



- PRESOLICITATION REPORT -

Optimizing Maryland's MTA-Owned Freight Rail Lines for Ongoing Rail Service through Public-Private Partnership

Prepared in accordance with the requirements established by:

Md. Code, State Fin. & Proc. §10A-201

Md. Code, State Government §2-1257

Code of Maryland Regulations (COMAR) 11.01.17.07

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www.mdot.maryland.gov/freight-rail

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1 EXECUTIVE SUMMARY

The Maryland Department of Transportation (MDOT), through the Maryland Transit Administration (MTA) owns almost 150 miles of federally regulated railroad corridors, including supporting facilities and real estate, which are or were at one time part of the general railroad system of the United States. These railroad lines were acquired from the estate of the Penn Central Railroad in 1982 as part of a larger effort to preserve the railroad system in rural and low-traffic areas. Approximately 92 miles of rail lines, including 65 miles of rail lines in active use, are located on the Eastern Shore and are managed through a sole source operating and limited maintenance contract between the present operator and MTA. The State of Maryland does not have the ability to directly operate a common carrier freight railroad itself and has historically relied on private firms to perform this function rather than manage operations as part of its core business.

Although there were limited providers of freight rail operation services in the past, there is now renewed interest in operating railroad lines by private entities and renewed railroad competition between short-line and regional operators nationally. MDOT has an opportunity to develop a new approach to management of these lines that allows for a Public-Private Partnership (P3) for the financing, improvement, operation, maintenance, and management of MTA-owned freight railroad lines on Maryland's Eastern Shore. A P3 will enable private investments in the rail corridor properties which MDOT would otherwise not be able to adequately plan for and coordinate, and instead leverage the synergies a P3 Operator can provide to address the need for further capital investment to ensure continued service.

MDOT will utilize a competitive process to select a private partner with the demonstrated operational and financial capabilities to finance, improve, operate, maintain, and manage the rail lines. The P3 agreement will take the form of a long-term (40 year) lease to include financial, operation, management, and maintenance provisions. The lease will allow MTA to continue to own the properties while the operations and maintenance of the railroad facilities will be managed by a private partner best qualified to enhance the condition and operations of the facilities. The P3 agreement will empower the P3 Operator to improve the condition and operations of the rail lines to generate increased railroad commerce and ensure the continued operation and growth of businesses served by the rail lines.

This P3 meets the goals of the State's P3 Program (Section 10A-102 of the State Finance and Procurement Article of the Annotated Code). Specifically, this P3 will:

- Maintain and improve the State's investment in the railroad facilities it owns on the Eastern Shore;
- Provide for risk-sharing between the State and the private partner for the improvement, maintenance, and operation of the facilities; and
- Ensure that critical jobs, businesses, and economic development opportunities are maintained and expanded.

Additionally, the P3 meets the goals of the Maryland State Rail Plan, with the overall net economic effect being to benefit the industries and communities that rely on the continuing operation of the freight railroad lines. This Presolicitation Report has been drafted and submitted under Code of Maryland Regulations (COMAR) Section 11.01.17.07.

