

## **Preliminary Performance Review**

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# **State Rail Authority**

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**The State Rail Authority's Operating Losses  
During FY 2005 Declined to the Lowest Level  
Since FY 2000**

**One Derailment In FY 2004 Was the Authority's  
Only BRIM Insurance Loss During the Last  
Two Years**

**The Authority Has Become More Active With  
Respect to Monitoring the Rail Industry  
Throughout the State**

**The Authority's Low Wages and the Lack of  
an Incentives Program Make It Difficult to  
Recruit or Retain Employees**



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## OFFICE OF THE LEGISLATIVE AUDITOR

**Aaron Allred**  
*Legislative Auditor*

**John Sylvia**  
*Director*

**Russell Kitchen**  
*Research Manager*

**Donald Robinson**  
*Research Analyst*

**Performance Evaluation and Research Division**

*Building 1, Room W-314*

*State Capitol Complex*

*Charleston, West Virginia 25305*

*(304) 347-4890*

---

**WEST VIRGINIA LEGISLATURE**  
*Performance Evaluation and Research Division*

Building 1, Room W-314  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305-0610  
(304) 347-4890  
(304) 347-4939 FAX



John Sylvia  
Director

December 11, 2005

The Honorable Edwin J. Bowman  
State Senate  
129 West Circle Drive  
Weirton, West Virginia 26062

The Honorable J.D. Beane  
House of Delegates  
Building 1, Room E-213  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Sunset Law, we are transmitting a Preliminary Performance Review on the *State Rail Authority*, which will be presented to the Joint Committee on Government Operations on Sunday, December 11, 2005. The issues covered herein are "The State Rail Authority's Operating Losses During FY 2005 Declined to the Lowest Level Since FY 2000;" "One Derailment In FY2004 Was the Authority's Only BRIM Insurance Loss During the Last Two Years;" "The Authority Has Become More Active With Respect to Monitoring the Rail Industry Throughout the State;" and "The Authority's Low Wages and the Lack of an Incentives Program Make It Difficult to Recruit or Retain Employees."

We transmitted a draft copy of the report to the State Rail Authority on November 30, 2005. The Authority opted not to have an exit conference. We received the agency response on December 5, 2005.

Let me know if you have any questions.

Sincerely,

Handwritten signature of John Sylvia in cursive script.  
John Sylvia

JS/wsc

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*Joint Committee on Government and Finance*

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# Executive Summary

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## **Issue 1: The State Rail Authority's Operating Losses During FY 2005 Declined to the Lowest Level Since FY 2000.**

*The Authority's operating losses for FY 2005 were the lowest since FY 2000.*

The Authority's operating losses for FY 2005 were the lowest since FY 2000. A Board of Risk and Insurance Management (BRIM) insurance premium increase created an increase in operating losses from FY 2003 to FY 2004. Operating losses on the South Branch Valley Railroad (SBVR) are decreasing, while they have increased during the last year for the West Virginia Central Railroad (WVCR).

Freight traffic on the SBVR in FY 2005 was the highest ever recorded and reached the planned level of traffic mentioned in the January 2004 Preliminary Performance Review. Increased freight traffic to and from the Pilgrim's Pride facility and an increase in the amount of lumber hauled to Allegheny Wood Products contributed to the additional freight traffic. Freight traffic on the WVCR in CY 2005 was the highest since CY 1999. Negotiations to haul coal on the WVCR are ongoing.

The Authority began reporting separate financial statements for the two railroads as recommended in the January 2004 Preliminary Performance Review. The 2004 Preliminary Performance Review also recommended that the Authority complete an economic impact analysis on the WVCR. The Authority hired an independent contractor to complete this analysis. The report estimated that the railroad yields \$1.79 in benefits to the local economy for each dollar spent on its operation.

*The Authority experienced one derailment during the period examined in this report, which occurred on the SBVR on August 8, 2003.*

## **Issue 2: One Derailment In FY 2004 Was the Authority's Only BRIM Insurance Loss During the Last Two Years.**

The Authority experienced one derailment during the period examined in this report, which occurred on the SBVR on August 8, 2003. The derailment was the only BRIM insurance claim during FY 2004 and FY 2005. The derailment occurred because of extreme heat and exposure to the sun. The track buckled and moved from the prolonged exposure to the sun. Routine maintenance or inspection cannot prevent this type of derailment. The total cost of the derailment was \$130,551. The Authority paid \$10,402 for track repairs. The amount submitted to BRIM was \$121,149, of which \$1,000 was a deductible.

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### **Issue 3: The Authority Has Become More Active With Respect to Monitoring the Rail Industry Throughout the State.**

The Authority is more active statewide in monitoring the rail industry. The Authority has updated the State Rail Plan. The Plan details all active rail lines in the state. This document categorizes all rail traffic in the state. The update lists tonnage of freight originating, terminating, or passing through West Virginia. This information will help the Authority better anticipate possible rail abandonments and facilitate planning for the rail industry.

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*The Authority is limited, however, because state law gives authority for coordinating and planning tourist travel to the Public Port Authority (PPA).*

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The Authority oversees the operation of the two railroads it owns, the WVCR and the SBVR. The Authority is limited, however, because state law gives authority for coordinating and planning tourist travel to the Public Port Authority (PPA). The *Code* also authorizes both the PPA and the Parks and Recreation Division of the Department of Natural Resources to own and operate tourist trains. The *Code* statutorily requires the PPA to plan, link, and coordinate all of the state's tourist trains. The PPA has not completed a plan for tourist train travel and has limited contact with the State Rail Authority.

