

Pennsylvania's colorful commerce



William Penn's land of milk and honey has more railroads than any other state. And Pennsylvania intends to keep it that way

by Roy Blanchard



Michael Hawbaker is a happy customer. As vice president for materials and transportation of Glenn O. Hawbaker Inc., a family firm started by his grandfather more than 50 years ago, Hawbaker is a heavy user of the Nittany & Bald Eagle Railroad's services. Hawbaker is in the aggregates business and one of his niches is providing hot-mix asphalt for Pennsylvania Department of Transportation road-paving projects. The Nittany & Bald Eagle is a major

player in getting the rock to the asphalt-mixing plants closest to the work sites.

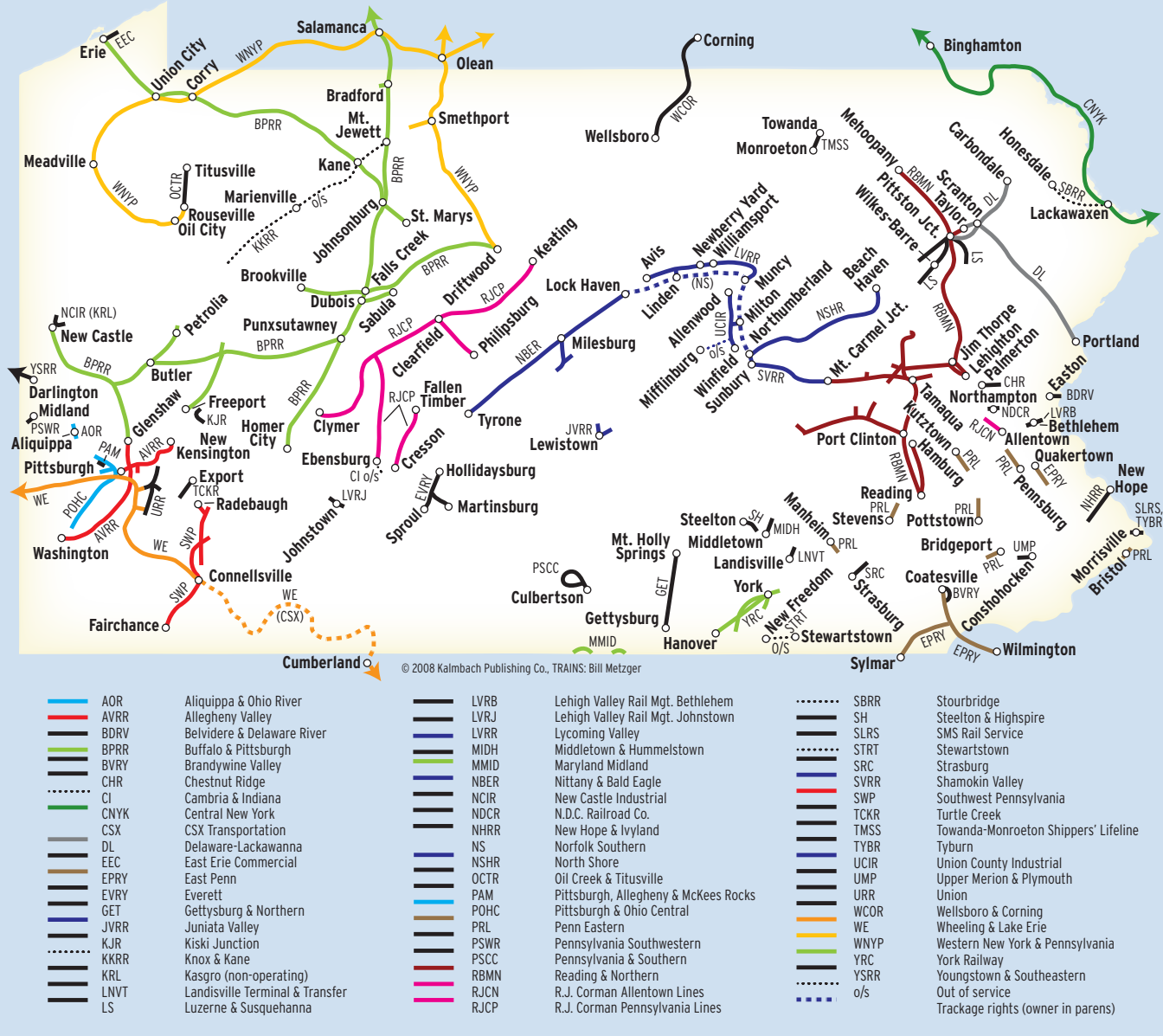
As part of the North Shore Railroad Group, a six-carrier operating company based in Northumberland, Nittany & Bald Eagle plays a significant role in Pennsylvania's aggressive economic development program. In fact, it is one of 51 active short lines and regionals operating within Pennsylvania, a state that, interestingly, has more shortline railroads than any other state in the country — and therein hangs our tale.

