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SURFACE TRANSPORTATION BOARD

DECISION

STB Docket No. AB-441 (Sub-No. 2X)

SWKR OPERATING CO.--ABANDONMENT EXEMPTION--
IN COCHISE COUNTY, AZ

IN THE MATTER OF A REQUEST TO SET TERMS AND CONDITIONS

Decided: November 5, 1997

By notice served and published in the Federal Register on February 14, 1997 (62 FR 7086), the Board exempted from the prior approval requirements of 49 U.S.C. 10903 the abandonment by SWKR Operating Co. (SWKR) of a 41.5-mile line of railroad in Cochise County, AZ. The involved trackage extends between milepost 1055.8 near Charleston and the end of the line at milepost 1097.3 near Paul Spur, AZ. The exemption was scheduled to become effective on March 16, 1997. On February 19, 1997, however, Chemical Lime Company (CLC) timely filed a formal expression of intent to file an offer of financial assistance (OFA), automatically staying the effective date of the exemption 10 days until March 26, 1997.

On March 7, 1997, CLC filed a petition requesting the tolling of the time period for 15 days, until March 31, 1997, for submitting an OFA. By decision served March 20, 1997, the request was granted and the effective date of the exemption was postponed until April 10, 1997.

On March 31, 1997, CLC timely filed an OFA under 49 U.S.C. 10904 and 49 CFR 1152.27(c)[1] to subsidize the line for a 1-year period and, should it elect to do so, to purchase the entire 41.5 miles of railroad at any time during the subsidy period. By decision served April 4, 1997, the offeror was found financially responsible and its purchase/subsidy offer sufficiently reasonable to begin negotiations. The decision therefore postponed the effective date of

[1] See Exempt. of Rail Abandonment--Offers of Finan. Assist., 4 I.C.C.2d 164 (1987), for regulations in effect at the time of filing of the exemption petition in this case. We note that the ICC Termination Act of 1995 made changes and additions to the previous law regarding the processing of abandonments and OFAs. To implement these changes, we issued final rules that took effect on January 23, 1997. See Abandonment and Discontinuance of Rail Lines and Rail Transportation under 49 U.S.C. 10903, STB Ex Parte No. 537 (STB served Dec. 24, 1996, and June 27, 1997). Because we processed the exemption petition under the former regulations, we have continued to use those regulations in this proceeding for the OFA process, including the request to set terms and conditions before us here.

the decision authorizing abandonment of the line to permit the OFA process to proceed. The decision provided that, on or before April 30, 1997, either the railroad or the offeror could request that we establish the terms and conditions for the sale of the line if no agreement was reached.

On April 23, 1997, the parties filed a joint petition requesting an exemption from the requirements of 49 U.S.C. 10904(e) and 49 CFR 1152.27(g) and a 90-day extension of the deadline for the parties to reach an agreement or for a party to request the Board to establish the conditions and amount of compensation. The request was granted by decision served April 29, 1997, extending the deadline to July 30, 1997. On July 18, 1997, the parties requested another exemption and a 30-day extension of the deadline to try to reach an agreement for the appropriate disposition of the line. By decision served July 29, 1997, the request was granted and the deadline was extended to August 29, 1997.

On August 29, 1997, CLC requested the Board to establish the conditions and compensation for: (1) a 1-year subsidy, and (2) a subsequent purchase of the line. On September 17, 1997, SWKR replied. On September 29, 1997, CLC filed a rebuttal.

PRELIMINARY MATTER

In its August 29 statement, CLC submitted a 1-page analysis of SWKR's operating expenses to develop an estimated subsidy. Subsequent to its August 29 statement, CLC employed the services of a new analyst, Mr. George Stern. Mr. Stern produced an exhaustive analysis of operating expenses in CLC's September 29 rebuttal, including not only each expense category, but also recommendations for how the line could be more efficiently operated.

On October 1, 1997, SWKR filed a motion to strike as improper rebuttal the Stern statement, attached as Exhibit B to CLC's rebuttal evidence and argument. SWKR asserts that the evidence contained in the statement is not directly responsive to issues raised and evidence presented in the railroad's reply statement. According to SWKR, this "new" rebuttal evidence could have and should have been presented as part of CLC's case in chief.