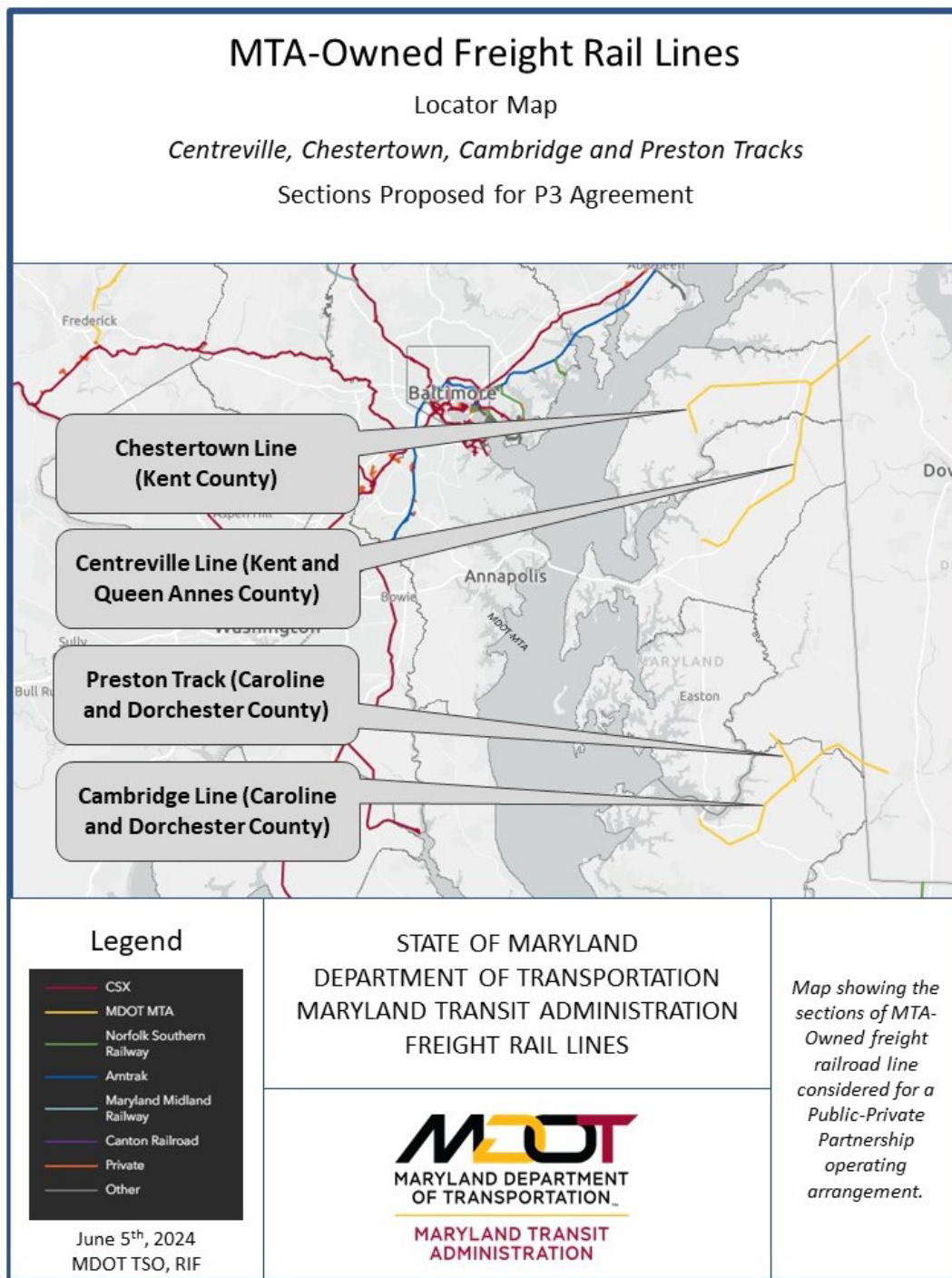


Figure 1: Map showing the locations of the Chestertown, Centreville and Cambridge Lines and Preston Track in several Maryland counties and the State of Delaware.

2 CURRENT CONDITIONS

MDOT seeks to preserve rail corridors where possible to support economic development, meet sustainability goals, and for other future uses. MDOT, through MTA, presently owns almost 150 miles of federally regulated railroad corridor which is or was at one time part of the general railroad system of the United States. Without intervention from the State, services on these rail lines would have ceased and the lines would have been abandoned by the private railroad operator in 1978 due to concerns about profitability. From 1978 to 1982, the State leased the properties from the former railroad and supported rail operations through direct subsidies. These lines were acquired from the estate of the Penn Central Railroad in 1982 as part of a larger effort to preserve the railroad system in rural and low traffic areas and are operated today by contract which provides some funding to support maintenance.

The rail lines provide critical rail connections for the agricultural, manufacturing and related industries on the Eastern Shore and the certainty of long-term operations of the rail line is important to many businesses, including at least 15 shippers which use the service. To continue to support economic development through a competitive transportation system, MTA currently holds a contract with a private railroad operator to provide service on approximately 65 miles of MTA-owned lines. The present operator of the railroad service on the corridors has operated the active railroad lines since 1978, four years before state ownership began. Today, the operator works under a Basic Maintenance of Way (“BMOW”) contract with MTA which allows it to operate the federally regulated freight rail service and requires it to perform basic maintenance such as routine repairs to the track. This contract has been procured or extended using sole-source justifications over the years due to the small pool of qualified railroad operator candidates and previously limited competition in the field of operating railroad corridors. MTA remains the owner of the rail lines and retains several responsibilities such as significant maintenance and repair of bridges, culverts, and grade crossings.

The current operating agreement has been in place since 2008 and expires December 31, 2024. Rail lines included in the current agreement are:

- Cambridge Line – 30 miles of rail corridor serving seven active shippers along 15 miles of active rail line, running between Seaford, Delaware and Cambridge, Maryland;
- Centreville Line – 35 miles of rail corridor serving four active shippers along 33 miles of active rail line, running between Townsend, Delaware and Centreville, Maryland and including Massey, Maryland;
- Chestertown Line – 20 miles of rail corridor serving five active shippers along 17 miles of active rail line, running between Townsend, Delaware and Chestertown, Maryland, and including Massey, Maryland; and
- Preston Track – approximately 6.5 miles of rail corridor that includes less than 1 mile of active rail line.

Of the 65 miles of active rail MTA owns, almost 24 miles have been substantially rebuilt and improved to perform at a level that is satisfactory to support the rail operation, otherwise known as being maintained in a state of good repair. Dating back approximately 25 years, this mileage has received all new ties and drainage work, and, most importantly, new rail. The remaining 41 miles of active track generally has the minimum number of acceptable ties, poor drainage, and lighter-than-modern rail (which was typically rolled in or around 1890). In addition to active areas, the inactive sections consist of two miles of railroad corridor which have been rail-banked under the National Trails Systems Act and 25 miles of inactive railroad line that presently do not have freight service. Additional investment is needed to restore these lines to a state of good repair. This investment, coupled with the renewed competition and success of short line railroads occurring nationally, can set a path for the long-term financial viability of operations for these rail lines.



Figure 2: Freight cars sit on sidings at two industry locations in Worton, MD on a section of track that was rebuilt in a joint effort in 2024 as part of a U.S. Department of Transportation Federal Railroad Administration discretionary grant program.

3 KEY P3 AGREEMENT TERMS

The Agreement negotiated with the P3 Operator will address, at a minimum, the terms listed here.

1. As MDOT's present railroad Operator does today, the P3 Operator will operate freight railroad service, pursue and maintain all customer contracts and relationships, set pricing, develop business, and retain revenues for services provided. In addition to present conditions, this service will be allowed to expand or contract subject to business conditions and federal regulations.
2. The P3 Operator will be responsible for the maintenance of all railroad structures, bridges, drainages and grade crossings subject to any existing or future use agreements, at its own expense. Minimum standards will be established in the P3 Agreement.
3. The P3 Operator will be required to attain and maintain a state of good repair for all active rail lines at the expense of the P3 Operator.
4. The P3 Operator will be responsible for the creation and administration of property use agreements on the corridor such as private requests for utility and grade crossings and will retain revenue from the property use agreements.
5. The P3 Operator must provide its own locomotives, cars, track equipment, tools, personal protective equipment, vehicles, materials, ties, ballast, employees, and any other physical objects necessary to run a railroad service.
6. The P3 Operator will be obligated under the terms of the agreement to assume all responsibilities for regulatory compliance related to any railroad operation or maintenance activity including but not limited to the Code of Federal Regulations (CFR) and will be responsible for securing any certifications and/or qualifications for operating the railroad from the Federal Railroad Administration (FRA).
7. The P3 Operator must obtain authority from the Surface Transportation Board of the United States to operate the service as described prior to the commencement of any service. The P3 Operator is expected to maintain this authority over the entire property described unless subject to "Interim-Use" agreements or provisions (i.e., Railbanking).
8. The P3 Operator must operate the lines in full compliance with all applicable environmental laws and regulations and will seek to advance the States climate objectives.
9. The P3 Operator must obtain and maintain adequate levels of insurance.
10. The P3 Operator must conduct annual electronic track inspections and provide the full data produced therefrom to the State; provide traffic, revenue and customer information; and publish an annual report covering all aspects of the railroads operations as they specifically relate to the P3 agreement.
11. The P3 Operator will be required to meet certain hand-back requirements and maintain certain reserve requirements prior to hand-back. MTA will retain ownership of all real estate, track, structures, and bridges.