### **Issue 4: The Authority's Low Wages and the Lack of an Incentives Program Make It Difficult to Recruit or Retain Employees.**

The starting wages for new employees are low in comparison to the other industries in the Moorefield area. The Authority finds it difficult to retain new employees. Employees that complete the six-month probation period do not receive any financial incentives to remain with the Authority beyond this period. The Division of Personnel has repeatedly denied the Authority's request for wage increases. The Authority cannot effectively compete with the starting wage rates and wage incentives of the private industry employers in the Moorefield area

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*The Authority finds it difficult to retain new employees.*

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### **Recommendations**

1. *The State Rail Authority should continue in its efforts to increase freight traffic on the West Virginia Central Railroad with the goal of making the railroad financially self-supporting.*



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2. *The State Rail Authority should continue to focus on capital improvements, maintenance and safety inspections, while training its employees how to respond in the case of an unavoidable train derailment.*

3. *The State Rail Authority should contact the Public Port Authority for the purpose of coordinating tourist train planning with other state agencies as part of an overall plan for tourist transportation.*

4. *The Legislative Auditor recommends that the Legislature consider re-evaluating the wages and other financial compensation of the Authority's staff in order to make them more competitive with private employers.*



# Review Objective, Scope and Methodology

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This is a Preliminary Performance Review of the West Virginia State Rail Authority, as required by West Virginia Code §4-10-5. The Authority is responsible for the “establishment, funding, construction, reconstruction, acquisition, repair, replacement, operation and maintenance of railroad projects,” as well as other activities that promote efficiency and safety within the state’s rail industry.

## Objective

This report updates the issues originally reported in January 2004. The January 2004 report discussed the following issues:

- Issue 1: The State Rail Authority’s Operating Losses Fell During FY 2002, But Still Exceeded Operating Loss Levels Identified In the Previous Report.
- Issue 2: Insurance Losses Suffered By the State Rail Authority Were Substantially Lower During the Last Two Years, With No Losses Suffered in FY 2003.
- Issue 3: The State Rail Authority Continues to Have Limited State-wide Activity to Promote Rail Services.

This report also focuses on the adequacy of current salaries at the Authority and the impact on the Authority’s ability to hire and retain staff.

## Scope

The scope of this report focuses on the period from fiscal year 2004 to fiscal year 2005, The report contains information from previous years when updating data provided in the January 2004 report.

## Methodology

Information compiled for this evaluation was acquired from the West Virginia *Code*, interviews with the Authority’s Acting Executive Director, examinations of the annual reports, meeting minutes, expenditure schedules, and data provided by the Authority. The private contractor who operates the West Virginia Central Railroad, the Durbin & Greenbrier Valley Railroad, provided data on freight and passenger traffic on that railroad. The Authority

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provided all data regarding freight and passenger traffic on the South Branch Valley Railroad. The Authority also provided a draft copy of the current State Rail Plan as well as a copy of the economic impact study on the West Virginia Central Railroad. Both the Board of Risk and Insurance Management and the Authority provided data regarding the August 8, 2003 derailment on the South Branch Valley Railroad and the resulting insurance claim. The Public Port Authority provided information regarding cooperation with the Authority and the status of tourist train planning in the state. The Authority provided information regarding the wages paid by other employers in the Moorefield area, as well as its own wage structure.

# Issue 1

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## **The State Rail Authority's Operating Losses During FY 2005 Declined to the Lowest Level Since FY 2000.**

### **Issue Summary**

The Authority's operating losses for FY 2005 were the lowest since FY 2000. A Board of Risk and Insurance Management (BRIM) insurance premium increase created an increase in operating losses from FY 2003 to FY 2004. Operating losses on the South Branch Valley Railroad (SBVR) are decreasing, while they have increased during the last year for the West Virginia Central Railroad (WVCR). Negotiations to haul coal on the WVCR are ongoing. Freight traffic on the SBVR in FY 2005 was the highest ever recorded and reached the planned level of traffic mentioned in the January 2004 Preliminary Performance Review. Increased freight traffic to and from the Pilgrim's Pride facility and an increase in the amount of lumber hauled to Allegheny Wood Products contributed to the additional freight traffic. The Authority began reporting separate financial statements for the two railroads as recommended in the January 2004 Preliminary Performance Evaluation. The 2004 Preliminary Performance Evaluation also recommended that the Authority complete an economic impact analysis on the WVCR. The Authority engaged the services of a contractor who completed this analysis. The report estimated that the railroad yields \$1.79 in benefits to the local economy for each dollar spent on its operation.

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*The Authority's total revenues for FY 2005 were the highest since the agency's creation.*

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### **The Authority's Revenues Are at an All-Time High**

The Authority's total revenues for FY 2005 were the highest since the agency's creation. This allowed for the Authority's smallest operating loss since FY 2000. Revenues have increased every year since FY 2001. There is reason to believe that total revenues will continue to increase. This assumption is based on promising, ongoing negotiations to transport coal on the WVCR as early 2006. Increased freight traffic along with increased numbers of excursion passengers should lead to increased revenues for the WVCR.

As Table 1 shows, operating losses for the Authority increased approximately \$110,000 from FY 2003 to FY 2004. The reason for the increase was an insurance premium increase by the BRIM. BRIM insurance costs increased by \$101,843 from FY 2003 to FY 2004. By FY 2005, operating losses fell by \$193,464 as the Authority experienced an increase of

\$358,588 in total revenue. The amount of operating assistance received by the Authority from the State has remained fairly stable during the last three years at approximately \$3.4 million.

