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Short Line Railroads:

Saving an Endangered Species of Freight Transport


Top Photos: SEDA-COG JRA


Bottom Photos: STERA

Case Studies, Experiences and Lessons Learned From Regional Development Organizations

National Association of Development Organizations (NADO) Research Foundation's
Center for Transportation Advancement and Regional Development

Short Line Railroads:

Saving an Endangered Species of Freight Transport

One problem with railroads is their near invisibility, says Don Rychnowski, executive director of Southern Tier West Regional Planning and Development Board (RPDB), a regional development organization covering three rural counties in western New York State.

Local officials and economic development professionals work hard to improve roads, water and sewer service, and internet access, but they tend to think of rail freight traffic as a business-to-business issue. As a result, reductions in traffic over short line railroads whose customers are small manufacturers, grain mills and quarries may appear unnoticed—or shrugged off as unavoidable local impacts of national trends.

So what if a railroad company plans to abandon an old stretch of track, overgrown with weeds and brush? Maybe it's time to add a "rails-to-trails" component to a new eco-tourism initiative.

Photo: STERA

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That mind set, Rychnowski says, can be a terrible mistake. "Before you know it," he adds, "you've lost an asset. Unless you're absolutely convinced that a particular portion of a rail line has no future use, do not allow it to be abandoned. And do not allow it to go into rails-to-trails or any other public program. Once abandoned or used for a different purpose, it's impossible to get that right-of-way again."

What's at stake, he and other rail-savvy development professionals explain, may be no less than a region's capacity to retain or attract a diversified mix of industry. "Rail gives you options you don't otherwise have," agrees Jeff Stover, director of the SEDA-COG Joint Rail Authority in Lewisburg, Pennsylvania. "In some parts of the country, it's identified only with old smokestack industries, but we serve new high-tech industries. Without the rail, they'd be somewhere else."

Southern Tier West RPDB and SEDA-COG are regional development organizations, members of


Photo: STERA

a nationwide network of 520 such organizations that provide administrative, professional and technical assistance to more than 2,800 counties and 15,000 municipalities. A decade or so ago, the future of intra-regional rail freight service looked bleak in both southwestern New York and central Pennsylvania. Both Southern Tier West RPDB and SEDA-COG kept short line rail operations alive in their respective areas, connected to tracks owned by one of the nation's long-haul giants.

Now both organizations are exploring new freight-handling options. Their experiences show that a regional trend need not become that region's destiny. When an area's rail service seems to be thriving, Rychnowski and Stover warn against complacency; when it is declining or perhaps even looks doomed, they warn against defeatism.

Putting Short Lines in Context

The Surface Transportation Board, which regulates railroads in the United States, recognizes three size classes based on annual revenues. Class I lines are long distance giants—seven incorporated in the U.S. and two in Canada—each with at least $320 million in annual revenue, typically much more. They excel at moving heavy freight over long distances—often in "unit trains" of a hundred or more cars that may roll from coast to coast without pickups or drop-offs along the way. Next down in size are about 30 Class II or "regional" railroads with revenues in the $25 – $320 million range. (These dollar amounts are approximations; indexed for inflation, they change from year to year.)

Class III comprises more than 500 short line railroads whose annual revenues are less than $25 million—usually far less. Whether picking up loads or dropping them off, they serve customers whose raw materials or outputs may be as small as one carload per shipment. The short lines connect their local customers to each other—such as a limestone quarry to a cement plant—but also suppliers and customers across the continent through connections to Class I lines and regional freight terminals. The American Short Line and Regional Railroad Association (ASLRRA) refers to its members as rail freight retailers.

For most of the past century, railroads lost business to trucks. A leading rail historian reports that

U.S. track mileage peaked in 1916—the same year Congress passed a major highway construction act. Henry Ford sold cars almost as fast as Apple now sells iPods, and private motor vehicle registrations climbed from 3.3 million in 1916 to 23 million by 1929, creating political pressure for better roads. Trucks began to haul farm products and manufactured goods that once moved by rail. To make matters worse, railroads also operated under convoluted and heavy-handed regulatory restrictions.

By the 1960s and 1970s major railroads around the country, but especially in the Northeast, faced bankruptcy. The creation of Amtrak in 1971 to take over passenger service slowed the rate of money losses but did not stop them. Nor did federal assistance to Conrail, cobbled together in 1974 out of several bankrupt Northeast railroads.