4 RATIONALE FOR A P3 DELIVERY MODEL

The Cambridge, Centreville, and Chestertown Lines and Preston Track have been and continue to be critical rail connections to businesses on the Eastern Shore and generate and maintain jobs and economic opportunities. Continued ownership by MTA ensures that the lines will support common-carrier rail service for a variety of industries and businesses. However, at a time of limited State resources, administrating a short-line railroad agreement should be done in the most efficient and cost-effective manner possible. The P3 delivery model provides an opportunity to utilize revenues from the rail lines to make upfront investments in the facilities and to share the risk of cost and schedule with the private sector. These upfront investments will optimize the operational performance, ensure the long-term viability of the rail lines, and support continued and expanded service.

Furthermore, the P3 meets the stated goals of the 2022 Maryland State Rail Plan and will help to:

- Ensure a safe, secure, and resilient transportation system;
- Facilitate economic opportunity and reduce congestion;
- Maintain a high standard and modernize infrastructure; and
- Ensure environmental protection and responsibility.

Establishing a P3 to operate MTA-owned railroad corridors is consistent with these goals because it allows the P3 Operator to make the necessary investments in the maintenance of the property. The P3 Operator would be able to provide a long-term maintenance and operations framework, while pursuing the development of new business opportunities more actively.

Utilizing a P3 delivery model can also yield operational improvements. There are multiple management functions required to successfully operate a railroad in addition to just running trains. By consolidating the land management, capital, maintenance, and business development functions into the rail operations function under a P3 agreement, a P3 Operator will have more tools at its disposal to address the challenges of operating a railroad. Additionally, there likely are unrealized economies of scale to take advantage of which could result from consolidation of operating, maintenance, and rolling stock resources with the railroads existing resources.

A P3 will also provide financial advantages to MTA. MTA would no longer have financial responsibility for the maintenance of bridges and structures associated with the rail lines or the operating subsidy for basic maintenance of the tracks. Key to placing more financial responsibility on a private P3 Operator is also allowing the P3 Operator the ability to make its own business decisions to manage costs, allocate capital, and develop new shippers along the lines to grow revenues. A healthy thriving railroad operation is the best approach to limit MTA's financial exposure and to grow Maryland's economy.

The decision to utilize a P3 for these rail lines is due, in part, to the success of the P3 for Seagirt Marine Terminal. Much like with this project, in 2008, MDOT Maryland Port Administration (MPA) was faced with the need to make significant capital investments in Seagirt to ensure its long-term financial and operational viability. Prior to the decision to pursue a P3, the MPA held several long-term operating leases for the operation of Seagirt and the impending capital investment needed required the MPA to reconsider its options. MPA was able to evaluate whether the existing operating lease should be extended, a procurement for a new operating lease should be undertaken, or the facility should be leased for a longer period using a P3. The P3 option would require the operator to make upfront capital investments in the facility in consideration of the right to collect and retain revenues. The MPA pursued a P3 for Seagirt and ultimately selected Ports America Chesapeake for a 50-year agreement. The P3 with Ports America Chesapeake has been extremely successful, evidenced by a strong partnership between MPA and Ports America Chesapeake, substantial growth in business and revenues at Seagirt, and an investment from Ports America Chesapeake in Seagirt beyond the levels required in the P3 Agreement. MTA and MDOT seek to replicate that success for this project.

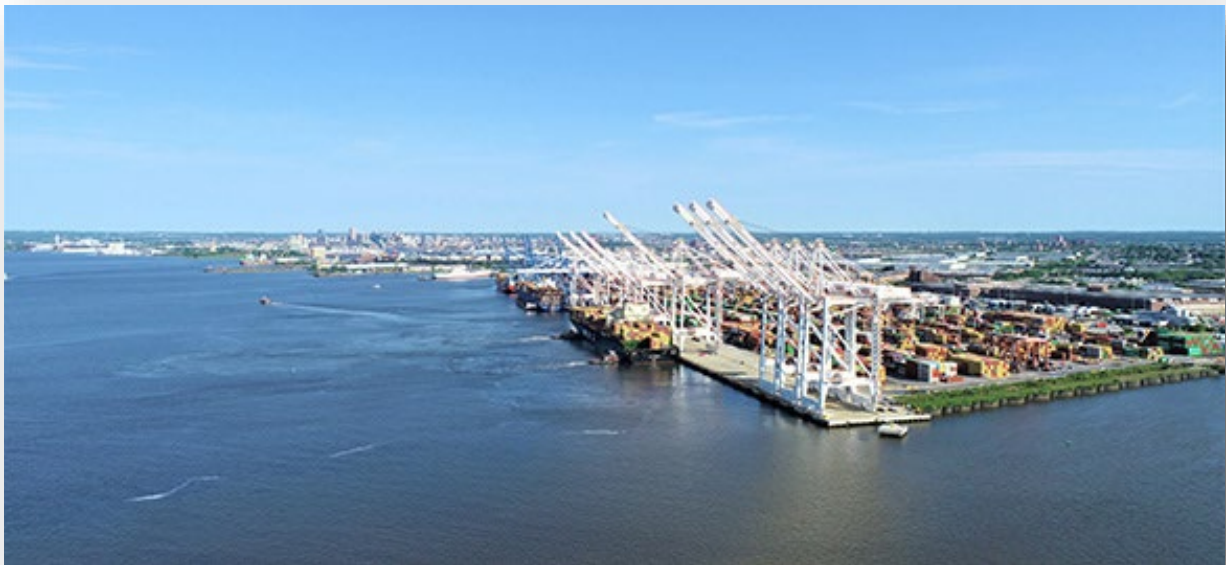


Figure 3: A view of the Seagirt Marine Terminal in Baltimore City. Seagirt is operated by Ports America Chesapeake, LLC through a Public-Private Partnership.