CLC, in a reply filed October 6, 1997, argues that the motion should be denied. According to CLC, the matters discussed in the Stern statement are either responsive to the railroad's reply or constitute evidence that could not have been tendered previously because SWKR withheld certain crucial evidence from it until SWKR's September 17, 1997 reply.

We will grant the motion to strike. Mr. Stern's evidence and arguments are simply not responsive to those in SWKR's reply. If CLC had problems with any of the information provided or not provided to it by the railroad for use in preparing its August 29 submission, it should have raised that issue at that point in time or even earlier. To now allow this new evidence and argument to be introduced into the record as part of CLC's rebuttal would be improper and would prejudice SWKR. Accordingly, we will not do so. The Stern statement will be stricken from the record.

DISCUSSION AND CONCLUSIONS

Subsidy and purchase issue. CLC requests that we establish both a subsidy ($173,215 for a period of 1 year) and a purchase price for the line ($934,197 to be applicable during or at the close of the subsidy period).[2] CLC asserts that an offeror can make both a subsidy offer and a purchase offer in the same filing. SWKR disagrees. It requests that we find the first year's subsidy to be $1,050,274.25 or the purchase price to be $1,485,000.

We agree with CLC that it may make a subsidy and purchase offer in the same filing. The Board's predecessor, the Interstate Commerce Commission (ICC), stated that the statute permits an offeror to subsidize existing operations for a period of time and subsequently purchase the line. See Wyoming and Colorado Railroad Company, Inc.--Abandonment Exemption--Jackson County, CO--In the Matter of a Request to Set Terms and Conditions, Docket No. AB-307 (Sub-No. 2X) (ICC served Sept. 15, 1995). The ICC found this interpretation consistent with the intent of the statute and consistent with the principles of condemnation subject to just compensation.

Here, CLC's two-prong offer of financial assistance does not worsen SWKR's current financial position vis-a-vis this currently unused and otherwise "abandonable" rail line. While the bifurcated form of financial assistance here gives rise to the possibility of continued rail line maintenance and service, for at least another year, it does so not at SWKR's expense, but rather, at the expense of CLC.

Valuation and evidentiary standards. Proceedings to set conditions and compensation are governed by the provisions of 49 U.S.C. 10904(e) and (f). Under section 10904(f)(1)(B), we may not set a price for an offer of purchase that is below the fair market value of the line. In the leading case in this area, Chicago and N.W. Transp. Co.--Abandonment, 363 I.C.C. 956 (1981) (Lake Geneva Line), aff'd sub nom. Chicago and North Western Transp. Co. v. United States, 678 F.2d 665 (7th Cir. 1982), it has been determined that, in the absence of a higher going concern value for continued rail use, the proper valuation standard in proceedings for offers to purchase under section 10904 is the net liquidation value (NLV) of the rail properties for their highest and best nonrail use. NLV includes the value of the real estate plus the net salvage value of track and materials (gross salvage value less removal costs). In proceedings to set terms, the burden of proof is on the offeror, the proponent of the requested relief. See Lake Geneva Line, 363 I.C.C. at 961. Where an OFA has been filed to subsidize continued rail service, the agency establishes the compensation as the difference between the revenues attributable to that part of the railroad line and the avoidable cost of providing rail freight transportation on the line, plus a reasonable return on the value of the line. 49 U.S.C. 10904 (f)(1)(C).

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[2] In its OFA filing, CLC offered $168,357 to subsidize the line for a 1-year period and $825,571 to purchase the entire line or $19,878 per mile for any portion thereof.

As next discussed, we conclude that the NLV and, therefore, the purchase price for the line is $1,485,000, and that the estimated subsidy payment for the forecast year is $890,721.62. Our analysis of the subsidy calculations is summarized in the chart attached as the Appendix to this decision.

The Appendix lists 19 major categories and several subsidiary categories that we consider in determining the NLV and the level of subsidy required in a section 10904 proceeding. The Appendix presents 3 columns in which figures submitted in each category by offeror CLC and by SWKR are set out. The third column is the figure in each category that we have adopted.

Revenues. Both SWKR and CLC agree that the projected revenues for this line equal $156,750. Because the parties agree, we have used this figure in our subsidy calculation.