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A turning point came in 1980 with passage of the Staggers Act, followed by the Northeast Rail Service Act of 1981 (NERSA). These laws gave major railroads flexibility in pricing their services and allowed them to drop money-losing segments of their business, which usually meant dropping short-haul operations. A U.S. Department of Agriculture (USDA) study found that between 1979 and the end of 1999, Class I and Class II railroads abandoned over 20 percent of their tracks—a decrease of approximately 39,500 route miles.

SEDA-COG Builds Partnership To Save Rail Link

Almost immediately after the passage of the Staggers Act and NERSA, the board and staff leadership of SEDA-COG recognized that these laws, however necessary from a national perspective, would accelerate the abandonment process within the 11 central Pennsylvania counties served by the regional planning and development organization. In 1982, SEDA-COG used a $25,000 grant from the Appalachian Regional Commission (ARC) to evaluate the profitability of two Conrail-owned short lines. The study found that at least one of the lines had enough profit potential to attract a private buyer; the other line looked less sustainable.

Railroad customers told SEDA-COG that they would prefer public ownership to assure continuing service. They pointed out that there might be no bidder for the apparently less profitable line and that any new private owner might walk away if times were tough. "SEDA-COG's involvement was

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Greener by the Mile:
The Environmental Case for Railroads

The environmental case for moving more freight by rail is a strong selling point for increased public investment in capital-intensive railroad infrastructure. Economic development organizations need to know how to make that case effectively.

As a rule of thumb, measured by energy-use per ton-mile, railroads are three or four times as fuel efficient as trucks. The Association of American Railroads, a trade organization representing mainly long-haul shippers, cites studies to the effect that freight railroads move a ton of freight an average of 423 miles for every gallon of fuel consumed. By that measure, if you compare a freight train to a medium-sized SUV (about three tons, which at 20 mpg yields about 60 ton-miles/gallon), a train is a marvel of fuel efficiency.

Emission of greenhouse gases like carbon dioxide and other air pollutants are directly related to fuel consumption, so shifts from roads to rails should reduce these kinds of air pollution by about two-thirds—again using tons-per-mile as the unit of measurement. Data from the American Association of State Highway and Transportation Officials (AASHTO), whose goal is to promote transportation of all kinds, suggests that a shift of one percent of long-haul freight from trucks to trains would reduce annual greenhouse gas emissions by over 12 million tons.

The challenge for economic development organizations is to ensure that shippers have choices, including the most environmentally friendly options available.

Spokespersons for the trucking industry, however, point out that trains are typically not realistic substitutes for either SUVs or trucks. They maintain that comparisons based on ton-mile averages alone are of doubtful relevance because long-haul shipments, where fuel efficiencies are at their highest for all modes of transport, account for most of the rail traffic total. Short-distance and medium-distance shipments, where fuel efficiency must be sacrificed for increased flexibility, account for a far higher percentage of trucks' total fuel consumption and therefore drive up their average fuel costs.

Economic development professionals may decide to avoid a rail-versus-highway debate for the same reason Mark Twain gave for avoiding discussions of heaven or hell—that he "had friends in both places." In fact, a focus on ton-miles does risk missing more important environmental points. Shipping freight by rail reduces highway congestion, which in turn reduces pollution from all kinds of motor vehicles—cars as well as trucks.

A Texas Transportation Institute study concluded that the amount of time the average commuter spends in traffic congestion has nearly tripled in just 20 years, so that 5.7 million gallons of fuel are wasted annually in traffic jams—and air pollution correspondingly increased.

Railroads also reduce wear and tear on highways. A mile of track can be built for as little as 10 percent of the cost of building a mile of highway, and maintenance costs are lower. Finally, any shift from highway traffic to railroads should reduce traffic deaths and injuries. Train-automobile accidents at grade crossings occur, but only rarely, compared to other kinds of traffic accidents.

As fuel prices rise and environmental concerns multiply, railroads can only become an increasingly attractive transportation option. The challenge for economic development organizations is to ensure that shippers have choices, including the most environmentally friendly options available. •


Photo: STERA

Railroad customers told SEDA-COG that they would prefer public ownership to assure continuing service…. "The involvement by SEDA-COG was driven by the private sector in response to loss of service by local industries," Stover says.