5 ANTICIPATED VALUE TO MARYLAND

A successful and well administered P3 will produce significant value for Maryland. As discussed above, transferring a greater scope of responsibilities and opportunities to earn revenue to a P3 Operator would allow the P3 Operator to leverage economies of scale and revenues related to those responsibilities. A successful P3 will support ongoing freight rail operations by granting a P3 Operator the authority to make the changes necessary to operate the freight rail service economically in accordance with modern best practices. Maryland may then shift away from its present and significant direct involvement in capital projects associated with these lines to a more discretionary role that supports state of good repair initiatives statewide. In this way, Maryland, as well as the P3 Operator, can achieve better outcomes on a larger scale with the same or less financial impact.

Importantly, here, use of a P3 delivery model would serve to redistribute and allocate risks to the party best able to mitigate the risk. Under the current operating model for the Eastern Shore Rail Lines, MDOT and MTA hold the risk related to cost and schedule delivery of capital improvements, operating revenue, and expected and unexpected significant maintenance and rehabilitation needs. Under the P3 model, the risk associated with capital improvements, revenue, meeting state of good repair needs can be allocated to the private sector. To accept this risk, the P3 Operator will require a P3 agreement term that is long enough to recoup its investment, the right to set and collect revenues, and the operational flexibility to pursue new business opportunities. To be successful, a P3 agreement that transfers risk must also transfer sufficient authority and decision making for the P3 Operator to mitigate that risk. This requires the State to ensure that the P3 agreement clearly states the standards and expectations that the P3 Operator must abide by and provides sufficient monitoring and enforcement tools for the State and P3 Operator to ensure compliance.

A safe and financially sustainable freight rail service on the Eastern Shore is vital to the communities and businesses being served and to the expansion of these services. These communities are frequently rural, disadvantaged, or otherwise lack vibrant job opportunities for their residents. Effective rail transportation options are important ingredients for commercial and industrial development. Market activities on the Eastern Shore are made more competitive by rail service, and by extension, Maryland's economy is made more competitive. An effective railroad operation is likely to have an indirect effect on state and local revenues. Additional economic activity boosts incomes and generates additional tax revenue for state and local governments. Some of the largest employers in several rural Maryland counties are already served by rail which increases their competitiveness nationwide. Likewise, the loss of effective freight rail service can have a negative effect on net revenue for state and local governments as a result of a reduction in overall economic activity.

Moreover, the rail lines are currently in need of additional capital investment, and the current financial constraints on the Transportation Trust Fund may impact the State's ability to invest in the facilities at the timing and magnitude needed without reducing resources for other critical transportation needs. Without this investment, the facilities will continue to deteriorate, and derailments and loss of service may occur.

In terms of workforce impacts, there are not any State positions or employees which would be negatively impacted by utilizing a P3, because the rail lines have already operated as a contracted service with a private company for many years. Conversely, moving forward with a P3 will ensure that critical investments are made appropriately and will ensure that existing jobs at businesses served by the rail lines are maintained. For example, the realization of a sustainable railroad infrastructure maintenance and capital improvement plan by the P3 Operator will continue to support and create many direct construction jobs in a number proportional to the size of the investments made. In addition, continued reliable and competitive railroad services will support the preservation of an estimated 1,200 indirect jobs in industries which rely on railroad service, and enable future economic development opportunities for the region which could generate even more.

In addition, a successful P3 will contribute to the State's environmental goals. Each carload of railroad freight is roughly equivalent to four truckloads of freight on the State's roadways. Presently, many industries on Maryland's Eastern Shore move materials and products by truck, but the ability to increase rail service along these lines may provide a viable alternative that would convert the transportation of goods from truck to railroad. Depending on the locomotive, trip profile and truck used in the comparison, the fuel consumption break-even point for railroad operations on the State-owned lines is approximately five railroad cars. Thus, trains longer than five railroad cars would likely save fuel during their trip on net when compared to trucks. Leveraging railroad service to replace trucks could yield considerable progress toward the reduction of carbon emissions in the State.

A successful P3 partnership will allow a selected railroad greater ability to operate MTA-owned lines profitably and leverage their own capital for maintenance needs and improvements. While confidential proprietary revenue data cannot be shared, asset lifecycle costs can be examined and estimated for known major maintenance costs. A typical tie replacement program of between 10,000 and 15,000 ties per year on average is anticipated to maintain state-of-good repair (estimated \$1.2-1.8 million per year) and support continued service. Rail is another known maintenance cost. In the very near future, at least 32 miles of rail must be replaced to support continued freight rail operation. Due to maintenance needs, which could easily total in the millions annually, a successful P3 agreement must therefore, to the greatest extent possible, encourage the wise use of private and public capital and must also leverage the availability of any federal railroad safety and repair funding as it is made available.

Operational optimization would be a central goal of any P3 agreement. Improving track conditions, for example, also means lower operating costs. Trains today can only operate at a maximum of 10 MPH on 62% of the active mileage, some 40 miles. To traverse that mileage would therefore take a train crew four hours one-way and four hours more to return, essentially an entire day's work for two employees. Raising the track condition from Class 1 to Class 2 could potentially halve the amount of time necessary to move trains by allowing a doubling of train speed from 10 MPH to 20-25 MPH. Improving track conditions will therefore also enable better train crew efficiency, allowing more traffic to be moved with fewer man-hours.