Avoidable Costs**.** Both SWKR and CLC include as avoidable costs the following on-branch costs: maintenance of way, maintenance of equipment, car hire, transportation, and a category described as "general and administration," which includes property taxes. SWKR also includes a return on value for locomotives. Neither party includes any "off-branch costs" -- costs which occur off the line but which may properly be attributable to it.

Maintenance of Way. SWKR submits an estimate of $292,555 for maintenance of way (MOW) expense. The railroad presents a detailed cost distribution of its maintenance of way cost. We note that SWKR will replace 3,153 ties annually (approximately 76 ties per mile) as part of its maintenance program. CLC does not present any evidence concerning maintenance expense for the line.

SWKR's annual tie replacement rate is higher than we would expect for FRA Class 1 standards, especially considering the amount of rehabilitation proposed by the railroad. FRA Class 1 standards require approximately 5 non-defective ties per 39-foot rail length, plus an additional requirement for ties near rail joints, or approximately 700 non-defective ties per mile. Typical annual replacement rates are about 23 to 25 ties per mile. This is considerably less than SWKR's proposed annual replacement rate of about 76 ties per mile. Absent any explanation for this high replacement rate, we will modify the annual rate of tie replacement to reflect the number of new ties required each year to maintain the line to FRA Class 1 standards. Our restated MOW cost is $208,817 or $5,031 per route-mile.

Maintenance of Equipment. SWKR computes maintenance of equipment by multiplying total equipment maintenance ($180,380) by a 22% on-branch usage factor. This results in a figure of $39,683. CLC uses the same figures in its August 29 statement.

SWKR does not indicate how it arrived at a total maintenance cost, prior to allocation to this line, of $180,380. This figure seems quite high given that it is the cost of maintaining one GP20 locomotive with a net book value of less than $40,000.[3] In the absence of a definitive study, we are using the average maintenance cost of maintaining a locomotive on a Class I railroad of $60,309.[4] Applying the 22% usage factor to this average locomotive maintenance cost, $60,309, we compute a maintenance of equipment cost of $13,267. We are using this value in our subsidy calculations.

Transportation Cost. SWKR computes transportation costs by adding crew wages ($35,568), fuel cost ($16,640), and employee expenses ($3,640). This totals $55,848. In its August 29 statement, CLC used a much higher number, incorporating prior SWKR figures for fuel costs that are over $60,000, almost four times higher than those shown by the railroad in its September 17 filing. Other costs used by CLC were identical to those presented by SWKR. CLC did not dispute SWKR's most recent statement of its fuel costs. Nor did CLC demonstrate, or even assert, that the older data are a likelier indication of future costs. Therefore we will use the railroad's statement of its fuel costs. Because SWKR and CLC agree on all other cost items, we will adopt a transportation cost of $55,848.

General and Administrative (including property taxes). Both parties project $20,000 for property taxes (restated in the Appendix on the property tax line) and $5,000 for other general and administrative costs. Because the parties agree on these figures, we will use them.

Car Hire. SWKR computes car hire costs using 1996 actual data.[5] SWKR arrives at a per-car net hire cost of $42.07 by subtracting an average "reclaim per car" — revenue which SWKR earns under the system of car hire — of $32.49 from an average cost of car hire per car of $74.56. When multiplied by the 475 carloads projected to be carried, this produces a total cost of $19,983.25. In its August 29 statement, CLC assumed a charge of $9.91 per car per day for two days times 475 cars for a total of $9,416. CLC indicated that its calculation assumed 475 cars on line an average of five days with three days car hire relief from the Union Pacific Railroad Company. CLC did not indicate how it developed the $9.91 per-car per-day cost. In the absence of an explanation as to how CLC derived the lower car hire figure, and in the absence of any criticism by CLC of SWKR's method of computing its figure, we are accepting SWKR's number.

Return on Value - Locomotives. SWKR computes return on value-locomotives by multiplying the net book value of its locomotive ($39,747.63) by an 18.5% nominal cost of capital rate (see discussion below) and then applying the 22% on-branch utilization factor. This results in a

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[3] See discussion of the computation of the return on value for locomotives, below.

[4] This is developed by taking total 1996 Class I locomotive maintenance cost (from R-1 Schedule 415), $1,161,972,000, divided by the total number of Class I locomotives at the end of 1996, 19,267 locomotives (from R-1 Schedule 710).