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Wary of the legal implications of owning the line directly, the SEDA-COG board formed the SEDA-COG Joint Rail Authority (SEDA-COG JRA), chartered under the same Pennsylvania statute that allows local governments to create revenue-generating public authorities, such as municipal water and sewer authorities. Each county through which a SEDA-COG JRA-owned line runs appoints two representatives to its board. (Initially smaller, the board now numbers 16 members from the eight counties served by one of the five short lines the SEDA-COG JRA now owns.)

The new railroad authority bought its first two lines from Conrail in 1984. Acquisition costs were about $4.1 million. About $2 million came from the U.S. Economic Development Administration, about $800,000 from the Federal Rail Administration and most of the rest from state funds. But about $450,000 was raised locally, almost $400,000 of that from railroad shippers.

Stover notes that Corning Glass (then the sole remaining customer on the less profitable line) used its leverage to persuade Conrail to drop its initial asking price by about $1 million. "This was not a case of 'If you guys [SEDA-COG] get grant money, we'll consider it,'" Stover says. "This is a public-private partnership that's heavy on the private."

Expansion of Rail Service to Area Businesses

Several potential operators responded to a request for proposals (RFP), but only one proposed to run both railroads. That was Richard Robey, who had two years earlier evaluated the lines' profitability. Awarded the contract, he took over operations on August 1, 1984, conducting business as the North Shore Railroad Company.

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A Nonprofit Rail Authority Goes the Extra Mile

Photo: SEDA-COG JRA

Short line railroads can be competitive with trucks over surprisingly short distances, says Jeff Stover, director of SEDA-COG Joint Rail Authority. That is, if railroads can compete with flexible and reliable service. Stover offers concrete examples of how a nonprofit regional development organization can help a short line railroad meet the special needs of the railroad's customers.

At rail yards in Williamsport, Pennsylvania, Stover makes a sweeping arm gesture that takes in a lot of real estate. "This is really an ideal yard," he says. "It's ringed by customers." One of those railroad customers is Staiman Recycling, a scrap metal dealer. The firm depends on rail access to move heavy loads of scrap, and the scrap metal business is good now. To ensure that this firm would be able to stay in the area, SEDA-COG JRA gave it a lease on two acres of land—a transaction that might not fit into the business plan of a purely for-profit operation.

Or consider JRA's relationship to High Steel, which makes steel products used in highway construction—for example, metal bridges, whose components are assembled like pieces of giant Erector™ sets. Some of the firm's customers require test assembly at the plant, wanting to be sure everything fits together properly before accepting a shipment. Building a highway bridge on dry land requires a long, relatively narrow strip of land, so SEDA-COG JRA sold High Steel four acres alongside its tracks near the firm's factory.

Stover also mentions Williamsport Wirerope, a firm that makes steel cable. One step in the process of winding cable on a spool for shipment requires stretching it out for its full length, which can be a thousand feet or more. For years this was performed along a railroad track. When the track needed to be re-routed, SEDA-COG JRA helped the company by finding funds to build a drawbridge that permitted the cable to be stretched over the new tracks. In the end, however, everyone involved benefitted: the cable manufacturer, a nearby college, and the railroad itself (which was able to eliminate three grade crossings and increase the value of some of its property).

More recently the SEDA-COG JRA partnered with the Mifflin County Industrial Development Corporation and the Pennsylvania Department of Transportation to put together funding to run a spur line to two diaper-manufacturing plants owned by First Quality Enterprises, Lewistown. The $2 million package includes approximately $1.3 million in state funds, $600,000 from the company and $100,000 for the SEDA-COG JRA. One plant is now under construction, and the other is in the site-preparation stage. Together they are expected to create 300 – 500 new jobs in this rural region.

To help Sylco Service and Terminal Company, a Lewistown-based fertilizer blender, expand its operations, SEDA-COG JRA sold the firm six acres of land, lending the company money at five percent with a five-year repayment schedule. Jeff Stine, Sylco's president, makes clear that his plant could not stay in the area without good rail service to bring in carloads of raw materials from points of origin in Virginia, Florida and Saskatchewan. "The business model is only as good as the people you're working with," Stine sums up, "and they [SEDA-COG JRA] have been terrific to work with." •

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The agreement between SEDA-COG JRA and North Shore, reduced to its simplest terms, is that the SEDA-COG JRA owns the tracks, and North Shore owns and operates the trains. North Shore is responsible for track maintenance. The SEDA-COG JRA now gets 10 percent of gross revenues from the company's own operations, plus 15 percent of fees for use of the tracks by the region's Class I operator, the Norfolk Southern, one of several successors to Conrail (which was broken up in 1987). North Shore also contracts with SEDA-COG for various marketing and support services.

