

January 27, 2016

Honorable Aubrey Layne
Secretary of Transportation
Commonwealth of Virginia
P.O. Box 1475
Richmond, VA 23218

Dear Secretary Layne:

This letter is being written with the encouragement and support of the Board of Directors of the Virginia Rail Policy Institute ("VRPI"), of which I am a charter member, with the objective of letting you know of our collective concern over a critical threat to the efficacy of the substantial expenditures the Commonwealth has made in the infrastructure of Virginia's rail carriers.

The VRPI Board and I strongly believe that Virginia's investments in private rail projects are seriously jeopardized by the potential acquisition of Norfolk Southern ("NS") by the Canadian Pacific ("CP"). We are, of course, aware that the governor has publically expressed his opposition to the acquisition, and we are also aware that the proposal may be voluntarily withdrawn, or rejected by the Surface Transportation Board ("STB"). Nevertheless, whether or not the CP acquisition materializes, we remain concerned that the substantial investments that have been made by federal, state and local governments in private rail infrastructure in Virginia are likely to be vulnerable if in the future there is another similar proposal.

Much has changed since the 1980-1981 rail mergers that produced the CSX and the NS. At that time, the Commonwealth had little or no direct financial interest in either transaction that could compare to the hundreds of millions of dollars of public funds that have since been invested or committed to fund all or portions of passenger and freight transportation projects on private rail lines in Virginia. From the completion of the Heartland Corridor to the reconfiguration of Alexandria yard tracks to expedite freight and passenger operations; from the creation of the additional track capacity between Norfolk and Petersburg required to accommodate passenger operations between Norfolk and Richmond to the ongoing work to install a new third main line between Richmond and Washington; from the Inland Port at Front Royal to the reconstruction of the main line between Manassas and Front Royal, scores of rail projects, both large and small, have been the beneficiaries of public funding. It is not only proper, but absolutely essential that the Commonwealth and its citizens take a particular interest in what happens to the facilities in which they have such large investments.

Recent events prompted by the CP efforts to acquire NS vividly demonstrate the substantial risk that such proposals pose to the continued viability of many of the facilities in which public funds have been invested. Let me be more specific.

Corporate raiders, comparable to those currently pursuing Norfolk Southern, are notorious for seeking profits by cannibalizing rail infrastructure rather than investing in new capacity. Currently, even Virginia's two Class I railroads are responding to "take-over" threats by making cost-reduction operational changes, some of which, while understandable, raise questions about their compatibility with the rail service enhancement objectives of the Commonwealth. Illustrative are the comments made by Jim Squires, Norfolk Southern's CEO, to Wall Street analysts on January 26, following the release of NS's Fourth Quarter Report, during which he revealed plans to abandon or downgrade some 1,500 miles of unidentified secondary track.

The Commonwealth's investment in rail projects, most of which would not have been completed or even proposed in the absence of public funding, are particularly vulnerable to a private rail management focused on reducing costs and maximizing profits, with little or no concern for the effect on projects funded by public dollars. Abandoning, downscaling, or discontinuing service over a rail line essential to passenger operations, which makes little or no contribution to corporate profits could, for example, effectively destroy an investment the Commonwealth may have made in either the affected line or in an essential connection.

We at VRPI have begun to consider formulating a list of potential "conditions" that the State of Virginia might consider requesting should any one of these potential transactions reach the STB. The objective of these conditions would be to attempt to secure for the Virginia rail projects funded in whole or in part by federal, state, or local government funds a more secure and better protected status. If DRPT or any other agency under your jurisdiction is doing something similar, we would be pleased to work with them.

Thus, the purpose of this letter is two-fold: First, to request respectfully that you urge the Governor to consider the potential exposure to compromise, degradation, or outright loss of much of what the investment of public funds has accomplished with respect to the enhancement of Virginia rail corridors and service – both freight and passenger. Second, to assure you that VRPI is offering its services, as a unique non-political source of ideas and strategies, and as an independent source of rail policy perspective motivated solely by its public service mission. I hope that you will feel free to call upon us.

Very truly yours,

Wiley F. Mitchell, Jr.