[5] The data are identified as provided by the San Pedro & Southwestern Railroad (SP&SW). That is another name under which SWKR operates.

value of $1,617.73. CLC fails to compute a return on value for locomotives. We will accept SWKR's figure.

Holding Gains - Locomotives. Both SWKR and CLC fail to compute a "holding gain" for the locomotive. The holding gain is the amount an asset such as a locomotive would increase in value during a 1-year period. We have computed the holding gain to be $284.20, computed as follows:

Net book value of locomotive	$39,747.63	
Times 22% (percent of time the locomotive is used on this line)		8,744.48
Times holding gain factor 1.95%/.6[6]		3.25%
Holding gain		$284.20

Other Avoidable Costs. Because SWKR does not own freight cars, there is no return on value or holding gains for freight cars. Revenue taxes, deadheading, and overhead movements are not shown; therefore, they have not been considered. Likewise, the existence of off-branch costs has not been asserted by either party and therefore we have not included any in our calculations.

Subsidization (Rehabilitation) Costs. SWKR argues that the excepted track portion of the line — the portion below FRA Class 1 standards — requires rehabilitation in order to meet FRA Class 1 standards. There are many defects on the line, including a large number of defective ties at certain locations, washouts, rock slides, fouled ditches, excess superelevation, and wide gauge. The total amount of rehabilitation is $517,666, of which $474,238 is within the excepted track area. The remainder is for bridge work outside the excepted track area. SWKR presents a detailed cost distribution of its rehabilitation estimate and excepted track problems. CLC does not provide an estimate for rehabilitation to FRA Class 1 standards.

Although SWKR's tie replacement rates seem high (140 per mile on tangent, 540 per mile on curves, 365 per mile on slow orders), they are being used to correct specific deficiencies in track that allegedly does not meet FRA Class 1 standards. As a result, the replacement quantities could be reasonable. There are other major items in SWKR's rehabilitation estimate, but these, too, address specific problems. Because CLC did not submit any estimate for rehabilitation, we accept SWKR's estimate of $517,666.

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[6] The holding gain factor is the rate of inflation--here, 1.95% (computed using the gross domestic product implicit price deflator)--adjusted to exclude taxes. Taxes are excluded by dividing the inflation rate by the difference between 1 and the tax rate, here .4 (1 minus .4 equals .6). The .4 figure reflects the 40% combined Federal and Arizona state tax rate submitted by SWKR. The 1.95% inflation rate divided by .6 equals 3.25%.

Return on Value of Road Property (Opportunity Cost). The return on value of road property is determined by first computing the valuation of the road property and then multiplying that value by a rate of return element. This return on value is found to be the "opportunity cost" to the railroad of holding the property for one year, because, by being compelled to hold onto the track rather than abandoning it, the railroad loses the opportunity to earn a rate of return by investing elsewhere the money the railroad could receive by selling the rail line. A holding gain, representing the increase in value of the road property during the year due to inflation, is then added to develop a total return on the value of road property. SWKR and CLC have developed significantly different inputs in their computation of return on value, i.e., opportunity cost. Each is discussed in turn.

Rate of Return. SWKR calculates the subsidy year return on value for road property by using an 18.5% nominal rate of return. SWKR indicates that this is based on the use of a 40% combined Federal and Arizona state tax rate applied to the pre-tax 1996 cost of capital finding for the railroad industry. CLC uses a 7% cost of capital rate, indicating that this rate was previously used by SWKR.

CLC is correct that SWKR used a 7% interest rate in several of its earlier submissions prior to this round of evidence. SWKR, however, provided no rationale as to how that number was developed. It is extremely unlikely that a Class III railroad would have a cost of capital substantially lower than that for the Class I carriers, given that the risk factor for a Class III carrier would be higher. We are therefore not accepting the 7% figure in our analysis.

Our abandonment regulations at 49 CFR 1152.34(d) allow the parties to use our most recent cost of capital finding for the railroad industry as the basis for developing the appropriate pre-tax nominal cost of capital (rate of return) rate. In most cases, a 37% tax rate is used, consisting of the 35% Federal statutory tax rate and a 2% factor for state income taxes. In the instant proceeding, SWKR contends that its tax rate is a higher number, 40%. Given the fact that Arizona's corporate tax rate is 9%, we are accepting this higher figure. The use of a 40% tax rate with the after-tax rate of 11.9% for 1996 results in an 18.5% pre-tax rate of return number. We are using this number in lieu of the 17.7% rate that results from the use of a 37% combined Federal and state rate.