The SEDA-COG JRA subsequently bought three other short line railroads, all operated by North Shore (which also operates another line). The five SEDA-COG JRA rail lines now cover about 200 miles of track.

As a cautionary example to anyone who assumes that a region's railroad-related status quo is static, Stover mentions that none of the firms that were railroad customers when SEDA-COG JRA bought the lines in 1984 is a customer now. Yet the five North Shore lines now have 75 customers, no one of which accounts for more than 10 percent of the railroad's revenue. All lines are profitable, yielding approximately $800,000 per year to SEDA-COG JRA, most of which is put back into capital improvements or reserved for expansion.

Photo: SEDA-COG JRA

One current customer is Moran Industries, which distributes goods from large producers (like Del Monte Foods) to retailers across the nation. Moran owns and operates five Pennsylvania-based warehouses whose floor space totals two million square feet, and its Williamsport warehouse receives approximately 1,000 boxcar-loads of freight by rail per year. John D. Moran, Jr., the firm's president, says flatly that this warehouse would not have been built without rail service. In fact, Moran estimates that without the railroad, "probably 25 – 30 percent of the industries in this area would no longer be here."

Robert P. Postal, president and CEO of the Mifflin County Industrial Development Corporation, points out that rail access is particularly important in revitalizing brownfields sites. New firms at these sites may not think that they need rail, but that can change.

Postal concurs with a comment by Stover that central Pennsylvania topography seems to be divided between mountains and floodplains, reducing rail development options. "Land served by rail is scarce," Postal says, "so we want to be in a position to respond as companies change their business models. Sometimes you have to be very patient to acquire returns on the public capital invested. But we measure our returns in jobs and income to the community, not short-term profit."

Taken as a whole, SEDA-COG's determination to preserve its region's railroads has been a dramatic success. Traffic in 1986 was only 1,900 carloads; twenty years later, in 2006, it was 25,000 carloads. During 2007, three of the five lines in the system enjoyed significant increases in business volume; the other two experienced fairly small decreases, expected to be temporary.

New plants are opening along the lines. The railroad that in the early 1980s was thought to be at best a break-even proposition is profitable, and it will be serving two new plants generating exceptionally high volumes of new freight traffic.

The bottom line for SEDA-COG is that, even during the railroads' early years of operation, an estimated 3,000 jobs were retained. Today well over 8,000 area jobs are in railroad-based industries, and most of these are manufacturing jobs that pay far more than jobs in service sectors.

A study of the feasibility of building a new multi-modal freight transfer center at Williamsport (Lycoming County) is underway. The goal is to facilitate transfer of freight from rail to trucks and vice versa. *[For more detail see box on p. 11, "Multi-Modal Freight Facilities for Smoother Train-Truck Transfers."]*

Southern Tier New York: A Railroad in Peril

Recall this scene from an old silent-movie cliffhanger: a young woman, tightly bound, lies on railroad tracks in the path of an approaching locomotive. At the last possible moment, her hero triumphs and foils the plans of the villain. The

Southern Tier Extension Rail Authority System

Source: STERA

Southern Tier West railroad story sounds something like that, except that in western New York State it was the railroad itself in peril.

The Southern Tier West RPDB, headquartered in Salamanca, serves three rural counties located along the western end of the New York-Pennsylvania border. Listed east-to-west, they are Allegany, Cattaraugus and Chautauqua (which borders Lake Erie). The combined area of the three counties is 3,400 square miles, but their combined population is under 270,000—less than the population of Buffalo, New York, located about 60 miles north of the regional planning board's office.

The first rail line to the area was built around 1850 to haul timber back east. Later this line was extended into Pennsylvania for hauling coal, which became the railroad's main business for several decades. By the early 20th century the line served a number of manufacturing industries in the area and, as "the Southern Tier Extension," was an integral segment of a main line carrying "through freight" between the ports of New York City and Chicago.

In the 1960s, the Southern Tier Extension became part of the Erie Lackawanna, whose main route ran between the routes of two much larger rivals—the New York Central to the north and the Pennsylvania Railroad to the south. These two companies eventually merged to become the Penn Central, which in its turn went broke in 1970. In 1974 the Penn Central and a half-dozen other railroads, including the Erie Lackawanna, were cobbled together to create the giant railroad Conrail.