Having a P3 Operator fully administer all aspects of the railroad lines would expedite projects in both maintenance and administration. In maintenance for example, a P3 Operator will be able to completely focus on the capital needs of the lines and schedule maintenance work according to railroad needs, not subject to other MTA needs. Economies of scale will feature heavily in any new contract. Railroads are scale oriented businesses, even short lines. Currently for example, most maintenance is performed by hand with individual tasks completed one at a time. Railroads today have devoted considerable research and development to developing railroad maintenance machines that can leverage the labor of a single employee. Current best practices use "production crews" whereby a crew of perhaps 10 or more employees, each operating a specific on-track machine, can replace hundreds of railroad ties per day. This method enables the line, now in, or closer to, a state of good repair, to not have to be serviced again for years (usually on 7-year cycles), at which time the crew returns to perform all necessary work. Applying economies of scale in maintenance like this will mean that the P3 Operator could more likely shoulder the additional capital costs of increased projected traffic levels.



Figure 4: An example of a Roadway Work Group made up of multiple Roadway Maintenance Machines. Roadway Work Groups are a key component to a successful railroad capital and maintenance program and represent a growth opportunity in a P3 Agreement.

6 PRELIMINARY ANALYSIS INDICATES NO IMPACT ON STATE DEBT CAPACITY

One of the key benefits of the P3 model is the investment of private capital in the State's infrastructure. This will be true for this P3 as well, since the P3 Operator will be expected to invest in reaching and maintaining a state of good repair for the active rail lines. Despite this investment, it is anticipated that this P3, like several of the State's other P3s, will have no impact on the State's debt capacity. As discussed in an earlier section, the aim of this P3 proposal is to arrange for an agreement which is revenue neutral to the State. While the larger effect of a P3 would be to reduce the SOGR backlog (estimated between \$60-100 million) on MTA-owned lines and preserve freight rail service, if successfully implemented, a P3 would allow the State to make better use of the funding it has been spending on the program to leverage matching private or Federal funds in the future.

7 EXEMPTION FROM DIVISION II

Subject to review by the legislature and approval by the Board of Public Works to utilize a P3 model, MDOT will implement a robust and transparent process for the competitive selection of a P3 Operator. MDOT intends to use the Division II exemption set forth in Section 11-203 of the State Finance and Procurement Article for this public-private partnership.

8 SOLICITATION PROCESS

The selection process will include a one-step solicitation process that consists of a request for proposals (RFP). MDOT may conduct industry review meetings to receive feedback on requirements and to assist it in formulating the RFP. The RFP will include a Request for Qualifications (RFQ) to qualify railroad businesses whose proposals will be considered. Qualifications will be based on both technical and financial criteria. After the respondents are qualified and at any time before the award of the public-private partnership agreement, MDOT and MTA may engage in discussions with qualified respondents in accordance with Md. Code Ann., State Fin. & Proc. § 10A-202. The RFP will state the standards necessary for a proposal to be evaluated and the requirements for submitting a proposal; explain the evaluation criteria and process; provide reference documents; detail proposal requirements to include discussion on plans for Investment and Maintenance, Marketing and Business, Safety and Quality Assurance, and Mobilization and Operations; state the requirements for hand back and include a sample P3 agreement. Once the RFP has been issued and proposals are received, MDOT will review the proposals, determine that each respondent is qualified, consider whether to undertake a best and final offer (BAFO) process, identify the proposal that provides the best value to the State, and finalize terms of the P3 agreement with the selected respondent.

Prior to execution of the P3 agreement, MDOT will provide an opportunity for review and comment by the Comptroller, the Treasurer, the legislature, and the public prior to seeking approval by the Board of Public Works. It is estimated that the total duration of the solicitation process will be 9-12 months from the publication of the RFP publication to submission of the P3 the agreement to the Board of Public Works for approval.

Common carrier freight railroad lines in the United States are regulated by several federal agencies. Any attempt to sell, lease, or change the operational status of a freight railroad line must be subject to regulatory approval with the Surface Transportation Board. As the final step in the implementation of a P3, the P3 Operator would be expected to seek and acquire regulatory approval as a contingency of any P3 agreement. During this approval process the STB considers a number of socio-economic and environmental impacts and uses that analysis to determine if any special conditions should be applied to the P3 Operator and/or MDOT and MTA.

