

CINCINNATI SOUTHERN RAILWAY

Overview and Next Steps

Cincinnati City Council
Finance & Budget Committee
(February 13, 2023)

History of the Cincinnati Southern Railway

“A remarkable proposition”
Ohio Senator Edward A. Ferguson

Construction of the CSR

- The Ferguson Act passed in 1869.
- The City of Cincinnati built the Cincinnati Southern Railway (CSR).
- Multiple votes of the City's electorate approved the issuance of debt to build the CSR.
- CSR is the only municipally owned railroad in the United States.



Long-Term Lease with Norfolk Southern



- Since 1881, the CSR has been leased to Cincinnati, New Orleans, & Texas Pacific Railway (CNOTP), which is now a subsidiary of Norfolk Southern (NS).
- CSR is only used for **freight traffic** and not passenger traffic.
- The CSR is part of NS's larger network, particularly between Chicago and Atlanta.
- Railways are heavily regulated by the federal Surface Transportation Board.

Cincinnati Southern Railway Board of Trustees

- The Board is a public body whose meetings are open to all.
- Non-partisan (only 3 Board members of the same political party); 5-year terms; volunteers.
- Serves a vital role to ensure the greatest possible return for the benefit of Cincinnati.

Paul Muething
(President)



Paul Sylvester
(Treasurer)



Charlie Luken
(Vice President)



Mark Mallory
(Member)



Amy Murray
(Member)



Sale v. Lease

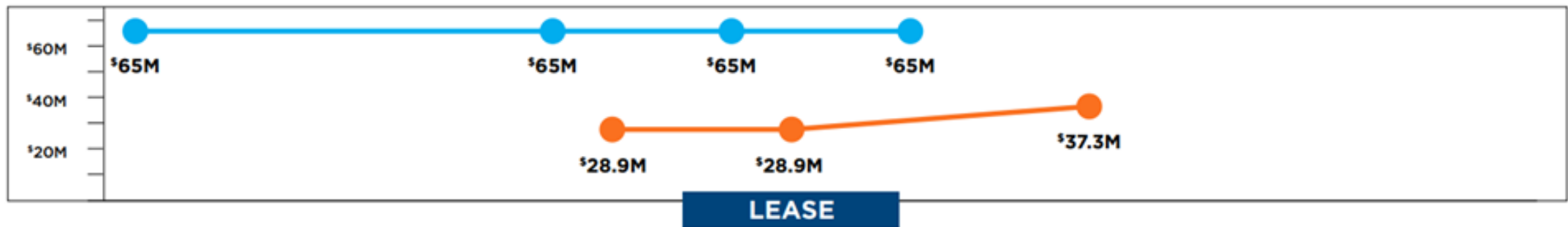
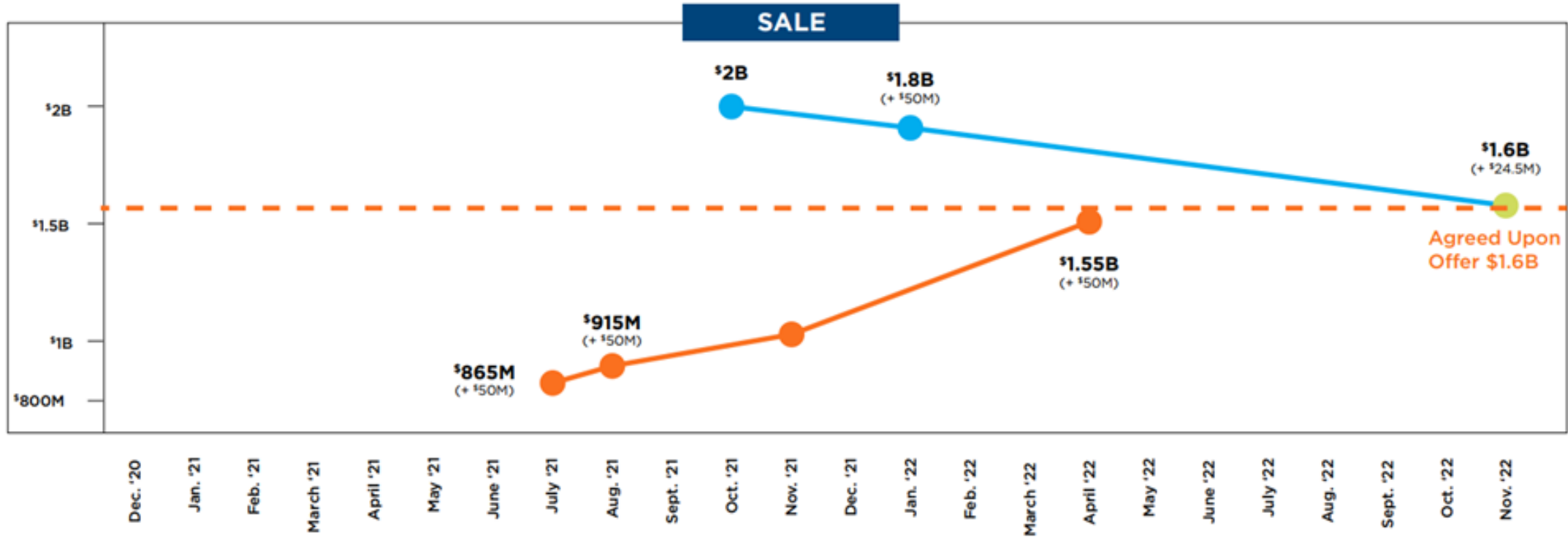
*More than double the annual value
in perpetuity*