Former Conrail GP10s are common on Pennsylvania short lines such as Gettysburg & Northern (above), passing Gettysburg's military park, and Nittany & Bald Eagle (left), working a lime plant in Pleasant Gap. Gettysburg, Kenneth Lehman; Nittany, Mike Zollitsch

Too many lines

To understand why Pennsylvania has so many short lines, you must go back nearly 300 years, to when Philadelphia was a rapidly growing city of some 15,000 souls, expanding westward as its population increased. By the

Pennsylvania short lines



early 1800s, railroads began to come into their own, and in 1831 Mathias Baldwin built his first locomotive plant there.

The first railroad in Pennsylvania was the 1827 Switchback Railroad in what is now Jim Thorpe, and by the 1880s, railroads large and small blanketed the state. The biggest of them all was the Pennsylvania Railroad. Founded in 1847, it was at one time the largest publicly traded corporation in the world, comprising more than 10,000 route-miles and hauling more passengers and tonnage than anyone else. By the turn of the 20th century the PRR had reached every corner of the state and beyond into Illinois, Ohio, New York, New Jersey, West Virginia and, yes, Virginia, even into Virginia.

Five decades later, private auto and air

travel had cut deeply into its passenger service. Freight traffic was declining, too, as the combination of super-trucks, super highways, declining coal use, and erratic rail service started to take its toll. The 1968 Penn Central merger only compounded the problem. With the entire Northeast railroad scene in disarray, Congress passed the Regional Rail Reorganization Act of 1973, from which sprang the "Final System Plan" of 1975. The plan directed the United States Railway Association (USRA) to reorganize the Penn Central and other Northeastern bankrupts into a "financially self-sustaining rail service system," and ordered the transfer of "certain main lines to ConRail [as it was spelled at the outset] and other main lines to solvents [profitable carriers]."

The key phrase was "main lines." Beyond that core network, the USRA had identified nearly 10,000 miles of "light density lines," and determined that about two-thirds of that mileage was not worthy of being part of ConRail and should either "be subsidized or service discontinued." Pennsylvania, with its spider web of branch lines, was among the states hardest hit by the exclusion of lines from the network that eventually became small-R Conrail.

Lines excluded from the Final System Plan qualified for local assistance through "the joint two-year federal-state rail continuation program," in which local interests would decide what lines were keepers and the feds would help with funding. This brings us back to the Nittany & Bald Eagle.

The Nittany is a former PRR line connecting the four-track Middle Division (home to brand-name trains like the *Broadway Limited*) at Tyrone with the Harrisburg-Buffalo route at Lock Haven.

Though the Nittany's line was included in the Final System Plan, Penn Central decided (and Conrail later concurred) that it did not need this cutoff. Instead, it sent eastbound coal trains for Pennsylvania Power & Light's Strawberry Ridge generating plant over a parallel route via Cresson, Clearfield, and Keating. As a result, the line was taken out of service between Tyrone and Milesburg (though at one time miles of surplus cars were stored on it), leaving the few remaining industries near Milesburg to be served from Lock Haven. About this time the SEDA-COG Joint Rail Authority took action to preserve the complete route. That mouthful of initials is today's shorthand for the Susquehanna Economic Development Association-Council of Governments (see page 36). In a series of transactions between 1983 and 1996 the Joint Rail Authority restored the entire line between Tyrone and Lock Haven. The Nittany & Bald Eagle ran its first train to Lock Haven for Hawbaker in 1993.

