THE RAILROAD WEEK IN REVIEW

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"We have reached a breaking point for some states. Spending on schools, public safety, and other vital services are slashed." - Meredith Whitney. "Fate of the States."

The US Government may be running out of money for schools, highway repair and the military, but -- happily -- still seems to be able to keep the TIGER infrastructure funding program very much alive. The $14 million South Florida Freight and Passenger Rail Enhancement project that will help South Florida is Exhibit A.

The public-private partnership project will connect up rail corridors of CSX, FEC, the Tri-Rail commuter operation and the planned All-Aboard Florida Intercity Rail. Florida DOT has committed $30 million toward this project; the South Florida Regional Transportation Authority, FEC and CSX are also putting money in. The TIGER grant will fill the funding gap.

And in Wisconsin, the state DOT is doling out some $9 million in Freight Railroad Preservation Program (FRPP) grants. The state funds cover up to 80 percent of projects designed to preserve freight rail service or rehabilitate track on publicly-owned rail lines. Then there's $1.7 million for the Freight Railroad Infrastructure Improvement Program (FRIIP) earmarked for improving rail infrastructure and construct new rail-served facilities.

The city of Baraboo will get a $800,000 FRPP grant to cover a $1 million railroad spur line reconstruction project in Madalon Industrial Park. The project will improve rail service reliability to the three industries currently being served and potentially attract new rail users. The spur line is served by Watco's Wisconsin and Southern Railroad (WSOR), which operates on the adjoining line through a lease agreement with Union Pacific.

WSOR itself won a $2.3 million FRPP grant to reactivate a 10-mile railroad corridor between McCoy Road in Fitchburg and West Netherwood Road in Oregon. The Dane County rail line, which has not operated since the 1990s, is currently owned by the city of Fitchburg and the village of Oregon. A $287 thousand FRIIP loan to WSOR is for putting a rail siding at the new Lycon Incorporated ready-mix concrete facility at Oregon.

A third grant of $1.7 million goes to WSOR for a new 8,000-foot rail siding from Milton Junction to Anderson in Rock County. This project is located on a rail line owned by the state of Wisconsin and the Wisconsin River Rail Transit Commission to improve operations at the Madison and Janesville rail yards while addressing safety issues near the city of Milton. A $218,040 FRIIP loan will assist in covering the project costs.

And finally, a $5 million FRPP grant was awarded to WSOR for the first phase of a more than $11 million track rehabilitation project. Improvements involve rehabilitation of the State of Wisconsin and Wisconsin River Rail Commission-owned track through Janesville, including track alignment and other rail upgrades near the former General Motors plant. Another section of rail will also be upgraded between Walworth and Zenda in Walworth County. The rehabilitated track will allow WSOR to improve the efficiency in transporting rail cars along its connection to the Chicago market. A FRIIP loan of $625,000 has also been awarded for this project.

Jerry Johnson, he of BNSF shortline fame before his retirement some years ago, weighs in with some worthy words on why some Class I branch line rails could become trails.

> While the new STB paper barrier regs may indeed curtail Class 1 efforts, such as they are, to further outsource, most of what should have been short-lined probably has been – for some time to come. There is too much uncertainty as to where the next commercial "big thing" will hit, the converging of large versus small RR economics, the small cost (relative to most Class 1 budgets) of keeping low density lines dormant (I guesstimate a bit under $1,000 per mile per year for weed control, signal maintenance and the like) and regulatory uncertainty will combine to keep things dried up.
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> It doesn't help that the proposed requirements look more like paperwork harassment than any kind of meaningful measure to open things up for shippers. I thought Wayne Burkes, STB commissioner from Mississippi about ten years ago, had perhaps the most interesting view of the situation. He thought the barriers should last for ten years, after which the short line could work with any RR they could reach. If that had been in place since the onset of dereg, some deals would not have been done, for sure, and a few would have been tweaked and gamed geographically, but most probably would have gone forward and the world would not have ended.

Morgan-Stanley's Bill Greene got himself an audience with the CSX Leadership Team in Jax and reports the mid-60s OR is doable, the downside risks of coal are overstated, price is more important than vols, (I still disagree --you can't price carloads that aren't there), and the "core earnings power" is stronger than some would have you believe.

You'll note Greene is basing his whole rosy argument on pricing gains and zero volume growth. On the other hand, he sees CSX really reeling in ops costs and estimates the potential for 400 basis points of "productivity improvement" over four years. Conclusion: productivity and pricing are great for share holders but don't do much for volume-dependent short lines.

Second-half Outlook. A recent note from Cowan's Jason Seidl revises North American rail traffic estimates down, though he says NS is "modestly ahead." Here again, that depends on what you're measuring. NS says (see weekly performance reports at www.nscorp.com) year-to-date units are up three percent to five million units, led by intermodal (up 6.5 percent), petroleum (up 54.5 percent) and auto (up 4.5 percent).

On the carload side of the house, the agricultural products group for everything from raw grain to canned goods is still down 2.1 percent; the metals/construction group is down 4.7 percent. Gainers include paper/clay/forest (up 1.9 percent) and chemicals including ferts but excluding STCC 29s (up 4.5 percent). The all-inclusive “Other” category, home of many carload cats and dogs, is down 21.2 percent. Personally, I see little to cheer here for the carload franchise.

Alcos, step aside. Arkansas & Missouri just took delivery of three three SD70ACe demonstrator locomotives from EMD -- the first AC traction locomotives for the independent Class III carrier. Sporting a new paint scheme reflecting A&M’s corporate colors and road numbers 70-72, the 4,300 HP units integrate EMD’s 16-cylinder 710 engine, EM2000 microprocessor control system and AC traction. The locomotives are certified for EPA Tier 3 emissions standards, feature radial trucks and are DP-equipped.

“We selected EMD to supply our new locomotives based on the demonstrated performance of the SD70ACe,” said A&M Chairman Reilly McCarren. “AC traction is ideal for our undulating profile and will give us higher fleet availability at lower fixed and avoidable cost.” A&M can thus retire several older locomotives with lower trailing-ton ratings, allowing more trailing tons per train-start over its 139-mile ex-Frisco line between Fort Smith, Ark., and Monett, Mo. A&M interchanges with BNSF, Union Pacific, and Kansas City Southern.

Take That! Department. The Canadian Transportation Agency (CTA) two weeks ago ordered Canadian Pacific to stop “load testing” and idling operations adjacent to its Locomotive Reliability Centre (LRC) at Alyth Yard, Calgary. CP, noting CTA’s apparent inability to recognize that railroads operate round-the-clock, on Sept. 19 announced plans to close the LRC over the next few months and lay off 130 people.

CP said its decision is the result of the order that, if followed as directed, would effectively shut down the Alyth LRC between the hours of 11:00 p.m. and 7:00 a.m. “This order poses productivity challenges for service and maintenance work of locomotives during this ordered time,” CP said. “It fails to recognize our 24-7 operational requirements and restricts our ability to provide service for customers in Calgary, throughout North America, and those relying on coastal ports for off-shore shipments.”

As a result, CP will shift the Alyth locomotive work to maintenance facilities elsewhere on the CP network. Alyth Yard “will continue to serve as an important rail yard operation for CP, as it has for more than a century,” CP said. “The CTA decision does not impact other 24-7 railway activities taking place in the yard.” But the decision will no doubt affect the livelihoods of those Albertan citizens engaged in loco shop work.