	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
Freight Revenue	1,610,476	1,494,192	1,538,689	1,717,117	1,772,761	2,158,928
Misc. Revenue	92,697	86,262	162,265	180,723	150,322	122,743
Total Revenue	1,703,173	1,580,454	1,700,954	1,897,840	1,923,083	2,281,671
Operating Expenses	2,866,890	3,806,414	3,352,533	3,370,877	3,508,176	3,673,300
<b>Operating Loss</b>	<b>1,163,717</b>	<b>2,225,960</b>	<b>1,651,579</b>	<b>1,473,037</b>	<b>1,585,093</b>	<b>1,391,629</b>
State of West Virginia Operating Assistance	1,090,361	2,637,190	3,995,081	3,451,519	3,385,450	3,357,657

*Data Source: State Rail Authority annual reports and other financial data provided by the Authority*

*The Authority will make its last bond payment in June 2007.*

The Authority will make its last bond payment in June 2007. The bond issue took place in 1992. The Authority used the bond money to renovate the SBVR in conjunction with the expansion of the Wampler (now Pilgrim's Pride) feedmill. The Authority made numerous capital improvements, purchased equipment and installed additional side track at the feedmill. The annual payment of \$450,000 will provide a substantial addition to the Authority's budget. At that time, all operating costs of the SBVR should be offset directly from freight traffic revenues. The Authority feels that there will still be a need for operating assistance at a reduced level from the State of West Virginia for maintenance and capital improvements.

Capital expenditures are a large cost associated with the operation of railroads (see Table 2). Capital improvements include rail, crosstie and bridge upgrades. Any discussion of the operating efficiency of a capital-intensive operation, such as a railroad, must consider these costs. Capital improvements are currently over \$2 million annually, but have decreased during the last two years.

	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
<b>Capital Improvement Expenditures</b>	2,058,866	3,633,236	2,347,344	2,324,165
<i>Data Source: State Rail Authority</i>				

### **The West Virginia Central Railroad**

The volume of passenger traffic on the three excursion trains operating on the WVCR has increased from CY 1999 through CY 2004. A private contractor, the Durbin and Greenbrier Valley Railroad (D&GVR), operates the excursion trains. Table 3 shows that the total number of excursion passengers for CY 2004 was over four times the total for CY 1999. The CY 2005 number of excursion passengers was low compared to the previous years. This resulted from mechanical issues with the trains and weather complications. The table also shows that freight traffic on the WVCR had fallen off dramatically from CY 2000-2004. The CY 2005 freight traffic total carloads is the highest total since CY 1999. The number of freight carloads for CY 2005 is only calculated through September 2005. The Authority made this statement about freight traffic potential on the WVCR:

*The CY 2005 freight traffic total carloads is the highest total since CY 1999.*

*The Durbin & Greenbrier Valley Railroad is currently in negotiations with a firm to move coal off of the Norton Branch to Tygart Junction. Things are very positive and the move may start as early as the beginning of 2006. The total quantities have not been determined.*

*The WVCR has the potential to substantially reduce its operating losses with the possibility for increased freight traffic.*

The WVCR has the potential to substantially reduce its operating losses with the possibility for increased freight traffic. The D&GVR pays no fees to the State if the company earns less than \$100,000 in gross revenues each calendar year. The D&GVR pays five percent of gross revenues to the State if the revenues are between \$100,000 and \$249,999.99. Finally, the D&GVR pays ten percent of gross revenues for revenues above \$249,999.99. **The Legislative Auditor recommends that the Authority continue in its efforts to increase freight traffic on the West Virginia Central Railroad with the goal of making the railroad financially self-supporting.**

<b>Year*</b>	<b>Contractor's Total Revenues</b>	<b>Revenue to the State**</b>	<b>Freight Carloads</b>	<b>Freight Cars Per Mile***</b>	<b>Number of Excursion Passengers</b>
1997	\$0	\$0	0	0	0
1998	\$3,450	\$23,785	21	0.73	0
1999	\$97,158	\$17,269	233	8.17	7,949
2000	\$211,281	\$25,930	98	3.43	14,423
2001	\$291,908	\$26,304	89	3.12	19,709
2002	\$351,499	\$41,448	37	1.30	29,212
2003	\$501,008	\$89,906	37	1.30	32,732
2004	\$543,806	\$83,330	27	0.95	34,685
2005	—	\$67,989	120 ****	4.21	26,005

*\*Contractor's revenue and freight data are organized by calendar year. Revenue to the State is organized by fiscal year.  
 \*\*\*Revenues to the State includes revenues from the contractor, license and lease fees, freight, and land sales.  
 \*\*\*\*Based on 28.5 miles.  
 \*\*\*\* Through September 2005  
 Data Source: State Rail Authority financial data*

### **The Authority Submitted An Economic Impact Study on the WVCR**

Recommendation 1 of the January 2004 Preliminary Performance Review of the State Rail Authority concerned the economic impact of the WVCR:



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*The State Rail Authority should present the economic impact analysis of the West Virginia Central Railroad, upon its completion, to the Joint Committee on Government Operations.*

*The railroad was estimated to have an output multiplier effect of 1.79 on the local economy, which means that for every dollar spent by the Authority, \$1.79 in economic benefits resulted.*

The Legislative Auditor's staff reviewed a copy of the Authority's Economic Impact study, upon its completion in December 2003. The study was presented to the Joint Committee on Government Operations in December 2003. The study estimated the impact of the WVCR on the local economy over a six-year period. The study calculated total direct expenditures by the Authority, including new construction, maintenance, general expenses, and professional fees to total \$4,065,924. The report estimated that these expenditures would result in a total economic output of \$7,297,703 and the creation of 455.67 jobs (many of which are short-term) over six years. The railroad was estimated to have an output multiplier effect of 1.79 on the local economy, which means that for every dollar spent by the Authority, \$1.79 in economic benefits resulted.