From Conrail's perspective, the Southern Tier Extension was merely a redundant long-haul line sandwiched between two other long-haul lines with better profit potential. Moreover, New York State taxes railroad-owned real estate, so retaining the old Erie line was doubly unattractive to Conrail. It's only fair to note that Conrail's assessment that short line railroads were sure to lose money reflected the conventional wisdom of the period.

Turning Conventional Wisdom on Its Head

An agreement with New York State required that Conrail keep the Southern Tier line open through June 1998. As early as the mid-1980s, however, Don Rychnowski concluded that Conrail would discontinue rail service to southern tier counties just as soon as it was legally possible and practical.

In the early 1990s, the staff and policy board of Southern Tier West RPDB took two crucial steps. First, they persuaded the New York State Department of Transportation (NYSDOT) to transfer its interest in the Southern Tier Agreement to STW RPDB. This was no more than a holding action, but it reduced Conrail's ability to use state-level political influence to by-pass the regional planning board and its local government leaders in future negotiations.

In addition, like SEDA-COG in Pennsylvania, the Southern Tier West RPDB used grant funds from the Appalachian Regional Commission (ARC) to study the long-term economic prospects for its region's short line railroad. William Burt, a native of Allegany County, conducted those studies between 1992 and 1995. His analyses included a careful comparison of the railroad's 1994 customer base with what it had been a decade earlier.

"The standard assumption that people were making," Burt says, "was that the railroad was dying because the local industrial base had died. But when I went down through the traffic list of the railroad's customers in 1980 and asked, 'How many of these have gone away?' the vast majority were still there in business. And they were operating at levels comparable to what they'd been doing in 1980."

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Photo: STERA

Multi-Modal Freight Facilities for Smoother Train-Truck Transfers

The SEDA-COG Joint Rail Authority and Southern Tier West RPDB, along with their local partners, are studying options for increasing rail traffic volume within their regions by facilitating freight transfers from trains to trucks, and vice versa. From a customer's perspective, multi-modal facilities make it possible to ship freight more cost effectively. From an economic development perspective, helping shippers allocate freight traffic among different modes of transport promotes regional economic growth.

Southern Tier West is assessing prospects for a facility that may someday provide efficient transport of containerized freight between western New York State and ports on both U.S. seaboards that offload cargo from Europe and Asia. The notion that Olean, New York—population 15,347 and a very long day's drive from the closest Atlantic seaport—might become an international cargo-handling hub may seem far-fetched. It's still far from actuality, but it's also more than a pipe dream. Assisted by grants from the U.S. Economic Development Administration and New York State Department of Transportation, Southern Tier West has completed a preliminary feasibility study that includes identification of a suitable site—old railroad yards near Olean, where east-west and north-south lines intersect.

Think, for example, of computer components made in Taiwan and packaged there for shipment. The cardboard cartons into which they are packed fill huge containers that travel by ship to a U.S. port. Currently, such containers bound for western New York State destinations travel by rail to Toronto or Buffalo, there to be transferred to trucks. Olean has no facilities for containerized train-to-truck transfers, and its current

Photo: STERA

freight volume is too small to attract private investment in building such facilities—a chicken-egg kind of problem.

Southern Tier West believes that a multimodal freight handling site at Olean will reduce traffic congestion at eastern seaboard ports and other urban centers. It would, of course, stimulate the Southern Tier region's economy. The feasibility study suggests three major development stages. Initially, there would be incremental increases in shipments of Class A commodities (bulk items like coal and grain) to and from domestic markets in the Midwest and elsewhere. Later there would be more Class B freight (such as building materials on pallets—things that can

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neither be dumped or poured into empty rail cars nor packaged to fit into standard-sized cartons). The final stage would be Class C containerized freight—those TV monitors from Taiwan, for example. At some point Olean might be designated a foreign trade zone providing duty-free or other specialized U.S. Customs Office services to shippers engaged in international commerce.

At all stages, the goal is to enable railroads to offer competitive prices to manufacturers or distributors at either end of the supply chain. Customers need to know the cost and arrival dates of shipments, but not the transport details—that is, about the distance the freight moves by ship, by rail or by truck.