With the line re-established, the Nittany approached Conrail about rerouting Strawberry Ridge coal trains onto its tracks. The Nittany offered a route that was 60 miles shorter, had fewer grades, and could save a Conrail crew-start. Conrail agreed, and in 1996, coal trains began moving that way under a trackage rights agreement that Norfolk Southern continues to use to this day. NS now moves 2 million tons of PP&L coal a year over the Nittany. (Conrail later spun off its Clearfield trackage to R.J. Corman.) Thus, through its prescience 25 years ago, SEDA-COG preserved a vital route for coal from the Monongahela coal fields to supply PP&L, keeping Pennsylvania coalmine operators and related industries alive and well.

What color is your short line?

Pennsylvania short lines — and we're talking active freight haulers only, not tourist lines, private switching operations, or others that do not bill shippers for freight services — have essentially two types of origins. First there are the lines that started for reasons of their own and have never been part of a Class I. Perhaps the most famous is the Strasburg Rail Road, chartered in 1832 and the oldest railroad in the U.S. operating under its original charter. This category also includes the "steel roads," from the Union Railroad to the Upper Merion & Plymouth.

The second kind includes lines that grew out of the USRA's Final System Plan or came about after Conrail, and then CSX and NS, spun off light-density segments to local operators. The SEDA-COG lines, Blue Mountain & Reading, Southwest Pennsylvania, and



The poetically named Towanda-Monroeton Shippers' Lifeline switches a Monroeton feed mill on May 6, 2001, with its lone SW1 painted in Lehigh Valley colors. Kenneth Lehman



At Newberry Yard in Williamsport, Lycoming Valley GP20s trade cars with a Norfolk Southern freight in 2002; the yard now supports UGI Energy's new natural gas plant. Mike Harting

about 40 others fall into this group.

Regardless of origin, Pennsylvania's short-line universe contains three types of carriers. There are the independent single-property operators like the 9-mile Middletown & Hummelstown or the tiny Tyburn, a 5-mile switcher in Morrisville. Then come the locally owned regional operators (such as Richard Robey's North Shore group), and finally, the true regional carriers like the Wheeling & Lake Erie and Genesee & Wyoming.

Among the major shortline holding companies only Genesee & Wyoming has a significant footprint. The reasons are several, but it appears to be chiefly the way the Final System Plan, Conrail, and its successors dealt with Pennsylvania's branchline network.

Of the 51 names on the active Pennsylvania shortline list, only five have more than 100 route-miles. Fully half of Pennsylvania's short lines operate on 15 route-miles or less, not something very appealing to distant owners. The scattered array of lines excluded from the Final System Plan survives because somebody local cared. (The eponymous 8-mile Towanda-Monroeton Shippers' Lifeline comes to mind, running on ex-Lehigh Valley trackage.) Conrail favored local operators with whom it had good track records, such as

Blue Mountain or North Shore. Companies based in Boca Raton, Fla., or Denver had little opportunity to make a play.

This trend continues. Norfolk Southern last year leased part of its Harrisburg-Buffalo line in Pennsylvania to the Western New York & Pennsylvania, a company NS already had a strong relationship with after leasing it the ex-Erie main line west of Hornell, N.Y., to Meadville, Pa.

The largest non-Class I in Pennsylvania is the coal hauler Buffalo & Pittsburgh, covering some 279 route-miles and hauling 73,000 carloads a year to, from, and within the state. Part of the Genesee & Wyoming family, the Buffalo & Pittsburgh is an agglomeration of a spin-off (the Buffalo, Rochester & Pittsburgh, a former Baltimore & Ohio property that CSX sold in 1988), a cast-off from the Final System Plan (the Allegheny & Eastern, which has been in the G&W family since 1992), and an independent (the Pittsburgh [sic] & Shawmut, which G&W acquired in 1996).