## **The South Branch Valley Railroad**

*The record number of freight cars on the SBVR resulted in the highest revenues ever received by the Authority.*

Table 4 illustrates freight and excursion passenger traffic on the South Branch Valley Railroad. The total number of freight carloads in FY 2005 increased by over 500 compared to the total for FY 2004. The total for FY 2005 represents the SBVR's large number of freight carloads since the Authority's creation. Five hundred seventy-eight (578) additional freight carloads were shipped to the Pilgrim's Pride facility in FY 2005. Small freight carload increases in plastic pellets and lumber also contributed to the increase in freight traffic. The record number of freight cars on the SBVR resulted in the highest revenues ever received by the Authority. The Potomac Eagle, a private contractor, operates one excursion train on the SBVR, which also provides some revenue for the SBVR. The contractor pays the Authority \$5,000 annually plus an additional 25 cents per excursion passenger.

<b>Table 4</b> <b>South Branch Valley Railroad</b> <b>Activity Measures</b>			
<b>Fiscal Year</b>	<b>Freight Carloads</b>	<b>Freight Cars Per Mile *</b>	<b>Number of Excursion Passengers **</b>
1992	2,275	43.75	13,755
1993	3,460	66.54	22,171
1994	4,307	82.83	23,447
1995	4,233	81.40	22,465
1996	4,145	79.71	21,378
1997	4,272	82.15	25,801
1998	4,047	77.83	20,950
1999	4,023	77.37	22,191
2000	4,044	77.77	22,874
2001	3,638	69.96	15,079
2002	3,751	71.58	15,849
2003	3,922	74.85	17,500
2004	3,850	73.47	13,513
2005	4,366	83.32	14,512

Source: State Rail Authority  
\* Based on 52.4 miles  
\*\* Data for excursion passengers is organized by calendar year.

*The Authority has attained this goal and currently uses 65-car trains with a turnaround time of 36 hours to transport freight to the Pilgrim's Pride facility. The Authority is in full compliance with Recommendation 2 of the January 2004 Preliminary Performance Review.*

Recommendation 2 of the January 2004 Preliminary Performance Review of the Authority discussed increased freight traffic on the SBVR:

*The State Rail Authority should report to the Joint Committee on Government Operations to indicate when it has attained the revised goal of running 65 car unit trains to the Pilgrim's Pride facility, with a turnaround of 36 hours.*

The Authority has attained this goal and currently uses 65-car trains with a turnaround time of 36 hours to transport freight to the Pilgrim's Pride facility. The Authority is in full compliance with Recommendation 2 of the January 2004 Preliminary Performance Review.

## The Authority's Two Railroads Now File Separate Financial Statements

Recommendation 3 of the January 2004 Preliminary Performance Review of the Authority discussed financial reporting for the two railroads owned by the Authority:

*The Authority began reporting separate financial statements for each railroad in its FY 2004 Annual Report and is now in full compliance with this recommendation.*

*The State Rail Authority's financial statements should provide separate operating losses for each railroad, in order to present data on the relative efficiency of each.*

The Authority began reporting separate financial statements for each railroad in its FY 2004 Annual Report and is now in full compliance with this recommendation. Table 5 shows that the SBVR has reduced its operating losses by over \$200,000 in the last year, despite an increase in expenditures, due to a \$376,648 increase in revenues. The WVCR's revenues have declined by \$18,060 during the last year, which coupled with an increase in expenditures, has led to a \$56,193 increase in operating losses. As mentioned earlier in this report, the D&GVR is negotiating to haul coal on the WVCR and hopes to substantially increase its freight revenues in the near future.

	<b>Fiscal Year</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Operating Loss</b>
<b>South Branch Valley Railroad</b>	2003	\$1,812,920	\$2,758,057	\$945,137
	2004	\$1,842,078	\$2,867,779	\$1,025,701
	2005	\$2,218,726	\$3,034,919	\$816,193
<b>West Virginia Central Railroad</b>	2003	\$84,920	\$371,483	\$286,563
	2004	\$81,005	\$364,021	\$283,016
	2005	\$62,945	\$402,154	\$339,209

Data Source: State Rail Authority

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## **Conclusion**

The Authority has complied with Recommendations 1, 2, and 3 from the January 2004 Preliminary Performance Review. The Authority's operating losses for FY 2005 were the lowest since FY 2000. A BRIM insurance rate increase contributed to the operating loss increase from FY 2003 to FY 2004. Operating losses on the SBVR are decreasing, while they continue to increase on the WVCR. Negotiations to haul coal on the WVCR are positive and ongoing. Freight traffic on the SBVR in FY 2005 was the highest ever recorded. Freight traffic on the WVCR in CY 2005 was the highest since CY 1999.

## **Recommendation:**

1. *The State Rail Authority should continue in its efforts to increase freight traffic on the West Virginia Central Railroad with the goal of making the railroad financially self-supporting.*

## Issue 2

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### **One Derailment In FY 2004 Was the Authority's Only BRIM Insurance Loss During the Last Two Years.**

#### **Issue Summary**

*The Authority experienced one derailment during the period examined in this report.*

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The Authority experienced one derailment during the period examined in this report, which occurred on the SBVR on August 8, 2003. The derailment was the only BRIM insurance claim during FY 2004 and FY 2005. The derailment occurred because of extreme heat and exposure to the sun. The track buckled and moved from the prolonged exposure to the sun. Routine maintenance or inspection cannot prevent this type of derailment. The total cost of the derailment was \$130,551. The Authority paid \$10,402 for track repairs. The amount submitted to BRIM was \$121,149, of which \$1,000 was a deductible.

*The total cost of the derailment was \$130,551.*

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#### **The Authority Submitted One BRIM Claim During FY 2004 and FY 2005**

Recommendation 4 of the January 2004 Preliminary Performance Review of the Authority detailed methods to reduce monetary losses.

