

# THE RAILROAD WEEK IN REVIEW

## JULY 10, 2009

*"We do not see a rebound in railroad coal shipments emerging in 2009." – Jason Seidl, Dahlman Rose, "Coal and Rail Quarterly", June 30, 2009*

**The short form of Jason's report** is that Appalachian coal is down more than the US average and that short lines that originate coal are mainly in that region. It's not hard to see why. For starters, only BNSF and UP have direct access to the PRB origins and, according to the Ed Wolfe's coal map, the only short line in the Utah coal fields is – you guessed it – GWR's Utah Railway with 90,000 annual carloads. That's it for US coal west of the Mississippi.

Then there's Illinois and western Indiana bituminous. CN (IC), CSX and NS dominate the mines here, though Indiana Rail Road and Rail America's Indiana Southern are significant players. But when you move east into the Monongahela coal fields south of Pittsburgh and the whole Appalachian region from the northern border of Pennsylvania, into eastern Ohio and down to the southeastern reaches of Tennessee, we see short lines of all shapes and sizes where coal is a big part of their total business.

Principal short lines in the region include the Buffalo & Pittsburgh, Southwest Pennsylvania, Allegheny Valley, Allegheny & Ohio, three RJ Corman lines, Ohio Central and its affiliates, Wheeling & Lake Erie, Paducah & Louisville, and the Elk River. So it's easy to see who's taking the big hits when you look at RMI's *RailConnect Index of Short Line Traffic* and see coal off ten percent through year-to-date through June. Stay tuned to this station for further bulletins.

**Sometimes I think Blanche** ("I've always been dependent on the kindness of strangers") Dubois ought to be the poster girl for short line railroading in the 21st century. When one looks at the amount of state grant money that's gone into short line track rehab programs over the years one has to ask what would have happened to the recipients were it not for the kindness of strangers in the statehouse. There simply was no business case that could possibly have justified further investment in these operations.

I'm sure many of these grantees could not have qualified for RRIF loans because there was little revenue and even less cash flow to begin with. The RRIF loan is exactly that and the FRA wants assurances it will get its money back. However, says my good friend Chris Rooney -- a chap whose seen a lot of RRIF applications and knows whereof he speaks -- says that short lines in otherwise poor shape may be able to leverage the grants into stronger financials that would allow them to qualify for RRIF loans.

Let's face it: track maintenance and improvement eat up a significant chunk of the revenue stream. A 40-mile short line is looking at roughly \$200,000 per year just to keep existing FRA class 2 track up to spec. If the track is FRA class 1 or Excepted, the bill can be even higher in terms of excessive crew, locomotive, car hire and derailment costs. So a million-dollar grant to fix the railroad frees up the cash that was going to damage control to support a RRIF loan instead.

Chris also tells me the present tight-credit situation has increased the number of RRIF loan applications. There are evidently quite a few short lines that are living from allowance check to allowance check on short-term bank loans and high-priced paper or simply can't get any more credit from the local financial institution. Here again the RRIF program can help -- refinancing high-cost

loans is “an eligible purpose” for a RRIF loan, he says, adding, “Such loans must lead somewhere and help free up cash flow that will be reinvested in the business.”

That said, there are times when grant money can help an otherwise healthy short line recover from stuff that happens through no fault of the management -- like the recent floods in the Midwest and plains states. The June *Progressive Railroading* lists ten flood-related projects worth more than \$13 million in FRA emergency-repair funds administered through the DOTs in Arkansas, Illinois, Indiana, Iowa, Kansas, Missouri and Wisconsin.

The money is out there for crossing rehabs and industrial access, says Rooney, and you might as well go get it. He suggests that the larger short line operators at least ought to have one individual on staff that does nothing other than ferret out sources of Other People’s Money (“OPM”) for these projects. I know of one that does exactly that and is enjoying some significant success at it.

My personal dealings with the powers that be at the rail divisions in DOTs from Maine to Virginia and North Carolina indicate there’s a lot more money than one would expect still out there: all one must do is apply for it. For example Iowa just doled out five \$million in rail access projects ranging from an industrial park in Clinton to a bridge upgrade in Keokuk to an intermodal ramp upgrade on the IAIS. All of which can be used to leverage RRIF loans to further increase revenue opportunities and reduce the cost of generating that revenue. Case histories invited.