9 DETAILED MAPS OF RAILROAD LINES

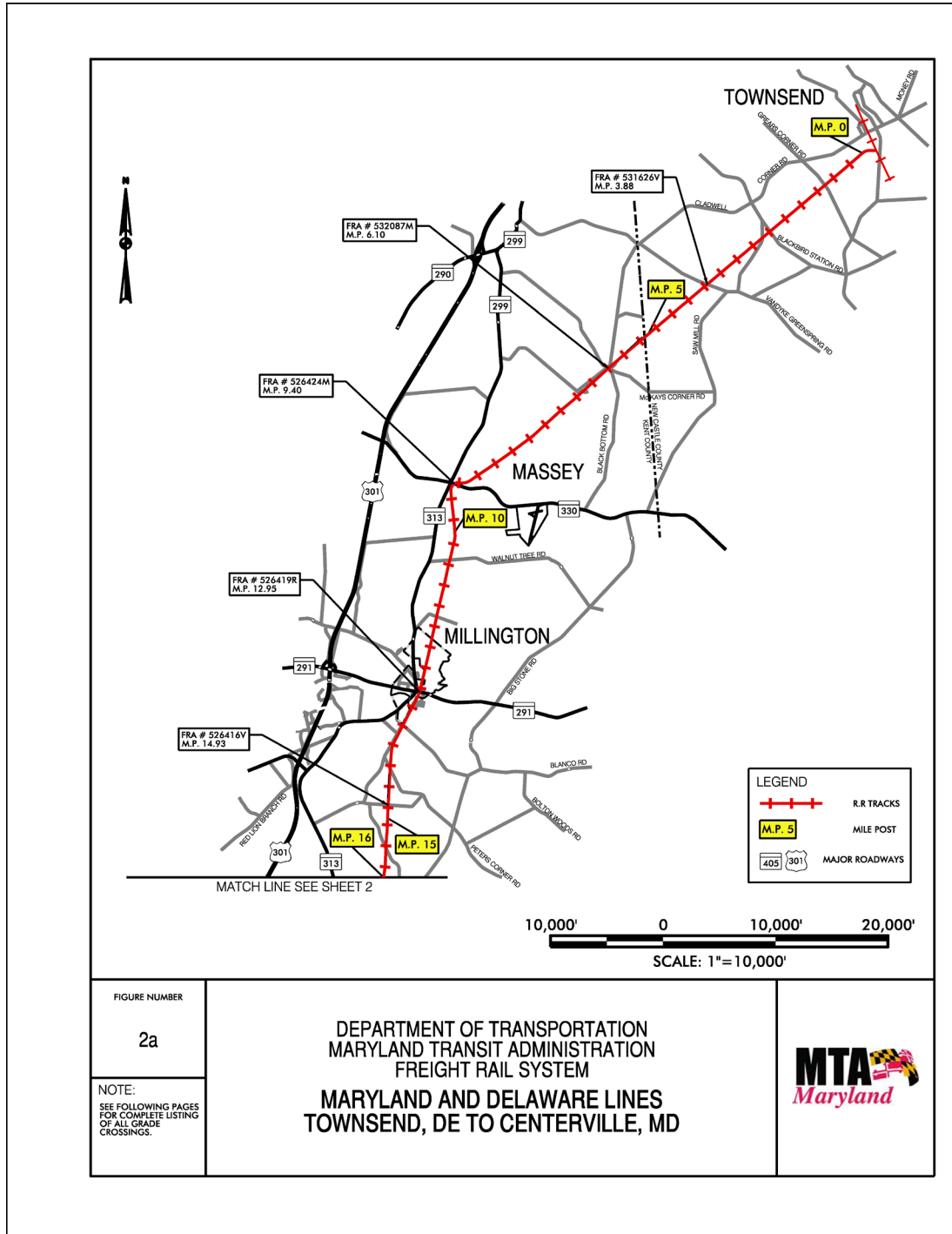


Figure 5: Map showing the northern section of the Centreville Line including the locations of Townsend, DE, Massey, MD, and Millington, MD.

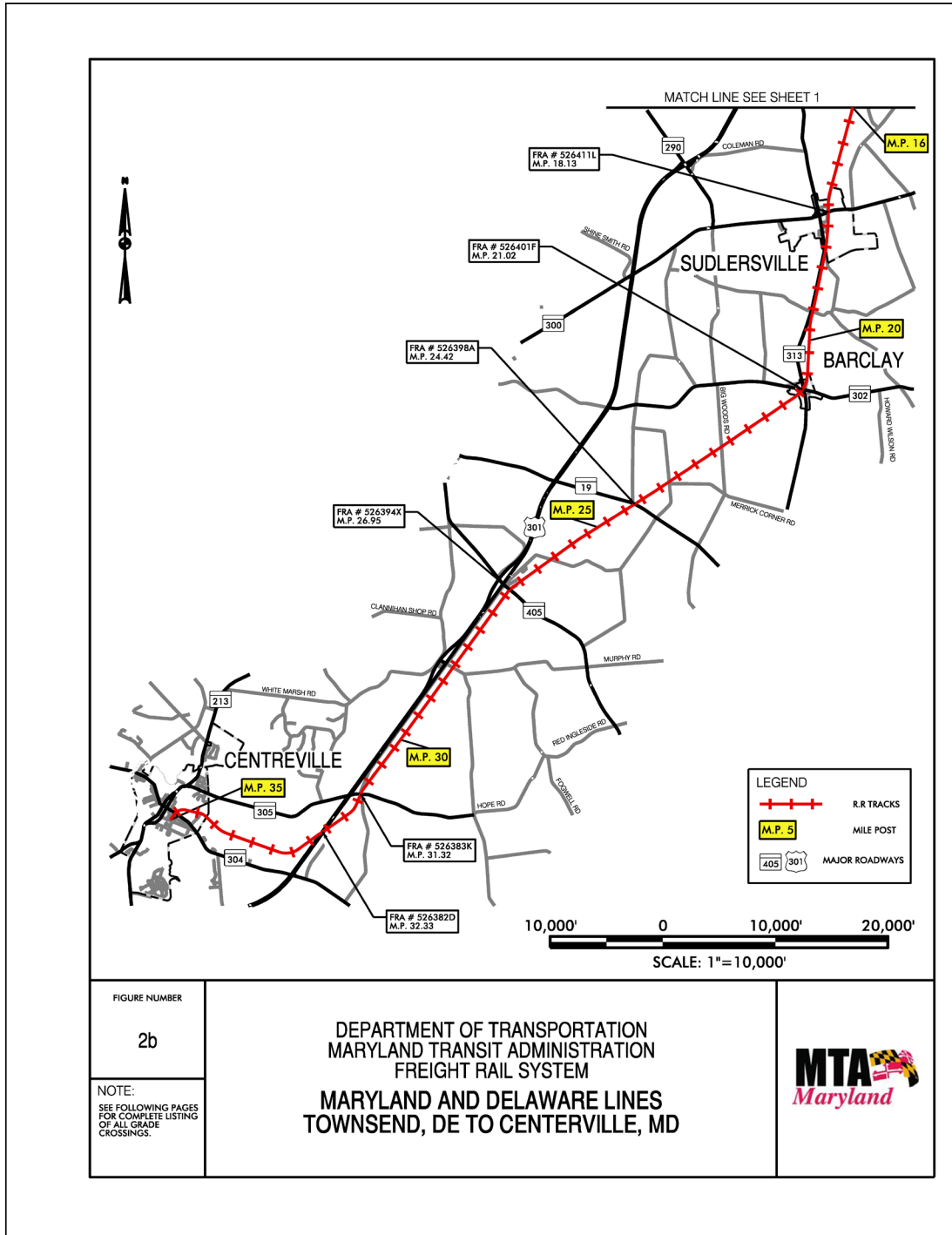


Figure 6: Map showing the southern section of the Centreville Line including the locations of Sudlersville, MD, Barclay, MD and Centreville, MD.