*The derailment resulted from prolonged sun exposure to the track.*

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*The State Rail Authority should continue to emphasize maintenance and safety training, monitoring insurance claims losses, in order to sustain the current trend towards decreased losses.*

The Authority experienced one derailment on August 8, 2003. The derailment resulted from prolonged sun exposure to the track. The Authority made this statement about the derailment:

*A derailment occurred on 8/8/2003 at 1:45 pm. The train had five locomotive units on the head end and one helper unit, SBVR 91, pushing on the rear. The train consisted of 62 loads of corn and one empty car. The derailment occurred at MP 31.77. The engineer of SBVR 91 saw the two cars just ahead of him begin rocking as they cleared the south end of Sycamore Bridge. As soon as SBVR 91 was off the bridge, the helper engineer made an emergency brake application to stop the train. Approximately 350 feet of track was damaged.*

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*The two rear cars were derailed upright with almost no damage. The SBVR 91 derailed against the rock cut and received significant damage. The fuel tank was punctured and approximately 600 gallons of diesel fuel had leaked. The Department of Environmental Protection was contacted and a hazmat cleanup specialist was called. Also, rerailment contractors were called for estimates on the rerailment. RJ Corman was selected to rerail the cars. The locomotive and two cars were retracked and moved to Moorefield on Sunday, August 10. The track was restored on August 11.*

*As seen in Table 6, the derailment was the only BRIM insurance loss for FY 2004 and FY 2005.*

The Authority stated that the engineer's experience and expertise prevented any more than two cars plus the rear locomotive from derailing. Extreme heat and the train's weight caused the track to move and buckle. This sort of heat-related track damage can occur even with proper maintenance. Derailments are often caused by wheel wear on the track. Authority employees inspected the track and determined that wheel wear did not impact or cause the derailment. Authority employees routinely inspect and perform maintenance on the cars and tracks. The derailment occurred after crossing a bridge. Authority officials stated that the engineer applied the brake immediately after the train crossed the bridge. The use of the brake earlier would have resulted in the train falling off of the bridge.

As seen in Table 6, the derailment was the only BRIM insurance loss for FY 2004 and FY 2005. The total cost of the derailment was \$130,551. The amount submitted to BRIM was \$121,149, of which \$1,000 was a deductible. The remaining \$10,402 was paid by the Authority for track work and employee costs. Given the capital-intensive nature of operating railroads, even a single incident such as this can be relatively costly.

Fiscal Year	Amount
1995	1,706
1996	57,695
1997	479,775
1998	0
1999	357,948
2000	214,515
2001	125,449
2002	15,373
2003	0
2004	120,149
2005	0
Total	1,372,610
<i>Data Source: State Rail Authority</i>	

*The Authority appears to have taken adequate safety measures as well.*

No human errors caused the derailment. The Authority spends over \$2 million annually on capital improvements, therefore, the derailment was not the result of improper maintenance. The Authority appears to have taken adequate safety measures as well. This type of derailment is always a danger with increased sun exposure and heat. This was the only BRIM insurance claim within the time frame of this report. The Authority is in full compliance with Recommendation 4 of the January 2004 report. **The Legislative Auditor recommends that the Authority continue to focus on capital improvements, maintenance and safety inspections, while training its employees how to respond in the case of an unavoidable train derailment.**

### **Conclusion**

One derailment occurred on the SBVR on August 8, 2003. That was the only BRIM insurance claim during FY 2004 and FY 2005. The derailment occurred because of extreme heat and exposure to the sun. This type of

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derailment can occur despite routine maintenance and inspection. The total cost of the derailment was \$130,551. The Authority paid \$10,402 for track repairs. The amount submitted to BRIM was \$121,149, of which \$1,000 was a deductible.

**Recommendation:**

2. *The State Rail Authority should continue to focus on capital improvements, maintenance and safety inspections, while training its employees how to respond in the case of an unavoidable train derailment.*



# Issue 3

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## **The Authority Has Become More Active With Respect to Monitoring the Rail Industry Throughout the State.**

### **Issue Summary**

The Authority is more active statewide in monitoring the rail industry. The Authority has updated the State Rail Plan. The Plan details all active rail lines in the state. This document categorizes all rail traffic in the state. The update lists tonnage of freight originating, terminating, or passing through West Virginia. This information will help the Authority better anticipate possible rail abandonments and facilitate planning for the rail industry.

The Authority oversees the operation of the two railroads it owns, the WVCR and the SBVR. The Authority is limited, however, because state law gives authority for coordinating and planning tourist travel to the Public Port Authority (PPA). The *Code* also authorizes both the PPA and the Parks and Recreation Division of the Department of Natural Resources to own and operate tourist trains. The Code statutorily requires the PPA to plan, link, and coordinate all of the state's tourist trains. The PPA has not completed a plan for tourist train travel and has limited contact with the State Rail Authority.

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*The Authority is limited in its impact on the rail industry because it can only provide coordination and supervision to these railroads.*

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### **The Public Port Authority is Statutorily Responsible for Planning and Coordinating Tourist Trains in West Virginia**

The Authority oversees the operation of its two railroads, the WVCR and the SBVR. The Authority is limited in its impact on the rail industry because it can only provide coordination and supervision to these railroads. West Virginia Code §17-16B-12 authorizes the PPA to coordinate, link, and supervise the state's intermodal network of tourist transportation, as well as to create a tourist train pilot project:

*(a) The division of tourist trains and transportation shall develop a plan to assess the feasibility, financial and otherwise, of establishing a statewide intermodal network of tourist transportation, so as to coordinate, link and supervise the various means of transportation including highway, rail, waterway and air and such plan shall include, if feasible, the development of a comprehensive strategy and state plan for tourist transportation.*