**Rob Himoto, President of California’s Santa Maria Valley Railroad**, writes, “This has been an interesting year to say the least. Our carloadings were actually up the first quarter. Mid-second-quarter frozen vegetables usually ramp up, though going into June things looked dire as a major shipper was silent. One of my directors learned that regionally strawberry prices last year were at an all-time high so this year many vegetable farmers rotated to strawberries and as a result vegetable plantings suffered. The fresh market continues to process all available vegetables and very little is processed to frozen. For June we had projected 40 carloads though to date have only shipped two. What we had expected to be one of our best outbound months has disappointed.

“However, our June inbound traffic was the highest in years. Two of our inbound customers had their highest month of carloadings ever. At the beginning of the year our lumber and drywall customer made a concerted effort to expand their market reach to 100-mile radius. This paid off big-time as the Santa Barbara area has suffered through three major wildfires the past year. This is also turning into a record year for fertilizers and farm machinery.

”Recently we have been really marketing the green aspects of shipping by rail and relieving traffic congestion. Those points are really hitting home with the local politicians and media. The local TV station did a story on the benefits of shipping by the SMVRR and interviewed our fertilizer customer who is receiving record carloads of fertilizer. Santa Barbara County and California are hooked on the green theme so we thought we should capitalize on that theme. This marketing approach is building momentum and we are getting the public educated on rail transportation.

“Another change, we gutted the accounting system and designed it around railroad accounting. We are now able to analyze the company in all aspects and are finding new areas where we can improve efficiency. Finally, we’ve found that inviting customers on our private dinner excursion trains is a highly effective tool marketing tool. These folks have a great time and take a greater interest in the railroad. We usually give a short presentation and a short walking tour of our yard facilities.”

**A sixty-five year old lady** named simply “844” is hardly the stuff of WIR’s “follow the money” theme for short lines. But when the lady in question is the only Class I steam locomotive never

retired from the original owner's locomotive roster and is out running twenty-car passenger specials, attention must be paid. The lady in question will for the 18th year in a row pull a special train for Cheyenne Frontier Days, as well as a fundraising special for the Cheyenne Depot Museum between Cheyenne, Wyo., and Denver, Colo. The excursions will celebrate railroad heritage on Union Pacific. The "Denver Post Frontier Days Special" will make a round trip on Saturday, July 18, between Denver and Cheyenne. This is the 18th annual operation of this special train in as many years and the 22-car passenger train is sold out for this year's trip. A special train sponsored by the Cheyenne Depot Museum also will be pulled by No. 844 on Sunday, July 19 from Denver to Cheyenne.

By way of background, the 844 was the last steam locomotive built for Union Pacific Railroad, one of a group of ten 4-8-4's ordered from Alco delivered in 1944. A high-speed passenger engine, she pulled such name trains as the Overland Limited, Los Angeles Limited, Portland Rose and Challenger. When diesels took over these assignments in the mid-50s, the 844 was reassigned to freight service where she finished out her active days in 1959, much as did another famous 4-8-4, the N&W 611. Held for special service, the 844 escaped the scraper's torch in 1960.

Fast-forward to 2006 when the 844 returned to service after one of the most extensive steam locomotive overhauls in the United States since the 1950s. The overhaul began in 1992, and included extensive overhauls of its running gear, pumps, piping, valves and springs, along with replacement of its firebox and extensive boiler work. Even the cab interior was redone and from pix I've seen they did an immaculate job.

Schedule details for the Cheyenne-Denver outing are on the UP website as the lead item under the media tab. But if you can't make the trip, you can follow along by entering the word "steam" in the [www.up.com](http://www.up.com) search box thanks to a GPS transmitter installed on one of the rail cars that will travel with No. 844. The GPS system will update the map every five minutes showing No. 844's location. Twitter users will be able "follow" the 844 at [twitter.com/up\\_steam](http://twitter.com/up_steam). Tweets will include the 844's latest GPS location as well as brief reports from along the route.

**Kodachrome has had its last run**, as probably everybody on the planet knows. To celebrate more than fifty years of personal and professional use of this remarkable product, Laura and I are embarked on a "last brick project" in which we wish to retrace our steps and find our old tripod holes. We actually found a full "brick" (a factory-wrapped package of 24 rolls) and have confirmed that Dwayne's Photo in Parsons, Kansas will be processing the film at least through the end of 2010.

We're not alone in this, though -- see [www.kodachromeproject.com](http://www.kodachromeproject.com). The thought occurs it might be worthwhile to do something like it only restricted to railroads. Participants could put up flickr.com pages that I could publicize them in WIR and put up links at a special section at [www.rblanchard.com](http://www.rblanchard.com). Your thoughts and comments are eagerly sought.

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