The SEDA-COG JRA has similar but not identical plans. Its railroads already serve a bulk transfer facility in Williamsport, Pennsylvania, and the JRA hopes to build a new one a few miles away, nearly doubling existing capacity. Containerized freight now plays a minimal role in SEDA-COG planning since that kind of facility already exists in Harrisburg, some 85 miles away. Its feasibility study suggests that about 85 percent of the multi-modal freight traffic in the SEDA-COG region would be bulk shipments to the Midwest and Far West—primarily paper products, building components and food products.

Turning these projects into reality will require public investments in the multimodal facilities and a partnership with a Class I railroad. Both organizations and their operating partners enjoy good working relationships with Norfolk Southern, the Class I railroad serving both areas. And both have strong track records—the pun is almost unavoidable—in making public-private partnerships work. •

After Washout

After Clean Up

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This finding turned the conventional wisdom on its head. Burt concluded that Conrail, legally obliged to provide service to any of the short line's customers, was deliberately driving those customers away. Conrail was compelled to provide service along 145 miles of track between Hornell, New York, (just east of Allegany County) to Corry, Pennsylvania (just south of the Chautauqua County border).

At every crucial decision point, the public officials involved came to recognize that only a regional entity like Southern Tier West RPDB could make a regional railroad work. Some of the counties involved could have cut separate deals, but they did not.

But it could not be compelled to provide good service or affordable service. Once Conrail told its customers of its intent to abandon the line, they began to make other transportation arrangements. As customers at either end of the line dropped off, Burt adds that Conrail stopped maintaining its tracks, letting trees and brush grow up between the rails.

"There was a flood washout along the Genesee River in 1996," he says. "It was fairly minor at first, but by 2001 there was a gap in that railroad 700 feet long and 20 feet deep—with the track hanging in the air. They wanted to abandon the line, and they were letting nature take care of the job for them."

Even on stretches of the railroad over which trains continued to roll, Conrail cannibalized equipment. "They had taken out gate crossings with flashers," Burt says, "so that crews had to stop at every crossing and flag the train across. The entire line operated at no more than 10 miles per hour. For a 50-mile trip [from Olean, near the line's eastern end] the crew would go out one day and take a taxi back. They'd take another taxi ride out from Olean the next day, and then make the return trip back."

Some customers paid dearly for new transport options. One Allegany County manufacturer had relied on the railroad to haul industrial equipment too large to be carried on highways. That firm, Burt says, spent a million dollars to redesign its main product so that partially assembled components could be shipped by truck. Another customer simply stopped using rail service altogether not long after the State of New York paid $1.8 million to build a spur line to its plant.

Burt sums up the message he delivered to leaders of Southern Tier West RPDB: "When Conrail wants to blame all this on the decline of the local economy, don't accept that. You're the victim here."

Forging Partnerships and Political Alliances

The STW RPDB staff and board spent the next three or four years forging partnerships and political alliances to save the region's railroad. Burt joined a railroad based in Lakeville, New York, and persuaded his new company to make a successful bid for the Southern Tier line, which became the Western New York & Pennsylvania (WNYP), with Burt as its president. In May 1998, an agreement to settle the line's future was signed by four parties: STW RPDB, NYSDOT, WNYP and the holding company formed to sell off the assets of Conrail, which had been broken up a year earlier.

The agreement was complex. Ultimately, Norfolk Southern would own the line, but the Southern Tier Extension Railroad Authority (STERA) would hold title for 10 years and, as a nonprofit, would not be required to pay real estate taxes on the property during that period. WNYP, as operator, was awarded a 30-year lease, the intent being to give WNYP something very close to an owner's incentive to make long-term capital investments.

Reaching this point was a time-consuming process marked by delays, obstacles and setbacks. Among other challenges, the STW RPDB had to persuade four county governments and numerous municipal entities to agree to abate taxes for several years.

Thomas H. Barnes, senior regional economic development coordinator for Southern Tier West and an active participant in the creation of STERA, says that elected officials realized that without some form of tax abatement, Norfolk Southern would make the same business decision that Conrail would have made: closing the line and ripping up the track for salvage.

"The choice," Barnes says, "was having full taxes for a couple of years and then zero—or else no taxes up front with a PILOT (payment in lieu of

In 2000, Western New York & Pennsylvania (WNYP) began operations with exactly one customer, a manufacturer of specialty ceramics products shipping about 75 carloads a year. By the end of 2007, WNYP had an even dozen customers and traffic volume was up to almost 55,000 carloads.