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*(b) The division shall cooperate and assist the efforts of private groups, agencies and political subdivisions in establishing components of the tourist transportation plan.*  
*(c) The division shall specifically work to establish a pilot project for the purpose of creating tourist train network in the area from Bluefield, West Virginia, to Bramwell, West Virginia, to Matoaka, West Virginia, to Pocahontas, Virginia.*

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*The PPA is not fulfilling its statutory requirement to coordinate and supervise a statewide intermodal network for tourist transportation.*

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The previous passage from the *Code* states that the PPA's Division of Tourist Trains shall develop a plan for establishing a statewide intermodal network of tourist transportation. The PPA confirmed to the Legislative Auditor's staff that the Division and the plan do not exist. The PPA is not fulfilling its statutory requirement to coordinate and supervise a statewide intermodal network for tourist transportation. Such a plan would assist the Authority in deciding which railroad projects to buy or sell and the manner in which they should operate these projects. The plan would be a valuable planning tool for the Authority. The Legislative Auditor's staff verified that the PPA never began the pilot project.

The PPA and the Authority have limited interaction and coordination. The PPA made the following statement regarding tourist trains and their relationship with the Authority:

*The WVPPA and the SRA have communicated in the past over the development of inland container ports. However, we have never initiated a dialogue over "Tourist Trains" with the SRA.*

## **State Law Permits Other State Agencies to Own and Operate Tourist Railroads**

WVC §17-16B-6b(2) states that the PPA is authorized to purchase, own, and operate railroads:

*(2) Acquire, purchase, install, lease, construct, own, hold, operate, maintain, equip, use and control ports, as defined herein, and such terminals, buildings, roadways, right-of-ways, rails, and such structures, equipment, facilities or improvements as are necessary or incident to carry out the provisions of this article, and in connection therewith shall have the further right to lease, install, construct, acquire,*

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*own, maintain, control and use any and every kind or character of motive powers and conveyances or appliances necessary or proper to carry goods, wares and merchandise over, along, upon or through the railway, highway, waterway or airway or other conveyance of such transportation system, excluding pipelines;*

According to WVC §17-16B-6(b)(19), the PPA is also given power to assist the Authority in purchases of abandoned rails:

*(19) To assist and encourage the West Virginia railroad maintenance authority to purchase railroad tracks being abandoned by any common carrier, and to financially assist the railroad maintenance authority in making such purchase;*

*The Legislative Auditor's staff was unable to find any evidence that the PPA has ever owned a railroad project or provided any financial assistance to the State Rail Authority.*

The Legislative Auditor's staff was unable to find any evidence that the PPA has ever owned a railroad project or provided any financial assistance to the State Rail Authority.

WVC §20-5-3 gives authority to the Parks and Recreation Division of the Department of Natural Resources to operate and maintain the Cass Scenic Railroad:

*It shall be the duty of the section of parks and recreation to have within its jurisdiction and supervision:*

*(h) The continued protection, operation and maintenance of approximately seventy-five miles of right-of-way along the former Greenbrier subdivision of the Chessie railroad system between Caldwell in Greenbrier County and Cass in Pocahontas County, designated the Greenbrier river trail, including the protection of the trail from motorized vehicular traffic and operation for the protection of adjacent public and private property.*

The existence of at least three state agencies with the statutory authority to own and operate tourist trains provides further evidence that a plan for tourist transportation in the state would be a valuable planning and coordination tool for the Authority and other state agencies. The railroad line on which the Cass Scenic Railroad operates intersects with the WVCR and the Cass train does

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travel on a portion of the WVCR. A plan for tourist transportation would facilitate cooperative planning for the future of tourist trains operating on the WVCR and the Cass rail line. **The Legislative Auditor recommends that the State Rail Authority contact the Public Port Authority for the purpose of coordinating tourist train planning with other state agencies as part of an overall plan for tourist transportation.**

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*The Legislative Auditor recommends that the State Rail Authority contact the Public Port Authority for the purpose of coordinating tourist train planning with other state agencies as part of an overall plan for tourist transportation.*

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## **The Authority Has Updated the State Rail Plan**

Recommendation 5 of the December 2001 report discussed updating the State Rail Plan. The January 2004 report listed the Authority as in planned compliance with the previous recommendation. The recommendation states:

*The State Rail Authority should update and implement a statewide proactive plan with the intent to:*

- 1) anticipate rail abandonments;*
- 2) react to unanticipated rail abandonments;*
- 3) identify struggling rail lines that can be strengthened, including the effort to obtain new rail service customers for underutilized rail lines;*
- 4) obtain and maintain knowledge of the status of rail lines, the use and changes in the use of rail line services, and possibly the financial conditions of railroad companies;*
- 5) perform other activities necessary to promote and support a strong, safe, efficient and adequate railroad industry as authorized by statute.*

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*The Legislative Auditor's staff received a draft copy of the updated rail plan. This brings the Authority into full compliance with the earlier recommendation.*

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The Legislative Auditor's staff received a draft copy of the updated rail plan. This brings the Authority into full compliance with the earlier recommendation.

The State Rail Plan details the Authority's mission statement and overall purpose. The updated Plan includes a list of all freight and passenger lines that originate, terminate, or travel through the state. The Plan also includes tables with different categories of freight and the number of carloads and tonnage that originate, terminate, or travel through West Virginia. All railroad companies that travel in or through West Virginia are listed, along with their addresses.

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*This information enables the Authority to be proactive in the anticipation of rail abandonments and serves as a valuable repository of information on the rail industry in West Virginia.*

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The Plan states the length of each railroad line in West Virginia and provides maps of each active rail line. The Plan includes traffic density estimates for each line. The Plan also includes a list of commodities and their total weight hauled as freight on West Virginia railroads. This information enables the Authority to be proactive in the anticipation of rail abandonments and serves as a valuable repository of information on the rail industry in West Virginia. Any comprehensive planning for the rail industry in the state would require the collection of such basic information on all the companies operating in West Virginia.