From here on out, it's doubtful that CSX or NS will make any significant line sales in Pennsylvania. You will likely see more transfers between existing shortline companies or industrial railroads. For example, Ohio Central in 2000 bought RailAmerica's Pittsburgh

SEDA-COG: Short line savior



North Shore SW9 446 enters downtown Danville, on SEDA-COG trackage. Kenneth Lehman

SEDA-COG was created in the 1960s, one of the first organizations of its kind in the nation. Its original appellation, the "Susquehanna Economic Development Association-Council of Governments," was officially shortened decades ago. The group's mission is to "enhance growth opportunities in an environmentally sensitive manner while retaining the region's predominantly rural character." Accordingly, the SEDA-COG Joint Rail Authority was created in 1983 "to preserve and foster rail service in Central Pennsylvania and to further economic development through retention, improvement, and expansion of the infrastructure and rail service it supports." Its first purchase was the 80 miles of Conrail trackage that became the Nittany & Bald Eagle and the North Shore railroads. Five years later, the authority acquired an abandoned PRR ore train route to Mount Carmel, creating the Shamokin Valley. In the mid-1990s, the authority and the North Shore group negotiated another transfer of lines from Conrail that became the Lycoming Valley and Juniata Valley railroads. (North Shore's sixth line is the privately owned Union County Industrial.)

"Railroads are critical to many manufacturers, and those companies usually offer the best jobs in their communities," says Jeff Stover, SEDA-COG's chief of transportation planning. "The rail preservation project is significant in not what it initially achieved in terms of keeping rail service, but the impact it would have in future years for expanding or new industries."

He has a point. At last November's Central Pennsylvania Rail Freight Summit, Stover displayed a chart showing the average 2005 wages in his group's five-county area for manufacturing and retail/service jobs. Not only was the manufacturing wage twice the retail wage, but there were half again as many manufacturing as retail jobs, and the total manufacturing wages paid came to \$1.3 million versus retail's \$379,000. — Roy Blanchard

Industrial, itself a 1996 Conrail spin-off to RailTex (which RailAmerica absorbed three years later). In 2003, Watco took over operations at the former J&L steel plant in Midland. And just last year entrepreneur John Nolan sold his three small Philadelphia-area operations (including the Penn Eastern and East Penn) to Regional Rail LLC, a new investor group with long-time shortline managers Bob Parker and Al Sauer at the helm.

A three-sided coin

Regardless of type or size, all 51 regionals and short lines have one thing in common: the full support of the Pennsylvania Rail Freight Assistance Program. The enabling legislation for this source of capital funding is the Rail Freight Preservation Act of 1984, which, as amended, empowers PennDOT to "preserve and improve rail freight service in the Commonwealth by making grants, loans, or other assistance to qualified applicants." Qualifying projects include "accelerated maintenance" (restoring lines to FRA Class 1 track standards) and capital projects for new infrastructure construction. Grants may be issued to railroads, transportation organizations, shippers, or municipalities. All grants require a "responsible" level of financial participation, typically a 50/50 or 70/30 state/local funding split.

In the past five years, funds distributed by the Rail Freight Assistance Program have grown from less than \$5 million a year to \$11 million for the 2007-2008 fiscal year; total PennDOT rail freight investment has increased to nearly \$45 million from roughly \$30 million a year. At a SEDA-COG conference last November, Eric Madden, PennDOT's acting deputy secretary for aviation and rail freight, noted that since 2003 the number of annual Rail Freight Assistance

Program and capital budget grants to businesses and railroads is up 55 percent. In more than 20 years, PennDOT projects have bought 112 miles of abandoned rail lines and contributed more than a third of the \$100 million cost of the mid-1990s Conrail double-stack clearance project.

What does this mean for Pennsylvania? The estimated economic impact of rail freight service to Pennsylvania in 2005 includes an increase in the average annual wage to more than \$50,000 and indirect benefits to Pennsylvania businesses approaching \$600,000 annually.

Think of this relationship as a three-sided coin: The state assists its railroads, the railroads sustain local businesses, and businesses provide employment and incentive for people (i.e., workers, taxpayers, voters) to remain in Pennsylvania.

