



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

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North Carolina Should Require NC Railroad Company to Pay an Annual Dividend and Strengthen Reporting

Summary

The General Assembly directed the Program Evaluation Division to evaluate the North Carolina Railroad Company (NCRR). The legislation required a review of the corporation's mission, economic development benefits, tangible and intangible value, and governance and required consideration of whether NCRR should be sold, transferred under the North Carolina Department of Transportation or another state agency, or maintain its corporate structure.

NCRR has benefitted from its unique relationship with the State of North Carolina, the corporation's sole shareholder, but the State has not profited financially from this relationship. NCRR's capital has increased by at least \$196.3 million since 1998 when the State became the corporation's sole shareholder. As a result, NCRR is both profitable and solvent. However, the State has not profited from this relationship in the form of receiving direct financial benefits because dividends are required by state law to pay for NCRR capital improvements.

Selling NCRR or the railroad corridor may not be in the best interest of the State because these valuable rail assets and their long-term earnings potential would be lost. However, NCRR property not related to the railroad corridor could be transferred to the State as a dividend and sold to provide one-time revenue.

The State has limited mechanisms for oversight of NCRR. As a private corporation, NCRR has less stringent reporting requirements than publicly-traded corporations. NCRR has not fully met all reporting requirements since 2007 and lacks a comprehensive strategic plan and performance measurement system. Changing NCRR's corporate structure could strengthen the State's oversight but requires a lengthy and complicated process. Amending state law would improve the corporation's reporting to the State and require NCRR to make an annual dividend payment while maintaining its corporate structure.

To address these findings, the General Assembly should

- amend Chapter 124 of the General Statutes to strengthen reporting by NCRR;
- require NCRR to pay a one-time dividend of \$15.5 million and, thereafter, require NCRR to pay an annual dividend equal to 25% of NCRR's annual income from its trackage rights agreement (estimated at \$3.7 million annually) to the General Fund; and
- require NCRR to convey to the State 14 properties not directly related to the railroad corridor so these properties can be sold and the proceeds deposited into the General Fund.