short-line railroad.
It obviously serves as the competitor to the railroad, conditioning the rates that can be charged and the areas that will be served by the railroad. It provides much of the needed grain movement capacity that is not available from the railroads, even with the new Grain Train activity by the State.

The principal and critical constraint on the barge system is a need for continued dredging at the entrances to some terminals and in some parts of the navigation channel. A report soon to be released, done by Paul Sorenson and Associates, summarizes the current situation.

The U.S. Army Corps of Engineers has a plan to provide the required dredging, costing about $2.1 to $4.9 million per year over a 70+ year period, but this plan was recently prohibited by a U.S. District Judge’s preliminary injunction. The dredging for the 2002/2003 season has been curtailed and the timing of any future dredging is uncertain. Without dredging, the barges have, in some cases, been loaded light (as much as 35% light), decreasing efficiency and increasing per unit costs to shippers. Currently, shippers and ports have stepped in and contracted for private dredging. The future status of this effort is uncertain.

Even more startling and with major potential impact is the recent ruling by a U.S. District Court judge that a federal salmon recovery strategy adopted in December 2000 is illegal because it relies improperly on actions that are not “reasonably certain to occur, as reported by Barry Espenson of the Columbia Basin Bulletin. Judge James A. Redden said that the reliance on certain federal and non-federal activities results in a false assessment that federal Columbia/Snake rive hydro-system dams can be operated as planned without jeopardizing the existence of salmon and steelhead stocks listed under the Endangered Species Act.

The Biological Opinion strategy has been described as an “aggressive, non-breach” approach to improving salmon survival. Many of the plaintiffs in this lawsuit had sought additional measures including removal of four dams on the lower Snake River to ease fish passage and additional habitat.

Judge Redden scheduled a hearing on May 16, 2003, to work out how the biological opinion would be remanded back to the government agencies, how long they would have to rework the document and what would be done in the interim to avoid jeopardizing ESA-listed stocks. NOAA Fisheries, formerly known as National Marine Fishery Service, and the U.S. Justice Department, are currently reviewing the order and opinion, and discussions continue while the current Biological Opinion is still allowed to serve as the operating plan.

The uncertainty surrounding both the halt in annual dredging and the renewed possibility (though extremely low) of breaching of some dams has a direct effect on the short-line railroads in the region. First, the competitive position of the short line railroad is greatly enhanced if either of these actions continues. Secondly, in the extreme case, the need for service from the short-line railroad in eastern Washington is greatly increased since loss of dredging or implementation of a river draw down will both necessitate hauling grains and products to the Tri-City area, if barge is to be accessed and efficiently used in the future. If barge is no longer competitive, then rail movement the full distance to the port becomes necessary, and, importantly, new traffic for both
the originating short line and the long haul Class I railroads is created. Thus, the value of maintaining the three-legged stool of three modes as part of the total transportation system becomes obvious.

WHAT KIND OF BENEFITS ARE POSSIBLE?

The easiest answer to the benefits question is “service to the county and region”. However, studies have been done and information developed that can identify more specifically the possible benefits to the public.

The most commonly cited figure is the 10,700 or more carloads that move by the railroad and do not move by highways in the region. This magnitude of carloads, if they were all transported by truck (and this is doubtful) after a full PCCC abandonment, would generate over 29,000 truckloads on the state and county roads. Some of these would be short hauls to local multiple car loading facilities and others might be longer hauls to the river. In all cases those movements would be new stress to the roads, stress that results in accelerated wear on those roadways. Even the short haul movements to the multiple car loading facilities are in heavy trucks on some roads not built for that level of traffic nor weight of truck, resulting in “pockets of destruction” on local roadways.

The annual impact on the pavement of all this new traffic, if the PCC were no longer operating, has been estimated to be in the neighborhood of $4-5 million (net of taxes paid) on the total PCC system, for preservation at the lowest life cycle cost. If this timing is delayed, and reconstruction is necessary, that number can more than triple in magnitude. The Tolliver study does a detailed analysis of the location and magnitude of such impacts.

Tolliver, working with Washington State University, is now finalizing another study initiated for WSDOT looking at the shipper benefits of maintaining the lines. It is estimated that shippers would annually experience increases in shipping costs of over $2 million, and this is considering only existing rates. It could fully be expected, based on the competitive history in the region, that the remaining modes would increase their rates, at least to the level that maintains their original market share and competitive situation. Thus, shippers and the shipping community would bear this higher cost.