Valuation of Property. SWKR contends that the value of the property is $1,376,601.45, consisting of an NLV of $1,485,000, income tax consequences of $126,262.40, and working capital of $17,863.85. CLC contends that the value of the property is $588,545, consisting of an NLV of $934,197 and income tax consequences of $345,652.

Net Liquidation Value (NLV). SWKR contends that the NLV for the line should be $1,485,000. The railroad presents detailed information regarding the amount and condition of each of the different types of rail used on the line.

SWKR's evaluation of tie condition was based on a sample inspection of six miles of track. All ties in each of the sample miles were evaluated by walking inspection. Only recently installed ties were classified as "relay," i.e., capable of being used--relaid--elsewhere to support track.

Various adjustment factors for wear and recovery were applied to the rail and "other track material" (OTM, i.e., spikes, bolts, etc.) quantities to reflect rail wear and material loss during removal.

SWKR bases its unit prices for track materials on market values. SWKR contends that there is a market for 113-lb. rail as a low cost replacement for 112-lb. or 115-lb. rail in new side track construction. As a result, the railroad prices this rail based on a retail value of $280 to $310 per net ton (NT). However, SWKR makes the assumption that the railroad would sell the rail itself over a period of time and discounts this price 15% to compensate. The railroad also allows $30 per NT for the cost of transportation to purchasers. The resulting price for 113-lb. relay rail is $265 per NT. As a test of reasonableness, SWKR obtained a recent quote of $395 per NT for 113-lb. rail.

SWKR also contends that relay quality materials in the line can be used elsewhere within the SP&SW/Kyle Railways (Kyle) system. SP&SW and nearby Arizona Eastern Railway will install 2,500 and 6,000 relay ties, respectively, in the near term. Next year, Kyle will require 0.6 miles of relay rail to replace 75-lb. rail and San Joaquin Valley Railroad will require 0.5 miles of relay rail.

According to CLC, SWKR has no fee title to the right-of-way land and operates through an easement. SWKR apparently agrees because both parties use a land value of zero.

CLC's NLV estimate of $934,197 is also based on a recent inspection of the line. CLC notes that most of the rail on the line is 113-lb. "head free", a type peculiar to the Southern Pacific Transportation Company. Further, CLC argues that there is virtually no relay market for this type of rail because a supplier has seen no demand from its inventory for two years. As a result, CLC classifies most of the rail as "reroller" (rail which must be "rerolled," or reconfigured, in order to be used), which has a lower unit price than relay rail. CLC also notes that half the line is in FRA Class 2 condition and the other is excepted track because of poor tie conditions.

CLC offers little supporting data for its NLV estimate. CLC uses a weighted rail average size to compute its NLV, but does not document the method used to develop this figure. We do not know whether the average size of the rail that CLC uses in its computation actually reflects the average of the sizes of rail on the line. Because the value of the rail varies significantly according to its size, this is a substantial deficiency. According to SWKR's evidence, the rail has value substantially greater than the prices CLC uses. In addition, no quotation is submitted for the reroller rail unit price submitted by CLC.

CLC seems to relate tie condition only to age, not observation of actual condition during the inspection. We are unable to determine how CLC determined tie condition, because it submitted no work papers containing supporting details.

Other shortcomings in CLC's presentation include unsupported assertions concerning the values of turnouts and a lack of documentation for the removal costs. As a result, we find CLC's NLV estimate to be unpersuasive.

SWKR lists all of the rail sizes, evaluates their condition, and prices them accordingly. SWKR's rail inventory is based on track charts and was confirmed by an inspection of the entire line. SWKR submitted work papers indicating rail sizes and wear measurements at several locations along the line. Similarly, the railroad's tie valuation is based on a detailed inspection of six 1-mile segments of the line.

SWKR's statement that it could sell the rail (without having to use a broker and incur brokerage fees) may be reasonable. Although it starts with retail, SWKR discounts the retail value of the rail by 15%. This approximates the profit margin of a broker, who would buy the material from the railroad at a wholesale price and sell it later at a higher retail price. Further, SWKR includes costs for marketing and administrative expenses, as well as additional marketing costs specifically for the 113-lb. rail and joint bars. These adjustments substantially reduce the unit price for track materials. Because of the above modifications, SWKR is not using unadjusted retail prices to determine its NLV estimate.