Keeping workers in the state is a critical issue. Columnist Tom Ferrick Jr. of Philadelphia's *Inquirer* laments the state's "diminishing population, eroding tax base, and deep budget cuts" in cities from Allentown to Williamsport, as reported in a Pennsylvania Economy League study. "The state-wide migration of communities impacts businesses of all sizes and shapes," the league wrote. Ferrick blames the 300-year-old Pennsylvania local government model as the chief culprit. He writes, "They lack the tax capacity to provide the basics in municipal services. [Yet] any suggestion of consolidation of services [between adjoining communities] is usually greeted with howls of protest." Enter the Joint Rail Authority and its capacity to make the kinds of community investments that can add to the tax base, preserving or enhancing rail freight services in the bargain.

In a similar vein, *Wall Street Journal* economics writer Stephen Moore teamed up



Steel roads like Pittsburgh's Union Railroad (a unit of Transtar) have been part of Pennsylvania's shortline scene for a century. Duquesne Yard, seen in 1995, is Union's hub. Mark Leppert

with Arthur Laffer (of the famous curve that shows the trade-off between tax rates and tax revenue) to write a short piece aptly titled "The (Tax) War Between the States." Their argument is that people who can vote with their feet do exactly that, by moving into states with "the most desirable economies" and out of "has-been" states. This is precisely why the South and West are taking jobs and growth from the Northeast. (The exception is California, where more people have left than entered in recent years.)

For Pennsylvania's railroads, this is not necessarily bad. The business shift to the South and West seems to be in service industries or light industries that don't convert a lot of raw materials into finished goods. (True, the auto industry has moved south, but these are the transplants whose raw material and parts primarily come from factories in Japan, Korea, or Germany.)

Pennsylvania still has its road builders

(like Hawbaker), steel makers (AK Steel, U.S. Steel), myriad plastics extruders (receiving resins in covered hoppers), chemical manufacturers (inbound tank cars, bulk transfer), and so on. The Joint Rail Authority and other advocate groups make a significant contribution because of the "impact [they can] have in future years for expanding or adding new industries," says SEDA-COG's Jeff Stover.

The process paid off for UGI Energy Services Inc., an energy marketing and distribution company with \$6 billion a year in sales. UGI picked Williamsport for one of several new "peaking" plants throughout Pennsylvania that boost the supply of natural gas into the local pipelines on days of peak demand. The Lycoming Valley's Newberry Yard offered an ideal location, as it included many of the attributes UGI required including rail, road, and utility access. Newberry was where the New York Central and Read-

Three types of Pennsylvania short lines

Regionals



A 117-car Buffalo & Pittsburgh coal train rolls through Brownsville Junction. Shane Smith

All in the family



North Shore group's Nittany & Bald Eagle passes

Bellefonte on May 18, 2005. Kenneth Lehman

The independents



Everett Railroad GP16 1712 passes the restored PRR depot at Roaring Spring. Kenneth Lehman

Pennsylvania grants to short lines in 2007

A sampling of Rail Freight Assistance Program grants distributed last year

Amount	Applicant	Project
\$500,000	York Railway	Rehabilitate a deteriorated main line to support a new food storage warehouse in York County.
\$365,250	Delaware-Lackawanna Railroad	Rehabilitate the Pocono main line and the Carbondale line in Monroe County.
\$350,000	Western New York & Pennsylvania	Part of a continuing project to upgrade the main line for unit coal trains moving from the Monongahela region to power plants in New York and New England.
\$300,000	Reading Blue Mountain & Northern	Rehabilitate track on the Lehigh Division to support new and existing businesses.
\$282,000	Gettysburg & Northern	Rehabilitate approximately 15 miles of track and install turnouts.