WSDOT, in a preliminary executive summary to the overall Eastern Washington short-line railroad study, postulated that immediate loss of wages and benefits in affected rail line dependent industries could be an annual loss of $6.4 million annually. It further found in reviewing additional data developed since the initial study that potential job losses plus planned or speculative jobs that would not be realized could cost another $11.1 million per year in lost wages and benefits. The analysis and data behind these estimates were not available for review, so the magnitude of the impacts were not evaluated and affirmed for this report. However, it is evident that losses, as identified by the shippers in the Maher Group, and the WSDOT, are perceived as substantial. It is a truism that the best and first step in economic development is to keep the economic activity and jobs that currently exist.
WHAT ARE CURRENT EFFORTS?

The attempt to solve the issue of a privately held railroad that appears to be nonviable in the long run, but creates multiple public impacts if it is lost, is broad, complex and confusing. A short summary offers some details as to the efforts under way.

Washington State Department of Transportation’s Rail Office has been the leader for many years in working to focus, analyze and solve the issue. It has been the source of most of the respected and defendable hard data on the issue, data that have helped narrow down, at least to some degree, the uncertainty that exists. But, much certainty still exists and the WSDOT is working on this by funding and guiding the due diligence study with Strategic Rail Finance (Michael Sussman), the right of way investigation (Michael Blaszak), the rehabilitation estimates (HDR Engineering) and the current NLV assessments (R.L. Banks and other estimators). This information, when it is finally available, will provide a framework for the negotiations that have been started between WSDOT and WATCO.

The Transportation and Economic Development Group, chaired by Commissioner Maher, has been active in working to narrow the uncertainty by bringing the stakeholders together and then working to find funding for the public interest involvement. These meetings have been productive and may continue in the future.

The Washington Legislature’s recent revenue package potentially funded some purchases, or at least provided the region with the negotiating power of a budget. Monies to potentially support purchase of the PCC, $5.8 million in the 03-05 budget, and an additional $1.5 million in the 05-07 budget can be made available. An additional $8 million is included for upgrading the Coulee City to Cheney line to handle 286,000 lb cars, but far out into the 09-11 fiscal years. Additional monies were made available for other improvements and upgrades but they, as well, were for fiscal years of 07-09. The Geiger spur, mentioned earlier, could receive support of $3.5 million in the 05-07 fiscal years.

Thus, some purchase monies may be available in the very near term. What is conspicuous by its absence is any specific funding for the rehabilitation of any lines purchased by the State. The federal government may be an option in partnership with other parties for the source of such monies. Currently, $9.1 million has been submitted for evaluation and earmarking to congressional appropriations committees. WSDOT submitted this project, with the request being supported and simultaneously lobbied by parties in the region (including the Maher Group). The congressional delegation is aware of the issue and the need for the funding. Such lobbying will need to be continued.

Discussions have been held among the Washington Department of Commerce, Trade and Economic Development, the Port of Whitman County, Idaho’s Latah County Economic Development personnel (The Latah County Board of Commissioners has written in support of the federal appropriation for the PCC), along with representatives of businesses, cities, political offices and private citizens concerning the relationship of the PCC to the rail issues in northern Idaho. Several potentially viable line segments, and associated potential businesses, have been identified in the region. The discussions deal with potential configuration of any lines, funding
of the lines, benefits of maintaining the lines and what political/economic partnerships are possible among the states and development agencies.

The Washington State Department of Agriculture has agreed to work on the issue. The Washington State Department of Commerce, Trade and Economic Development had planned a full “Symposium” as a tool to bring all the stakeholders together and develop an approach to a solution. Because of the current activity and negotiations underway the Department has postponed that specific effort but its personnel stand ready to participate in current and future efforts.

PORT OF WHITMAN COUNTY ALTERNATIVES AND STRATEGIES

It is evident that the Palouse River and Coulee City Railroad is not economically viable as a private entity in the long run, with the current traffic volume. The continued lack of proper maintenance and rehabilitation means the railroad will become too deteriorated to continue operation. Equally clear from the above analysis, however, is that with the burden of private ownership and rehabilitation costs taken from the railroad, this railroad can be expected to be viable in the near and long run and provide continued service to the County and region.

With that said, a basic option for the Port of Whitman County is to adopt a hands-off philosophy and assume the current problem will be solved by other entities in the region. However, with the acknowledged Mission Statement of the Port, the history of the Port serving as the financial administrator and local agency for state and federal monies going to the railroads in the region, the expertise of the Port personnel in business affairs and the numerous requests from its taxpayers and citizens of the County that the “Port should work to do something to save the railroad”, such an indifferent position doesn’t seem appropriate.

A more involved option, but still one with little financial or management commitment, is for the Port and its personnel to continue to serve as conveners, advocates (politically and economically) and proponents of progress towards the solution desired by the region and county. Such a function fits the Mission Statement and the Goal of encouraging a balanced and economical multi-modal transportation system to support economic development in the County.