We believe SWKR presents the best overall evidence of record for NLV of the line. As a result, we accept SWKR's estimate of $1,485,000.

<u>Income Tax Consequences</u>. SWKR computes income tax consequences as 40% of a capital gain of $315,656. This capital gain is presumably the difference between SWKR's NLV of $1,485,000 and a book or original cost of $1,169,344. CLC's income tax consequences imply that 100% of the NLV is subject to tax, with no original or book value existing to develop a capital gain. Because the value of the line is something higher than zero, we are rejecting CLC's procedure that would tax 100% of the NLV. Therefore, absent any evidence contradicting SWKR's figures, we will accept them.

<u>Working Capital</u>. CLC has not provided a working capital allowance. SWKR uses the amount of cash required to pay for 15 days' avoidable costs as the railroad's working capital allowance. This is an acceptable factor for use in developing working capital and we have used it here. However, because we have adjusted SWKR's operating expenses downward (due to changes in maintenance of way and maintenance of equipment), we have reduced the working capital allowance to $13,258.81.[7]

<u>Return on Value</u>. The respective opportunity costs (before holding gain) developed by SWKR and CLC are $254,671.27 and $41,198.15. SWKR's estimate is developed by multiplying

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[7] This figure is derived as follows:

Total on-branch costs	$324,248.78
Less return-on-value locomotives	1,617.73
= Costs to be used to develop working capital	322,631.05
Multiplied by 15/365	$ 13,258.81

its valuation of property ($1,376,601.45) by 18.5%. CLC's estimate is derived by multiplying its valuation of property ($588,545) by 7%. Neither party has computed a holding gain. We recompute the opportunity cost (before holding gain) to be $253,819.34, based on a revised valuation of property of $1,371,996.41 (consisting of $1,485,000 NLV, $126,262.40 income tax consequences, and $13,258.81 working capital) and an 18.5% rate of return.

Holding Gain. As stated above, neither party computed a holding gain for the property during the subsidy year. Absent any evidence to the contrary, STB regulations use the gross domestic product (GDP) implicit price deflator to develop a holding gain for property. The most recent GDP deflator (for the year 1996) is 1.95% on an after-tax basis. Using the 40% tax rate which we have accepted for this proceeding, this translates to a 3.25% holding gain. When multiplied by the NLV of $1,485,000, this translates to a holding gain of $48,262.50. When this holding gain is subtracted from the return on value (prior to holding gain) developed above, it results in a net return on value of $205,556.84.

Avoidable Loss and Subsidy Calculations. Based on the above analysis, we conclude the following for the subsidy year:

Avoidable loss from operations	$167,498.78, consisting of $156,750 on-branch revenue less $324,248.78 on-branch costs.
Avoidable Loss Including Return on Value	$373,055.62, consisting of the $167,498.78 avoidable cost from operations and the net return on value of $205,556.84.
Estimated Subsidy Payment	$890,721.62, consisting of the avoidable loss including return on value of $373,055.62 and the rehabilitation cost of $517,666.00.

Terms of closing for purchase. The purchase price for the line is set at $1,485,000, which is the NLV of the line. Should CLC elect to purchase the line, to ensure an orderly transfer of the line, we will establish our typical terms: (1) payment by cash or certified check; (2) closing within 90 days of notice of consummation of the purchase by CLC; (3) all property conveyed by quitclaim deed; and (4) seller's releases from any mortgages within 90 days of closing. The parties may alter these terms by agreement.

This action will not significantly affect either the quality of the human environment or the conservation of energy resources.

It is ordered:

1. The motion to strike filed by SWKR is granted.

2. The subsidy for the line is set at $890,721.62. The purchase price for the line is set at $1,485,000. Other terms of subsidy/sale must comply with the provisions discussed above.

3. Within 10 days of the service date of this decision, CLC must accept or reject, in writing, the terms and conditions established here by notifying the Board and SWKR Operating Co.

4. If CLC accepts the terms and conditions established by this decision, CLC and SWKR Operating Co. will be bound by this decision.