Note: The 40 grants distributed by the Rail Freight Assistance Program in 2007 totaled \$11 million. For a full list go to: <http://www.state.pa.us/papower/cwp/view.asp?A=11&Q=463004>



Juniata Valley rolls down Chestnut Street in Lewistown with a car of scrap metal. Kenneth Lehman



Alco C430s help plow WNY&P's ex-Erie line at Columbus on Dec. 21, 2003. Mike Zollitsch

ing interchanged cars years ago to compete with the PRR in the Philadelphia-Chicago market. Having hosted engine terminals and all the dirty stuff that went with steam-powered railroading, the yard had become an officially designated "brownfield" site. With the support of SEDA-COG, the Lycoming Valley, and a number of other city, county, and state agencies, the site was remediated and UGI's new terminal was put in service within a year, opening in January 2008. PennDOT's Rail Freight Assistance program kicked in a quar-

ter of a million dollars last year for a quarter-mile of new and rehabilitated track. The total project cost, including site work, plant and process equipment, rail facilities, and utility improvements exceeded \$4 million. The yard has room to unload four liquefied petroleum gas tank cars simultaneously and there is track space to store another 20 cars on site. Best of all, the UGI plant is within "yard limits" so Lycoming Valley switch crews can be there almost on demand to move cars in and out. No local train-starts are required.

An energy story

The UGI example leads us to a final point: Pennsylvania's short line story is also an energy story. Not only is the state the fourth-largest coal producer in the United States, but it is also the birthplace of the oil industry. Railroads were vital to the development of both.

It's no accident that the No. 1 premium brand of motor oil is named Pennzoil. The company was founded in 1889 as South Penn Oil, a producing unit of Rockefeller's Stan-

dard Oil Trust. That year, the world's first billion-barrel oil field was discovered in Bradford. (One Pennsylvania barrel is 42 gallons, the measure that is still in use.) South Penn developed the field, and by the 1930s the Pennzoil brand had become the leading name in auto racing. The oil business actually got its start because Rockefeller and others wanted to make money on the shift from whale oil to kerosene for home lighting. Then came Ford's Model T and its thirst for gasoline, what was then a worthless byproduct of the kerosene refining process. But getting from oil in the ground in Titusville to gasoline in a Model T in Tunkhannock was a different matter.

Eventually the Erie, Pennsylvania, and New York Central all made their way to Oil City and a free-for-all was on. It did not last, though, as bigger, better, more accessible — and cheaper — sources of gasoline displaced the Bradford fields and the railroads that served them. Only two railroads serve Oil City today, the Oil Creek & Titusville and Western New York & Pennsylvania. The former operates a limited freight service and a seasonal tourist train over former PRR rails between its namesake towns. The latter is the rebirth of a name from the late 1880s for a group of lines that formed a triangle between Corry, Olean, and Buffalo.

The present WNY&P operates nearly 200 miles of the former Erie main line between Meadville (an interchange with NS) and Hornell, N.Y., where the carrier connects to NS's Buffalo-Binghamton Southern Tier Line. WNY&P also runs the 35-mile ex-Erie line into Oil City from Meadville, connecting to the Oil Creek & Titusville at Rouseville. And though oil is no longer a mainstay of today's WNY&P, coal certainly is.

The "new" Western New York & Pennsylvania got its start in 2001 when it agreed to lease from Norfolk Southern the Hornell-Corry line, much of which had been shut down for more than a decade. WNY&P acquired the Corry-Meadville segment in 2002 from the Northwest Pennsylvania Rail Authority for \$1 and the assumption of \$1.9 million in debt. At the time, Bill Burt, WNY&P's president, said that reassembling both parts of the ex-Erie main "makes it possible to re-establish through freight service between NS connections at Meadville and Hornell."

Since 2001, WNY&P's Pennsylvania main line has been rebuilt to 25- and 40-mph operation, using \$6.7 million in grants matched by more than \$2.5 million of WNY&P capital. Single-car freight business is coming back nicely, with Meadville Yard slated to get a \$1.3 million face-lift this year, \$850,000 of which is a state grant. Norfolk Southern began using the line in 2004 for unit trains of Monongahela coal headed to upstate New York and New England, contributing to "significantly improved" transit times, Burt says. That helps NS meet its goal of improving

coal train productivity as it moves toward trains with more horsepower and electronically controlled pneumatic brakes.