The Existing Lease with NS

- In 1987, NS and the CSR Board agreed to extend the lease through 2026.
- That agreement also provided NS the right to extend the lease an additional 25 years, **through 2051**, which right NS exercised in December 2021.
- The 1987 agreement also contemplates an arbitration procedure to determine rent through 2051. That process was to begin as early as June 30, 2022.
- This arbitration procedure would be a **detriment** to the City of Cincinnati.
- The existing lease complicates a sale of the CSR to a third-party today.

Negotiation Timeline | Summary of Offers

■ Cincinnati Southern Railway Board
 ■ Norfolk Southern



CSR Valuation Analysis

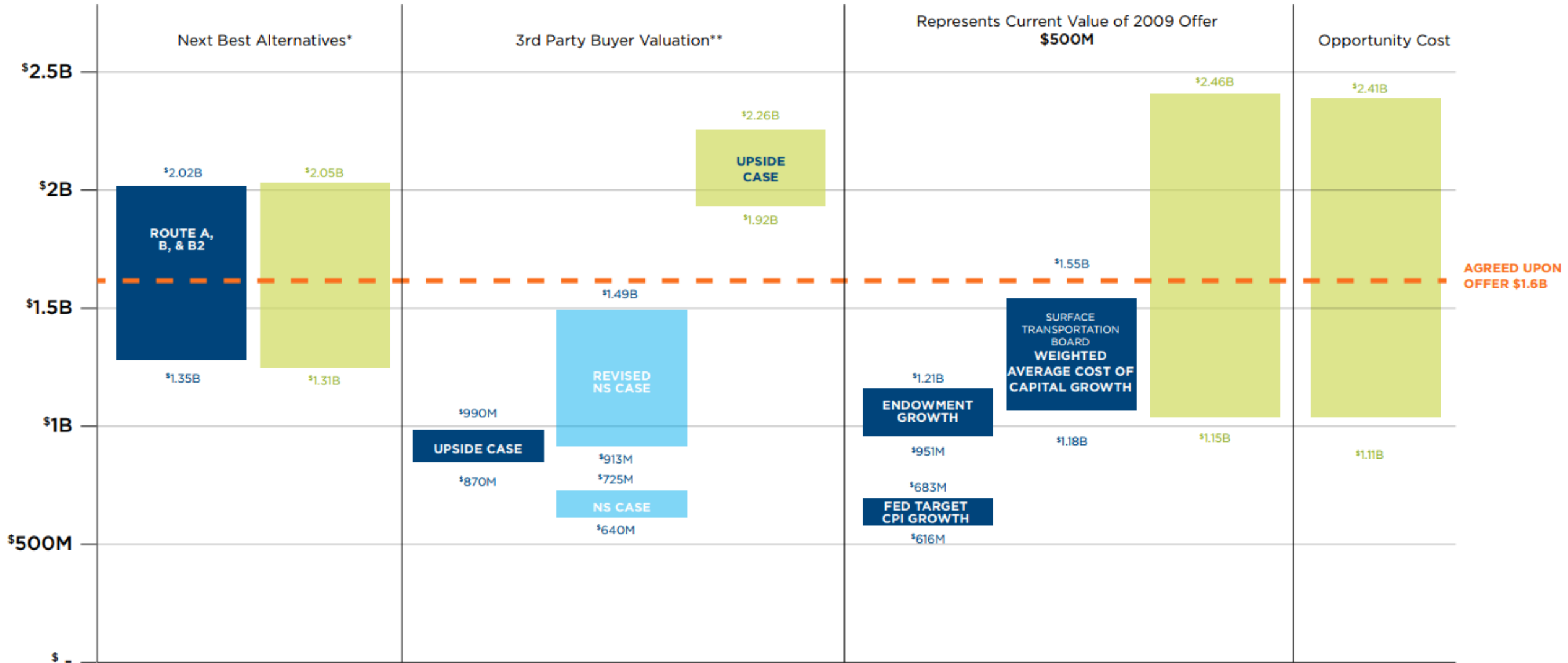
CSR Valuation Analysis Comparison

Norfolk Southern (NS)

BMO Capital Markets Corp.

The Brattle Group Inc.

Based upon data available to CSR



* Next Best Alternatives represents how much it would cost NS to reroute the traffic from CSR to a different line. NS would try to accomplish this at the lowest possible cost.

** 3rd Party Buyer Valuation represents how much NS believes a third-party would pay for the rail line. The upside case better represents what the CSR's experts believe the initial NS case would be worth.

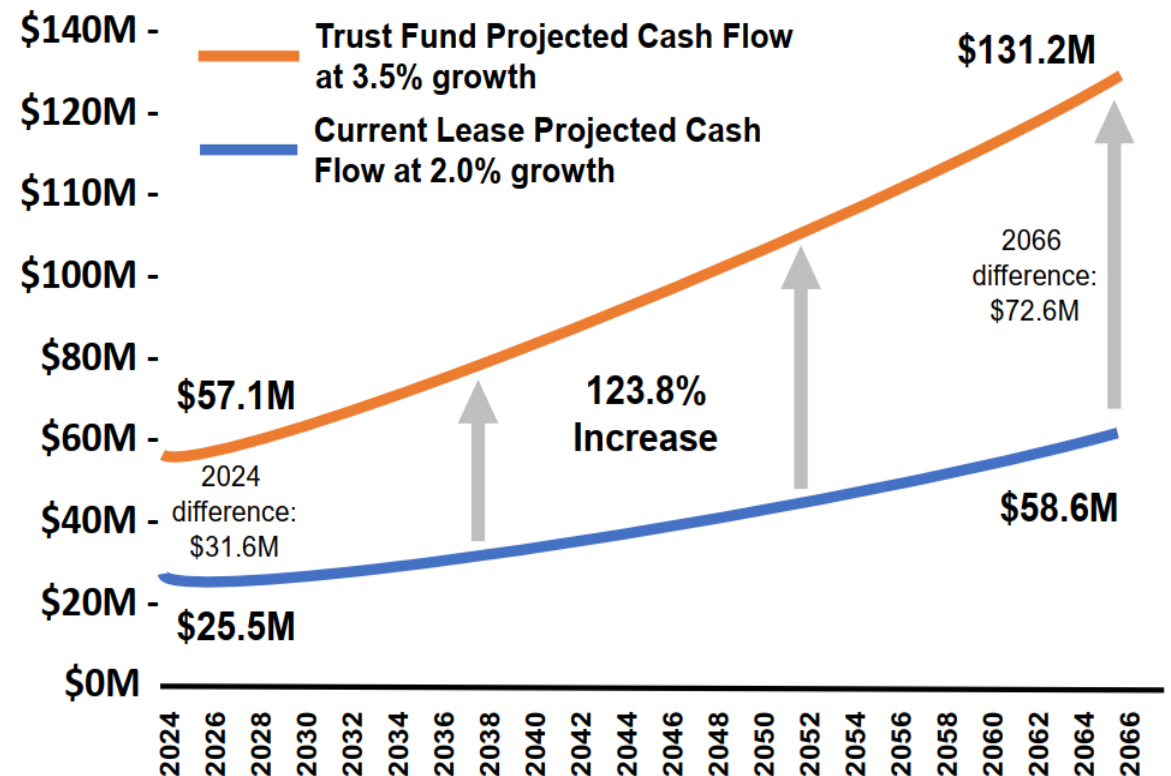
This slide is subject to all of the caveats in the various decks prepared by the CSR's experts.