5. If CLC withdraws its offer or does not accept the terms and conditions with a timely written notification, the Board shall issue a decision within 20 days of the service date of this decision vacating the prior decision that postponed the effective date of the decision authorizing abandonment.

6. This decision is effective on its service date.

By the Board, Chairman Morgan and Vice Chairman Owen.

Vernon A. Williams
Secretary

APPENDIX
Subsidy Calculations

	Offeror's Subsidy Calculation 8/29/97	Railroad's Subsidy Calculation 9/17/97	Restated Subsidy Calculation
1. Freight Orig. and/or Term. on Branch	$156,750.00	$156,750.00	$156,750.00
2. Bridge Traffic	0.00	0.00	0.00
3. All Other Revenue and Income	0.00	0.00	0.00
4. Total Attributable Revenue (Ls. 1 thru 3)	**$156,750.00**	**$156,750.00**	**$156,750.00**
5. On-branch Costs:			
a. Maintenance-of-Way and Structures	$124,500.00	$292,555.00	$208,817.00
b. Maintenance-of-Equipment	39,683.00	39,683.00	13,267.00
c. Transportation	90,168.00	55,848.00	55,848.00
d. General & Administrative (Excludes property taxes)	5,000.00	5,000.00	5,000.00
e. Deadheading, Taxi and Hotel	0.00	0.00	0.00
f. Overhead Movement	0.00	0.00	0.00
g. Freight Car Costs (Other Than Return) [CAR HIRE]	9,416.00	19,983.25	19,983.25
h. Return on Value - Locomotives	0.00	1,617.73	1,617.73
i. Return on Value - Freight Cars	0.00	0.00	0.00
j. Revenue Taxes	0.00	0.00	0.00
k. Property Taxes	20,000.00	20,000.00	20,000.00
l. Total (Ls. 5a thru 5k)	**$288,767.00**	**$434,686.98**	**$324,532.98**
m. Holding Gains - Locomotives	$0.00	$0.00	$284.20
n. Holding Gains - Freight Cars	0.00	0.00	0.00
o. Net On-br Costs (Ls. 5l - 5m & 5n)	**$288,767.00**	**$434,686.98**	**$324,248.78**
6. Off-branch Costs:			
a. Off-Branch Costs (Other Than Return)	$0.00	$0.00	$0.00
b. Return on Value - Freight Cars	0.00	0.00	0.00
c. Holding Gains - Freight Cars	0.00	0.00	0.00
d. Net Off-br Costs (Ls. 6a+6b - 6c)	**$0.00**	**$0.00**	**$0.00**
7. Total Avoidable Costs (L. 5o + L. 6d)	**$288,767.00**	**$434,686.98**	**$324,248.78**
8. Rehabilitation	$0.00	$517,666.00	$517,666.00
9. Administrative Costs (Subsidy Year Only)	0.00	0.00	0.00
10. Casualty Reserve Account	0.00	0.00	0.00
11. Total Subsidization Cost (Ls. 8 thru 10)	**$0.00**	**$517,666.00**	**$517,666.00**
12. Valuation of Road Properties			
a. Working Capital	$0.00	$17,863.85	$13,258.81
b. Income Tax Consequences	(345,652.00)	(126,262.40)	(126,262.40)
c. Net Liquidation Value	934,197.00	1,485,000.00	1,485,000.00
d. Valuation of Property Before Holding Gain (Ls. 12a thru 12c)	**$588,545.00**	**$1,376,601.45**	**$1,371,996.41**
13. Nominal Rate of Return	7.00%	18.5%	18.5%
14. Nominal Return on Value (L. 12d x L. 13)	$41,198.15	$254,671.27	$253,819.34
15. Holding Gain (Loss)	0.00	0.00	48,262.50
16. Total Return on Value - Opportunity Cost (L. 14 - L. 15)	**$41,198.15**	**$254,671.27**	**$205,556.84**
17. Avoidable (Loss) or Profit from Operations (L. 4 - l. 7)	**($132,017.00)**	**($277,936.98)**	**($167,498.78)**
18. Avoidable (Loss) or Profit Including Return on Value (L.4 - Ls. 7&16)	**($173,215.15)**	**($532,608.25)**	**($373,055.62)**
19. Estimated Subsidy Payment (L.4 - Ls. 7, 11, & 16)	**($173,215.15)**	**($1,050,274.25)**	**($890,721.62)**