

What is the Cincinnati Southern Railway worth? Documents show a wide range

91.7 WVXU | By [Becca Costello](#)

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Newly released documents show a wide range of estimated values for the city-owned Cincinnati Southern Railway. City officials say the documents show how hard they fought for a fair price in a [proposed sale to Norfolk Southern](#).

"The board really held firm, only going down a little bit through the negotiation, whereas Norfolk Southern really went up quite a bit," said Mayor Aftab Pureval. "And when you look at the ultimate number that it was agreed to, it's well within the ranges of valuation, for all types of valuation."

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Cincinnati has leased the railway to Norfolk Southern for decades and that lease contract is up for renewal. The CSR Board of Trustees started that negotiation by trying to increase the yearly rent from about \$25 million to \$65 million.

But for the past two years, Norfolk Southern has been trying to buy the CSR instead, first offering \$865 million. The board's response, through a hired firm, was: "the compensation offered is grossly inadequate."

The board then paid for a couple separate valuations to determine what the railway is worth, coming up with \$616 million on the lowest end and \$2.46 billion on the highest.

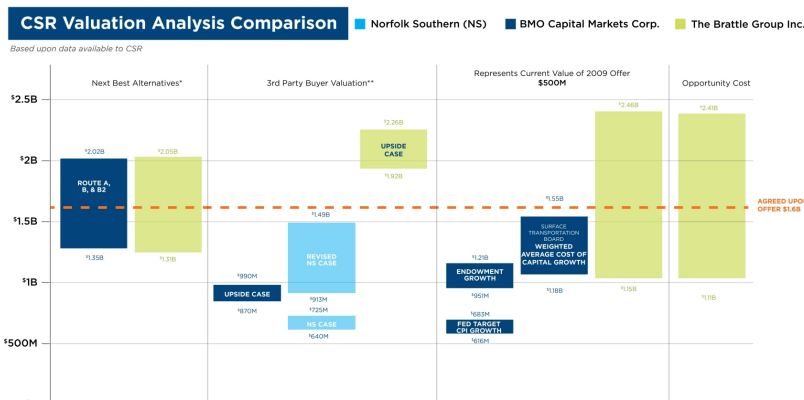
Board President Paul Muething says it's a tough asset to estimate value for.

"Because unlike a piece of commercial property, or even a piece of residential property, there's no comparables," Muething said. "Comparables are the first thing that people look to as to what my property would be worth."

Estimating the value of the railroad

One way to estimate value is to calculate how much it would cost Norfolk Southern to move rail traffic using a different route, known as the "next best alternative." This was hard to calculate because Norfolk Southern refused to give the consultants all the necessary financial information.

"They claimed that they didn't keep financial information on a segment basis just for this segment from Cincinnati to Chattanooga," Muething said.



* Next Best Alternatives represents how much it would cost NS to reroute the traffic from CSR to a different line. NS would try to accomplish this at the lowest possible cost.
 ** 3rd Party Buyer Valuation represents how much NS believes a third-party would pay for the rail line. The upside case better represents what the CSR's experts believe the initial NS case would be worth.

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

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Another method is to estimate how much the CSR would be worth to a different third-party buyer, and this is where some of the lowest valuations come from. Muething says that includes two different kinds of potential buyers: financial and strategic.

"Financial would be some sort of fund or something that would buy this asset just to own it," Muething said. "Well, the problem with a financial buyer is the financial buyer would still have to deal with [Norfolk Southern] as its lessee."

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A strategic buyer, on the other hand, would be one of four or five other major rail lines, which are already moving traffic north to south and south to north.

And, Muething says, the sale has to be approved by the federal Surface Transportation Board, which won't approve a sale with an "anti-competitive impact."

"If the proposed buyer, were another railroad or third party financial buyer, they could say, 'Hey, we have concerns and here's why,' " Muething said.

A third valuation method is based on Norfolk Southern's 2009 offer to buy the CSR for \$500 million. Muething wasn't on the CSR board at the time, but he calls it a "half-hearted" purchase attempt.

Adjusted for inflation, that same offer would be worth between \$616 million and \$683 million today. But using the Surface Transportation Board's estimated increase in value since 2009, that offer would be worth up to \$1.55 billion today.