Projected Annual Return on Investment (Sale v. Lease)

- More than double (123.8%) the annual cash flow available to the City for existing infrastructure improvements
- 2026 (projected):
 - Lease: \$25.5M
 - Trust Fund Earnings*: \$57.1M
- 2066 (projected):
 - Lease: \$58.6M
 - Trust Funding Earnings*: \$131.2M

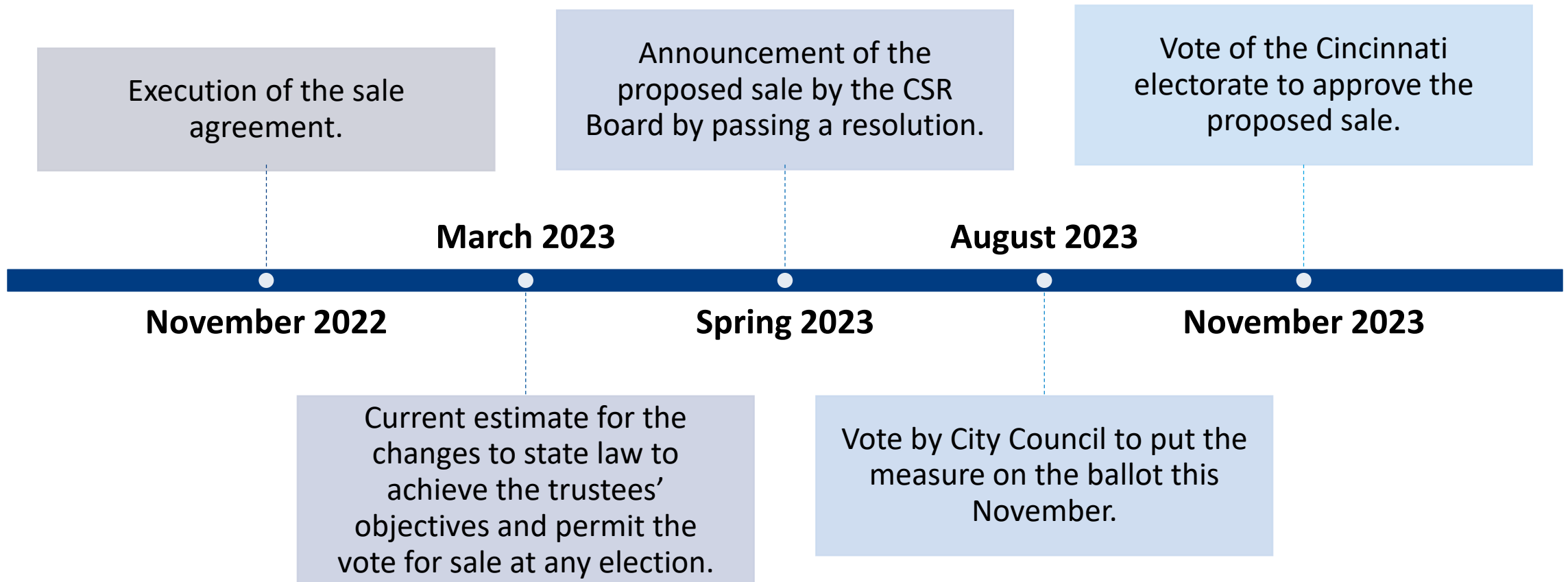
** Does not include earnings reserved annually for trust fund growth, a hedge against inflation and CSR operations.*

Current Lease vs “Trust Fund” Annual Cash Flows



Future of the CSR

Proposed Timeline



Changes to the Ferguson Act

- The proposed changes to the state law governing the CSR are necessary to create a trust fund and allow the sale proceeds of \$1.6B to be invested.
- State law would require the CSR Board to remit a minimum amount to the City each year.
- The proposed changes also, like the Council policy adopted in 1987, limit the City's use of the funds to rehabbing, replacing, and modernizing existing infrastructure.
- The proposed changes also create multiple safeguards of the sale proceeds.

“Existing infrastructure improvements” means streets, bridges, municipal buildings, parks and green space, site improvements, recreation facilities, improvements for parking purposes, and any other public facilities that are owned by a municipal corporation with a useful life of five or more years.

“Existing infrastructure improvements” does not include the construction of new infrastructure improvements.

Future Roles and Responsibilities

Board of Trustees:

- Nothing changes. Its role remains to ensure the greatest possible return for the benefit of the City of Cincinnati.
- Instead of managing a lease, its duty is to grow the trust fund in perpetuity.
- It must hire a financial expert.
- It must disburse to the City a minimum amount each year.
- It must be bipartisan.

City Council:

- Mayor appoints CSR Board of Trustees with the advice and consent of Council.
- Appropriates funds for existing infrastructure improvements in accordance with the approved state law.

Questions?

More information is available at:

<http://cincinnati-southern-railway.org/csr-sale/>