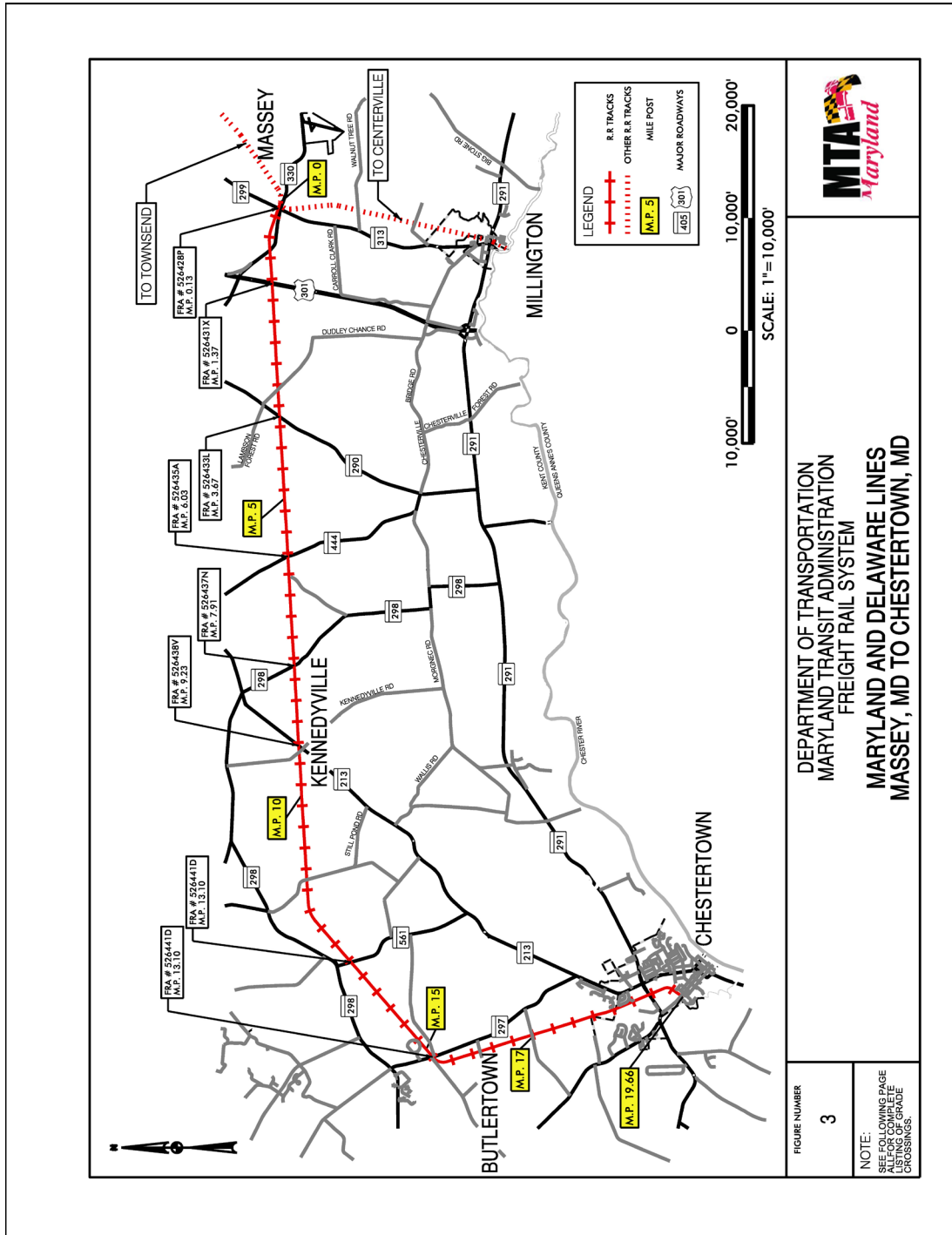


Figure 7: Map showing the Chestertown Line including the locations of Massey, MD, Kennedyville, MD and Chestertown, MD.