In August 2007, WNY&P leased NS's Buffalo Line between Machias, N.Y., and Driftwood, Pa., including the steep mainline crossing of Keating Summit. The resulting X-shaped system, centered at the modern ex-Conrail yard at Olean, N.Y., has enabled WNY&P to attract new short- and medium-haul business, such as a new contract to haul local coal from Emporium, Pa., to a Jamestown, N.Y., power plant.

Across the state, the Southwest Pennsylvania is bringing coal straight to its bottom line. The 66-mile carrier (about half ex-PRR and half ex-B&O) is a contract operator for a coalition of counties, namely the Westmoreland County Industrial Development Corp. and the Fay-Penn Economic Development Council of Fayette County. Were it not for the two counties, says Mike Filoni, the railroad's vice president of sales and marketing, the rail lines might have been abandoned. The counties bought the lines from CSX and Conrail and in 1995 contracted with the Southwest Pennsylvania Railroad, a subsidiary of Carload Express Inc., to operate it.

With no active mines on line, Southwest Pennsylvania depends on local strip miners to truck loads to Sunshine Fuels' Bullskin Tipple near Connellsville. There, Southwest Pennsylvania can load either single cars or hundred-car unit trains that typically go to Eastern utilities on CSX (via its Connellsville interchange) or NS (via Radebaugh). Southwest Pennsylvania also connects to the Wheeling & Lake Erie at Everson.

Filoni stresses Southwest Pennsylvania's commitment to turning unit trains quickly because trains that aren't turned here will go elsewhere for loads. Southwest Pennsylvania has taken a page from Illinois Central's old playbook by scheduling train arrivals, loading times, and return to interchange. Cars are continuously loaded by having a crew stay with the train and spot each empty car as the previous one is topped off. As a result the Southwest Pennsylvania can have a 100-car coal train back on the interchange less than 20 hours after the empties are handed to it.

Neither the line south of Connellsville to Fairchance or a branch to New Stanton were recommended for inclusion in the Conrail system. Fast-forward to 2008: Southwest Pennsylvania has added three customers south of Connellsville and a transload facility in New Stanton, creating new long-haul rail freight traffic and new jobs, which is what the Rail Freight Assistance Program and local industrial development groups are all about.

Looking outward

With all this PennDOT largess being bestowed on short lines and industrial development, is anybody listening?



Coal is still king for regional carriers across Pennsylvania. At Clearfield, coal hauler R.J. Corman runs an empty trainset past a set of helpers on Sept. 13, 2004. Shane Smith

Pennsylvania short lines handle something on the order of half a million carloads a year, and the vast majority fall into what's loosely called the merchandise carload business — that is to say, everything that's not intermodal or coal. Since 50 of Pennsylvania's 51 non-Class I connect with Norfolk Southern, and since short lines *en masse* touch some 20 percent of NS's merchandise carload volume, it seems statistically safe to say that the NS traffic numbers should mirror the numbers for Pennsylvania's short lines. In 2007, NS reported a 4 percent drop in its merchandise carload count, led by declines in lumber and paper (8 percent) and in metals and construction (6 percent). The declines come after three years where merchandise carload volume remained flat. What's behind the recent traffic loss is the ongoing shift in what manufacturers are putting in freight cars. Light-loading, high-value manufactured goods, from TVs to dining room tables, are increasingly shipped in containers from China or in over-the-road trucks for what's still

made here. Meanwhile, high-density materials like steel coils, fertilizer, and specialty or hazardous chemicals are absorbing more Class I rail capacity along with intermodal and unit trains from corn to coal.

The outlook, then, is favorable for Pennsylvania short lines that can find a niche handling the same commodity groups that are doing well on NS and CSX. The savvy short lines are doing just that, judging from the research conducted for this article. And Pennsylvania's investments in rail infrastructure seem to be paying off. The state's railroad grants and other infrastructure support keeps vital businesses in the commonwealth and makes it a better place for new businesses.

As Hawbaker says, "The railroads add capacity the highway network does not provide." We can say "amen" to that. **I**

ROY BLANCHARD is a shortline management consultant, contributing editor to Railway Age, and quarterly TRAINS columnist. He also publishes a weekly industry newsletter.