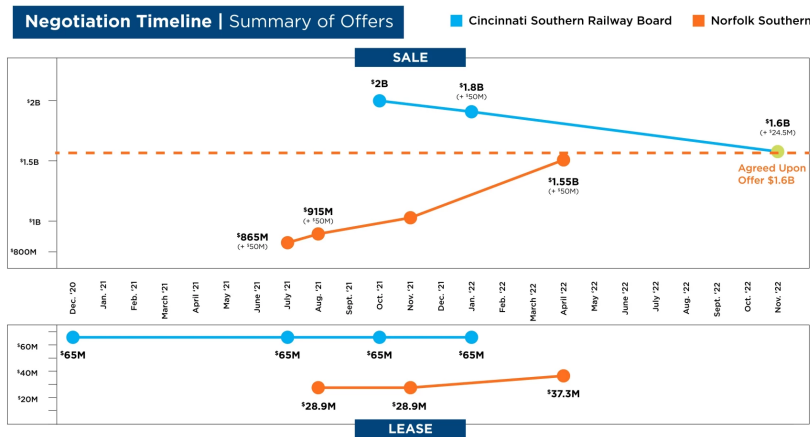
Finally, an opportunity cost estimates how much money Norfolk Southern could lose in profit if they lose access to the CSR. That range has the most variability, between \$1.11 billion and \$2.4 billion.

'Negotiating very aggressively'

The CSR Board started negotiations in December 2020 with an offer to increase yearly rent from about \$25 million a year to \$65 million a year, increasing annually with inflation.

Norfolk Southern responded about seven months later in July 2021, offering to buy the

"[T]hese proposals, in departing from the current leasing framework, provide the CSR an additional benefit — a hedge against any sort of rail industry structural decline," wrote Norfolk Southern VP Mike McClellan in a letter to the Board. "While Norfolk Southern has a positive perspective on the future of the rail industry, it also is evident that certain external threats to the industry could manifest themselves over the next 50 years, including re-regulation, autonomous trucking and 3D printing."



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A graph showing the purchase and lease offers between the Cincinnati Southern Railway Board and Norfolk Southern between December 2020 and November 2022.

The board responded almost immediately to dismiss the purchase, calling the offer "grossly inadequate" and again offering the \$65 million a year lease.

Norfolk Southern then upped their offer to \$915 million, plus up to \$50 million depending on how quickly the sale could be finalized. The board responded with a \$2 billion sale offer, or the continued offer of a \$65 million a year lease.

Norfolk Southern's next offer in November 2021 was just over \$1 billion, which the board countered with a \$1.8 billion offer plus up to \$50 million more depending on how quickly the deal was finalized.

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The final Norfolk Southern offer in April 2022 was for \$1.55 billion plus up to \$50 million more depending on how quickly the deal was finalized, and a lease offer increased to

\$37.3 million annually, the highest Norfolk Southern offered for the yearly lease during the entire negotiation process.

This is where key deadlines started to put pressure on the negotiations — if no agreement was reached by June 30, 2022, the existing lease says the parties have to enter into arbitration.

"That arbitration clause introduces so much risk and uncertainty," Mayor Pureval said. "Because the arbitrator could choose any one of these valuations, irrespective of our opinion."

"I think we all believed that we had pushed as far as we were going to get," Muething said, "and if we didn't take that \$1.6 billion we were gonna start this [arbitration] process, and then we didn't know where we're going to end up."

What happens next

The purchase is contingent on two key things: a change in state law that would allow the revenue to be reserved for maintaining city infrastructure, and a vote of Cincinnatians approving the sale.

Pureval says he's confident the state legislature will do their piece this year. "We still have work to do in order to accomplish that but right now all the signs are positive."

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As for convincing voters to allow the sale of an asset that has benefited the city for decades? Pureval says he knows that will be tough, but compares this decision to the one that led city leaders to build the Cincinnati Southern Railway in the late 1800s.

"They were facing a changing economy as commerce was moving from the river to railways," Pureval said. "We are in a similar moment where the world's economy is changing."

Pureval says he has no doubt selling is the best possible outcome for taxpayers.

The sale will likely be on the November ballot.

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Becca Costello

Becca Costello grew up in Williamsburg and Batavia (in Clermont County) listening to WVXU. Before joining the WVXU newsroom, she worked in public radio & TV journalism in Bloomington, Indiana and Lincoln, Nebraska. Becca has earned numerous awards for her reporting, including from local chapters of the Associated Press and Society of Professional Journalists, and contributed to regional and national Murrow Award winners. Becca has a master's degree in journalism from Indiana University and a bachelor's degree from Cincinnati Christian University. Becca's dog Cincy (named for the city they once again call home) is even more anxious than she is.

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