THE RAILROAD WEEK IN REVIEW
DECEMBER 3, 2004

Bill Loftus has left our midst. A note from ASLRRA President Rich Timmons says only that Bill passed away Wednesday as a result of complications arising from an operation for cancer. Bill, 74, was a staunch personal friend for many of us and did much to bring the shortline industry to new levels of professionalism and partnership with the Class 1s. Moreover, he knew how Washington works and helped the shortlines achieve many worthy political goals.

Rich writes, “Bill worked tirelessly to improve our Association as President and continued to be a passionate advocate of our cause right up until the time he became ill. While he will be sorely missed, Bill's personal friendship and his many contributions will long be remembered.” A funeral mass will be in Davidsonville, MD at 10Am Dec 6. Directions and other details are posted prominently on the ASLRRA website.

KCS won STB approval for control of the Tex Mex and the U.S. portion of the International Rail Bridge at Laredo. This action finalizes KCS' effort to obtain control of these assets, which are both wholly owned by Mexrail and allows the controlling shares of Mexrail to be released to KCS. The decision becomes effective in 30 days, at which time KCS will dissolve the voting trust and obtain control of Mexrail and its assets, including Tex Mex.

In reaching its decision, the STB did not impose any conditions unacceptable to KCS, and rejected almost all of the conditions requested by competing carriers that had filed objections to the transaction. As a result, the transaction will now go forward as KCS had proposed in its application to the STB and will be made final as of December 29, 2004.

Canadian Pacific’s Rob Ritchie had a few things to say about the D&H during his guest speaker appearance at the recent New England Railroad Club meeting. He recapped the recent changes – NS haulage and rights to Rouses Point, NS haulage for D&H Buffalo-Binghamton, D&H doing yard work for NS in Binghamton, and NS doing D&H work in its Buffalo yard. He reminded the audience that NS was once a D&H owner and then noted that “the restructuring does not decrease D&H's right of access to any other railway or customer.”

In fact, “service frequency will often improve because of combining volumes with NS.” This has to be good news for New England shortlines like VTR, NECR, P&W, and MMA, plus Guilford. But the more important message was that there’s still too much rail capacity at risk and it’ll take capital investment to fix it. It’s hard enough, said Ritchie, for the railroads to generate capital but onerous tax laws and regulation make it even tougher. In Canada, “to put it politely, the railroads are getting hosed across the board.

“Our railroads pay fuel tax, property tax, sales tax, capital and customs tax, income tax and payroll tax. None of this money comes back to the railroads to improve and expand infrastructure and this is undermining the strength and potential of our nation's freight rail system. CP paid $C235 million in input taxes across Canada in 2003. This does not include income tax. This works out at an astonishing $C25,776 per track mile and $C2.33 per originating ton.

“The picture is not much prettier for the North American rail freight industry as a whole. In total, our industry paid $3.3 billion in input taxes in 2003. That's the equivalent of $22,130 per track mile in North America and $1.58 per originating ton. This tax situation is appalling and it's undermining the ability of the railroad industry to regenerate itself.”

Here in Pennsylvania, taxes rise and public transit funding goes begging even as Harrisburg simultaneously mulls $billions for more highways, decries the cost of foreign oil, and laments the loss of the very jobs that many workers can't access without public transit. How is it that so many third-world cities can afford modern – and popular – transit systems and Philadelphia can't? Ritchie got it right: taxing the rails to make more room for individual transit as opposed to mass transit is nuts.

Continuing the cost of capital thread, it seems to me if your core business isn't earning its cost of capital, the less capital you put into the business the better. Shortliners with long memories recall that maintenance and capital requirements *below the rail-head* have oft been cited as a prime reason for "rationalizing" a particular branch line. Capital this saved can then go to the core system where it has a better chance of earning the requisite return.

That's why BNSF's announced intention to focus its carload franchise on the "four corners" – Texas and environs, the Pacific Northwest and Southwest, and the Upper Midwest – makes sense. Moreover Dave Dealy's Pentagon Plan (WIR 11/12/2004) puts an even finer point on the concept, saying the railroad works best when gathering trains feed these yards directly. The opportunities for shortlines to take on the capital support role in secondary yards and gathering services are on the rise.

But the Class 1s had better be careful what they ask for. A dozen shortlines feeding a major market can be a management headache since every one has its own quirks and requirements. At least when the Class 1 ran the branches the rules were all the same; now, every time you introduce another shortline into a market you add another mouth to feed. The danger is that regardless of what one saves in operating and capital expense, adding multiple shortline operators to the mix one may just be adding back as much or more above-the-line expense in care and feeding.

Union Pacific opened the much-anticipated North Yard Bypass in Denver Tuesday night taking its first train from the Belt mainline to the Moffat Tunnel main. This gives the UP a third continuous line across the west in addition to the Sunset Route (ex-SP) and the Overland Route (ex-CNW, UP, ex-WP. Those of us who enjoyed UP's hospitality on last August's Denver-Omaha trip had a chance to see the project, which will not only ease congestion around Denver North Yard but also add track capacity for more coal traffic.

As I've said more than once, having money is nice because it lets you do sexy thinks like this and a few others we saw on that trip. But that money has to come from some place other than the piggy bank or the borrowing window. UP still operates a number of branch-lines between shortlines and their serving yards. Some I've seen are FRA class 1 track (or worse), are in need of capital investment, and eat up crew and loco availability something fierce. UP clearly needs to re-think its branch-line strategy and make some ownership changes. And with the new tax credit program, who knows – that FRA class 1 track may suddenly become class 2, speeding up the entire process.

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