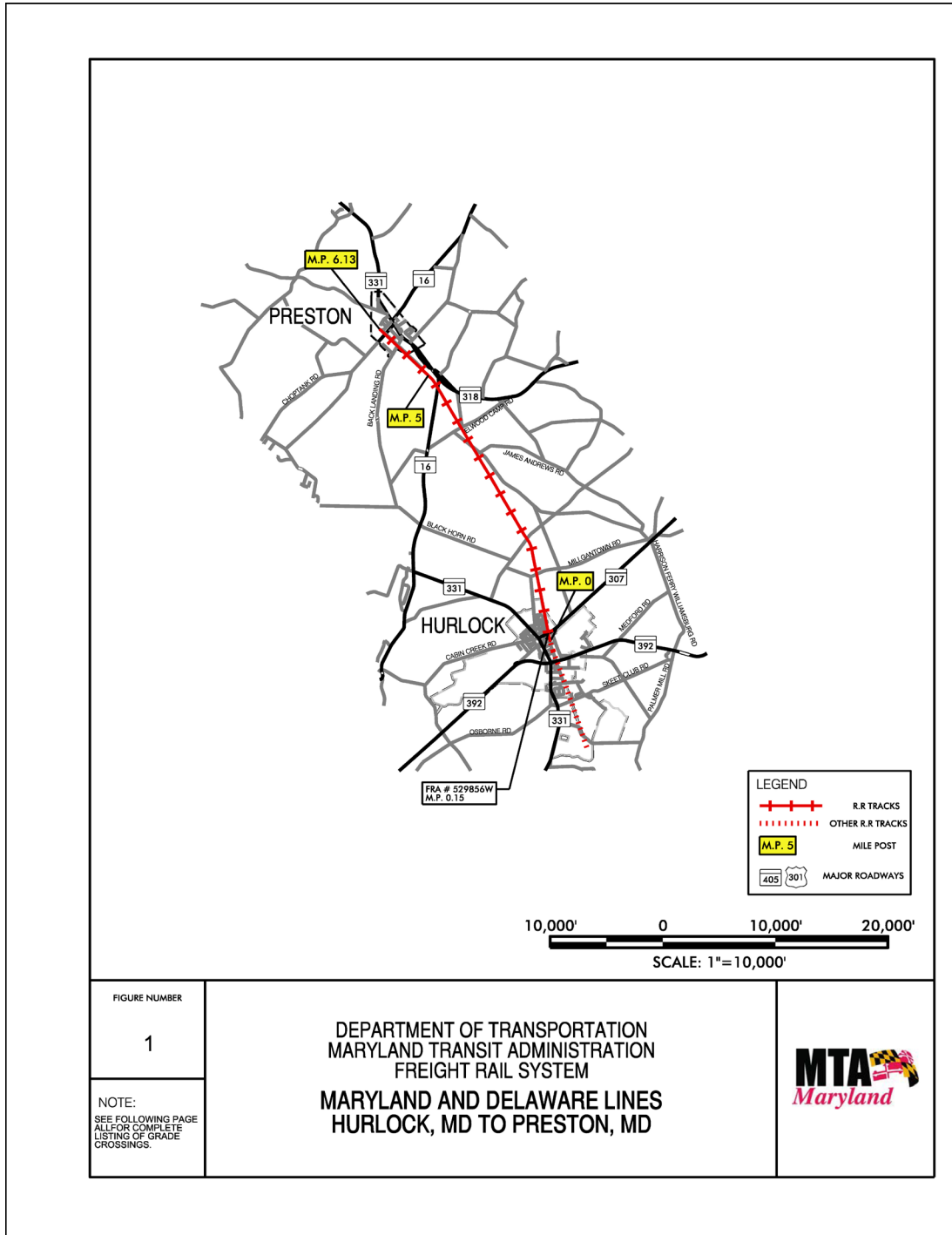
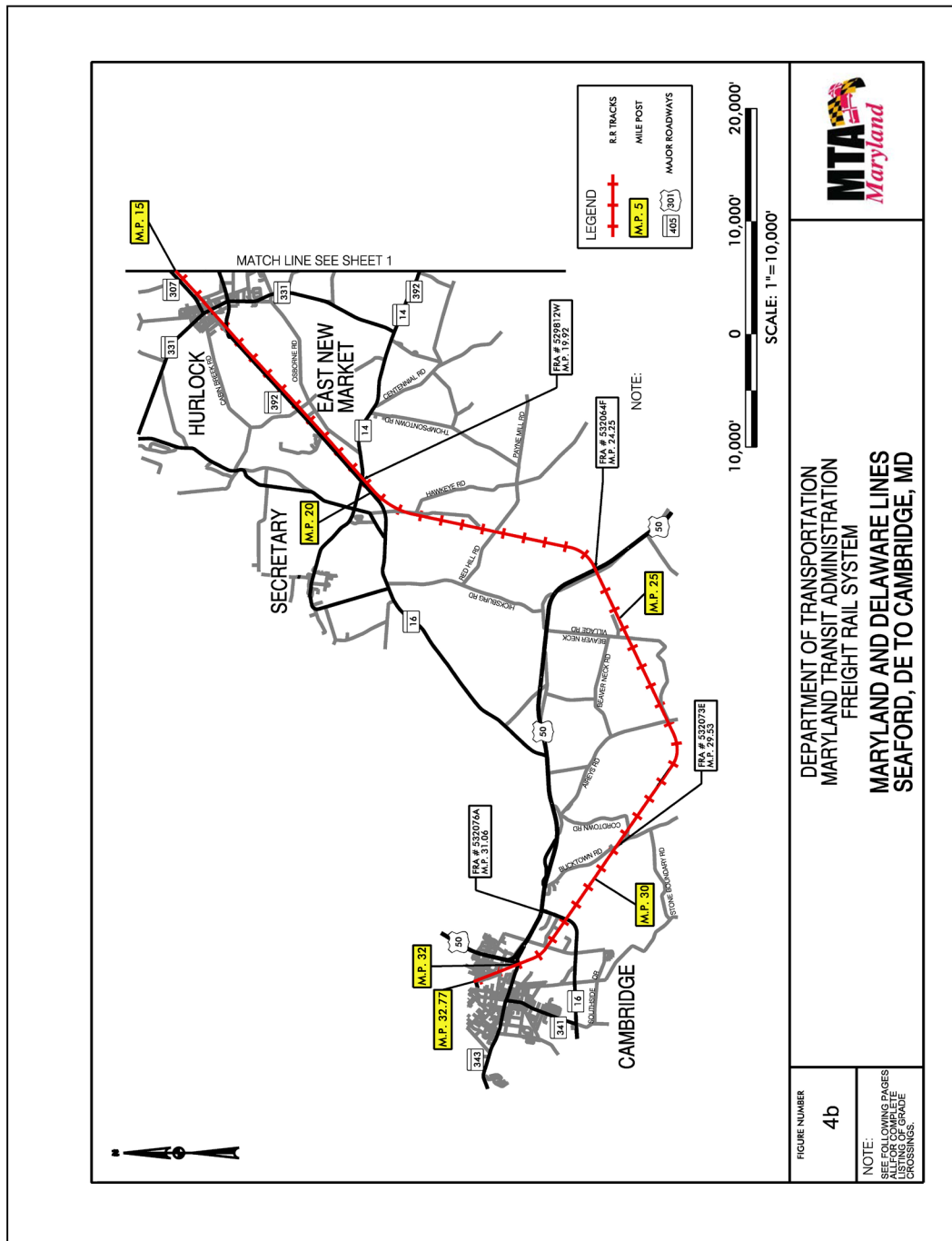


Figure 8: Map showing the Preston Track including the locations of Hurlock, MD, and Preston, MD.





2024

Rail and Intermodal Freight