The most extreme option is for the Port to form a stand-alone Rail District, buy the line from WATCO, operate it and repay any financial bonding that might be necessary from the combination of the railroad net revenues and the taxing base. Such a stand-alone option, though legally possible, is not needed nor warranted due to risk sharing partnership possibilities with the State and other ports, counties, shippers, etc.

The option that appears currently most reasonable is for the Port to serve as the administrator (operation oversight of a franchised rail operator) of an inter-local agreement among state, counties and ports, working with and managing the operator of the line that exists after State public purchase and rehabilitation (possibly under an advisory board of inter local partners). In such a role the Port, and its personnel, could or would operate as the marketing agent, the
maintenance monitor, the rehabilitation agency and the representative of the railroad out in the
region.

In this recommended role the Port would not require increased funding from county taxpayers,
instead relying on the identified revenue stream, existing and increased traditional traffic,
including some totally new traffic, to cover administration and marketing efforts. The railroad
would be an entity of the state with administration and local management coming from the Port’s
active presence, alone or in partnership with other entities, as suggested, possibly via an advisory
Board of participants in an inter-local agreement. Alternatively, any quitclaim arrangement with
the State as has been done with other ports, could increase the ownership status of the Port.

In the above role the Port would be actively developing volume commitments with shippers,
innovative rate/marketing structures, operational improvements and economic development
alternatives that use and/or rely on the railroad. The railroad would simply provide the physical
operation. This report has identified many of those entities that will benefit from continued or
enhanced service from the short-line railroad, including those whose role it is to create economic
development. The Port would work with those people and entities, to strengthen the relationship
and/or commitment to the railroad, since those entities should understand that it is in their best
interest to help the railroad survive and prosper.

Benefiting entities are the Class I Railroads, who would be approached by the Port, searching for
a new rate division that allows continued operations for both short-line and Class I railroads in
the long run. Preliminary studies have indicated that some traffic that currently goes by barge
can be captured by the railroads with aggressive marketing, service and rate offers.

Specific performance measures or “standards of care” would be set up for whoever operates the
railroad, since at this time it is not certain who will be the operator, though WATCO has strongly
suggested they would like to continue. Such performance measures are to be specific, capable of
being bench-marked and progress evaluated, including investment in maintenance and related
costs and adherence to quality of service indicators.

The Port should develop or continue its active role as a member of the agency debate and
negotiation with the railroad. Much of the negotiation currently underway will affect just what
the conditions of the railroad agreement are that will, under this option, be handed to the Port for
administration. Questions of operating authority, NLV purchase price, rehabilitation sequencing,
segment ownership over time, management options, etc., need to be developed with the Port at
the negotiating table, especially since it can bring a long and successful background in
developing and negotiating business contracts and relationships to that table. With the recent
appointment of Judy Giniger as Director of the Public Transportation and Rail Division, an
opportunity to work with the new leadership should be seized by the Port, thus making sure they
are at the table for any future negotiations and policy development on this issue.

A final underlying but important role of the Port is to serve as the vehicle for full discussion of
the issues in the County and the region. Stakeholders and interested parties can be brought
together under the auspices of the Port, either in its traditional role of economic development
action agent, or broadened role of administrator/manager of the railroad, whether publicly owned
or some partnership arrangement. Such citizen involvement will enhance the county and region’s understanding of the issues, while revealing to the state and Port the specific concerns and desires of its taxpayers and clientele interested in development.
APPENDIX A: CURRENT SHIPPERS ON THE PALOUSE RIVER AND COULEE CITY RAILROAD

Coulee City to Cheney
Almira Farmers
Anderson Hay
Cash Hardware
Central Washington Grain
Davenport Union
Issac Brothers
McKay Seed
Odessa Union
Reardan Grain Growers
Western Farms

Marshall to Moscow
Auvil Warner Co.
BNP Lentils
Cenex Harvest
Co-Ag
Columbia Tractor
Crites of Moscow
Shippers continued

Ferrell Gas
Jones Truck & Implement
Latah Co Grain
McGregor
Moscow Idaho Seed
Motley & Motley
Northwest Pea & Grain
Oaksdale Farm Supply
Palouse Grain Growers
Purline Seed
RMK Farms
Spokane Seed
Stubbs Seed Service
Wallace Grain & Pea
Wayne Hodges
Western Farms Services
Wilbur-Ellis
Whitman Co Grain
Washington State University
Shippers continued

Pullman to Hooper

McGregor
Wheat Growers of Endicott
Whitman Co Grain Growers

Thorton to Winona

Inland Empire Milling
McGregor
St. John Grain Growers
Whitman Co Grain Growers