## **Conclusion**

The Authority is more active statewide in monitoring the rail industry. The Authority updated the State Rail Plan. The Plan details all active rail lines in the state. This document describes and categorizes all rail traffic in the state. The update lists tonnage of freight originating, terminating, or passing through West Virginia. This information helps the Authority better anticipate possible rail abandonments.

The Authority oversees the operation of the two railroads it owns, the WVCR and the SBVR. Both the Public Port Authority and the Parks and Recreation Division of the Department of Natural Resources are also authorized by *Code* to own and operate tourist trains. State law requires the PPA to plan, link, and coordinate all of the state's tourist trains. The State Rail Authority should contact the Public Port Authority for the purpose of coordinating tourist train planning with other state agencies as part of an overall plan for tourist transportation.

## **Recommendation:**

3. *The State Rail Authority should contact the Public Port Authority for the purpose of coordinating tourist train planning with other state agencies as part of an overall plan for tourist transportation.*



# Issue 4

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## **The Authority's Low Wages and the Lack of an Incentives Program Make It Difficult to Recruit or Retain Employees.**

### **Issue Summary**

The Authority finds it difficult to retain new employees. The starting wages for new employees are low in comparison to the other industries in the Moorefield area. Employees that complete the six-month probation period do not receive any financial incentives to remain with the Authority beyond this period. The Division of Personnel has repeatedly denied the Authority's request for wage increases. The Authority cannot effectively compete with the starting wage rates and wage incentives of the private industry employers in the Moorefield area

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*The Authority has 24 full-time equivalent positions. Currently, the Authority employs only 18 people.*

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### **The Authority's Wages Are Considerably Lower Than Those of Other Employers in the Moorefield Area**

The Authority cannot normally hire quality employees, because the starting wages are lower than other employers in the area. The Authority has 24 full-time equivalent positions. Currently, the Authority employs only 18 people. This means that a quarter of the Authority's full-time positions remain unfilled.

The two major industries in Moorefield are the Pilgrim's Pride chicken processing facilities and the American Woodmark cabinetmaking factories. Each company employs people at three facilities located in Moorefield. More people in the Moorefield area are employed by the six plants of the two companies than any other companies.

Employees with no experience earn \$8.50 per hour upon employment with Pilgrim's Pride. An employee's pay increases to \$9.80 after 90 days of employment with Pilgrim's Pride. The employee's pay increases further to \$10.25 after a year with the company. American Woodmark pays employees with no experience a starting wage of \$8.50. An Authority employee's son has been employed with American Woodmark for approximately a year and currently earns \$13.00 per hour.

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Authority employees with no experience begin employment at \$7.10 per hour. Once the Authority hires an employee, there are no incentive programs to reward employees. The Acting Director attempted to reward employees for good workmanship with a pay increase following the six-month probationary period. The Acting Director has repeatedly attempted to raise the salary levels of Authority employees. The Division of Personnel has rejected each attempt. The Acting Director of the Authority made these statements about a possible reward program for employees:

Authority employees with no experience begin employment at \$7.10 per hour.

*My point is the requirements for railroad work are specialized. The type of machines and the certifications are specific to railroading. It is hard to find people with backgrounds that aren't already working for the Class I railroads. Therefore, we need to be able to hire Rail Tech I employees and offer incentives as they learn more. I currently have about 5 employees that on their own have learned to operate everything. They did it for the railroad, and it is hard to continually go to them and ask them to take on more without being able to offer something in return. This is where I need to be allowed to establish an advancement policy.*

*This is really what we need to look at for advancement. If I could provide a reward program as employees take on more responsibility and get more certifications, it would be a real asset.*

The Authority utilizes on-the-job training to train all of its employees, except for locomotive engineers, who attend a specialized training course. Since this is the case, it can be argued that a portion of each employee's salary represents training costs absorbed by the Authority.

The Authority recently hired an employee to fill a temporary Rail Technician I position. The employee had no experience. He was hired at a wage rate of \$6.50 per hour. The Authority intended to train this employee so that he could become a permanent employee. At the termination of his six month contract, the Authority hired him as a full-time employee. His pay increased to \$7.10 per hour. The Authority had planned to send this employee to locomotive engineering training at the beginning of the calendar year. The Authority's Acting Executive Director estimated that the Authority spent \$7,200 on this employee, including wages, Worker's Compensation Insurance, and Social Security Taxes, during his six-month temporary status. This employee quit soon after he attained permanent employee status. The employee resigned



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to pursue a job in the same field elsewhere. The employee's new job paid higher wages than the Authority, therefore, the Authority paid for training for the employee to pursue a higher paying position elsewhere.

Advancement of an employee to a Rail Technician II position requires two years of experience. The Authority's Acting Director estimated a cost of over \$48,000 to advance an employee from a Rail Technician I with no prior experience to a Rail Technician II. The Authority needs an incentive program for employees to assist them in employee retention.

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*An employee quit soon after he attained permanent employee status. The employee's new job paid higher wages than the Authority, therefore, the Authority paid for training for the employee to pursue a higher paying position elsewhere.*

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The Legislative Auditor previously recommended an incentive plan for the Authority's employees that linked salary increases with safety. Recommendation 3 in the December 2001 report stated:

*The State Rail Authority should consider proposing to the Legislature a financial benefit plan which would reward the Authority's employees for reducing or eliminating the Authority's losses while also reducing the number of derailments on the South Branch Valley Railroad.*

The Authority's initiative to reward employee performance with financial incentives is consistent with the Legislative Auditor's previous recommendation, given that good workmanship is an important factor in preventing derailments. **The Legislative Auditor recommends that the Legislature consider re-evaluating the wages and other financial compensation of the Authority's staff in order to make them more competitive with private employers.**

## **Conclusion**

The Authority finds it difficult to retain new employees. The starting wages for new employees are low in comparison to the major employers in the Moorefield area. Employees that complete the six-month probation period do not receive any financial incentives to remain with the Authority beyond this period. The Division of Personnel has repeatedly denied the Authority's requests for wage increases. The Authority cannot compete with the starting wage rates and wage incentives of the private industry employers in the Moorefield area.

## **Recommendation:**

4. *The Legislative Auditor recommends that the Legislature consider re-evaluating the wages and other financial compensation of the Authority's staff in order to make them more competitive with private employers.*



# Appendix A: Transmittal Letter

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## WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

Building 1, Room W-314  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305-0610  
(304) 347-4890  
(304) 347-4939 FAX



John Sylvia  
Director

November 30, 2005

Cindy Butler  
Acting Executive Director  
State Rail Authority  
120 Water Plant Drive  
Moorefield, WV 26836

Dear Ms. Butler:

This is to transmit a draft copy of the Preliminary Performance Review of the State Rail Authority. This report is scheduled to be presented during the December 11, 2005 interim meeting of the Joint Committee on Government Operations. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committee may have.

If you would like to schedule an exit conference for December 1, 2, or 5, 2005, please notify us. However, we need your written response by noon on December 7, 2005, in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, December 8, 2005 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

Handwritten signature of John Sylvia in cursive script.  
John Sylvia

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*Joint Committee on Government and Finance*

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# Appendix B: Agency Response



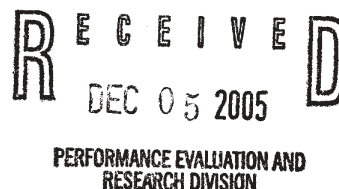
## West Virginia Department of Transportation State Rail Authority

Joe Manchin III  
Governor

120 Water Plant Drive, Moorefield West Virginia, 26836  
304-538-2305 TDD 800-742-6991 Fax 304-538-7474

December 5, 2005

John Sylvia  
West Virginia Legislature  
Performance Evaluation and Research Division  
Building 1, Room W-314  
1900 Kanawha Blvd., East  
Charleston, WV 25305-0610



Re: State Rail Authority's Response to the 2005 Performance Review

Dear Mr. Sylvia:

The following is our response to the 2005 Performance Review of the State Rail Authority. I will be attending the December 11, 2005 interim meeting of the Joint Committee on Government Operations to answer any questions concerning the SRA.

### **SRA RESPONSE TO 2005 PERFORMANCE REVIEW**

*Recommendation 1: The State Rail Authority should continue in its effort to increase freight traffic on the West Virginia Central Railroad with the goal of making the railroad financially self-supporting.*

The State Rail Authority works very closely with our operator the Durbin and Greenbrier Valley Railroad. We feel they do a very good job and they continue to grow in both the tourist and freight business. The DGVR has had many discussions with potential new customers and some new business should materialize as early as next year. We will continue to perform yearly capital improvements in order to assure the track structure is in good shape for both the passenger cars and increasing freight business.

*Recommendation 2: The State Rail Authority should continue to focus on capital improvements, maintenance and safety inspections, while training its employees how to respond in the case of an unavoidable train derailment.*

The SRA is committed to assuring our track structure remains in good condition. A few years ago the track was allowed to deteriorate because no capital expenditures were performed on a yearly basis. That all changed beginning in 2001 when a seven year plan was developed to renovate the track. The SBVR has upgraded rail, installed ties and repaired bridges. We are now able to move 286,000 lb. cars to Moorefield. We also remain committed to keep the WVCR in good condition and not allow this asset to deteriorate. Both of the state owned railroads are critical lifelines to the economies that they serve and it is the duty of the SRA to assure these lines remain active and safe.

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John Sylvia  
December 5, 2005  
Page 2

Employee training is an ongoing learning experience. We are trying to get more employees certified as locomotive engineers. When employees become student engineers, they must log many hours with certified engineers before they are issued a locomotive engineer card. At that point it still takes many years of experience to handle a large train over our tight curves and steep grades. Safety awareness is part of our every day job briefings. Also a mandatory safety class is given to all employees every year.

*Recommendation 3: The State Rail Authority should contact the Public Port Authority for the purpose of coordinating tourist train planning with other state agencies as part of an overall plan for tourist transportation.*

The SRA agrees that we should be part of any tourist train planning committee and we will contact the Port Authority to try to set something up.

*Recommendation 4: The Legislative Auditor recommends that the Legislature consider re-evaluating the wages and other compensation of the Authority's staff in order to make them more competitive with private employers.*

It has been difficult for the SRA to find good employees in the labor intensive area where we reside. The low starting pay and lack of a set advancement program makes it difficult to hire. We have spoken to Jeff Black, Director of the DOT Division of Personnel, and he understands our situation and is trying to work with us to establish an advancement program for our employees based on skill level. Mr. Black is drafting a plan and the SRA management will also work on the plan so a program can be developed that will reward employees as they advance to new skill levels. The railroad is a specialized industry with special tools and machinery. This plan may help us to entice new employees by offering a set program for advancement and will also allow us to reward some of our current employees who have taken the initiative to learn the skills needed to efficiently run the railroad and give incentive to other employees so they will learn more skills and be more productive workers.

If you have any questions concerning our response, please feel free to call me at 304-538-2305 ext. 223.

Sincerely,



Lucinda "Cindy" Butler, Acting Executive Director