Photo: STERA

taxes) at the end and a chance at higher taxes from growth. Everyone agreed to trade short-term pain for long-term gain. But the pain for some of them was acute."

Parenthetically, Barnes notes that the local governments a few years later agreed to some degree of tax abatement to permit the WNYP to add mileage on a north-south axis. That process, although successful, was much more difficult because it is easier to convince local officials that a dying railroad should be saved than to convince them that a recovering railroad should be helped to grow.

The moral, he suggests, is that normal turnover on elected bodies means that communication is a never-ending process. Among other benefits, that north-south line made it possible for one Southern Tier municipality to save money on coal for its co-generation plant.

"Everyone agreed to trade short-term pain for long-term gain," said Barnes. "But the pain for some of them was acute."

At every crucial decision point, the public officials involved came to recognize that only a regional entity like the Southern Tier West RPDB could make a regional railroad work. Some of the counties involved could have cut separate deals, but they did not. "I give Don [Rychnowski] a lot of credit," says John Margeson, Allegany County administrator and current president of STERA. "He was the glue that kept us together in the early years—when things looked so dark."

Investing for Improved Customer Service and Safety

In 2000, WNYP began operations with exactly one customer, a manufacturer of specialty ceramics products shipping about 75 carloads a year. By the end of 2007 WNYP had an even dozen customers and traffic volume was up to almost 55,000 carloads. About 90 percent of this volume is coal, resulting from an unanticipated decision by Norfolk Southern to use the WNYP line to reach coal fields in western Pennsylvania and West Virginia.

But traffic volume within the southern tier is up as well. STERA and the WNYP have invested heavily in repairing physical infrastructure. They've also had to repair relationships with customers soured on the very idea of rail service after their experiences with Conrail.

The WNYP is now "modestly profitable" but has not yet generated enough revenue to cover an estimated $15 million in capital investments still needed to bring the railroad to peak efficiency. (Burt comments that this amount, while large, is roughly one-third what was required to rehabilitate a short stretch of Interstate highway in the area.)

From the perspective of the Southern Tier West RPDB, the railroad is a major element—but only one element—of a comprehensive transportation plan. The group is now engaged in a long-term campaign to establish a north-south highway from Buffalo to Harrisburg, Pennsylvania, with the roadway meeting Interstate highway standards. And, like SEDA-COG, the STW RPDB is studying the feasibility of building a multi-modal freight handling facility. *[See sidebar on p. 11, "Multi-Modal Freight Facilities for Smoother Train-Truck Transfers."]*

Advocates Are Bullish on Future of Railroads

In a constantly changing economy, individual firms and entire industry sectors must periodically re-invent themselves. That's happening again with railroads. A recent front-page article in the *Wall Street Journal* ["New Rail-Building Era Dawns," February 13, 2008] describes how the nation's Class I lines are investing billions of dollars in infrastructure. Rising fuel costs and related environmental concerns make rail an increasingly attractive option for shippers. Sophisticated technology for handling and tracking freight further improves railroads ability to compete with the just-in-time service trucks can offer.

Some of this new prosperity will benefit short line railroads, but staff at SEDA-COG and Southern Tier West RPDB caution that this cannot be taken for granted. Class I railroads will continue to be wholesalers, oriented toward making long hauls at the highest speed possible, and shippers will make hard-nosed business decisions about when to partner with short line railroads for carrying freight the first or last miles of a trip.

Asked to reflect on their experience, different individuals emphasize different perspectives. Nevertheless, everyone involved with the rescue of dying railroads in central Pennsylvania and western New York State is bullish on rail's future. Margeson, STERA's current president, sums up the consensus: "Regardless of where you are, if you're faced with the prospect of losing a railroad, fight like hell to keep it." *[See sidebar on p. 17, "Lessons Learned."]* •

For additional information on the SEDA-COG Joint Rail Authority, contact Jeff Stover at jstover@seda-cog.org.

For information on the Southern Tier West RPDB project, contact Donald Rychnowski at DRychnowski@southerntierwest.org or Thomas Barnes at TBarnes@southerntierwest.org.

Photo: STERA


Photo: STERA

"Rail operators are pretty focused on running trains," Barnes says. "They may need help but not know what you have to offer. There may be unexpected opportunities for public-private partnerships. You, as a regional development organization, need to knock on doors."

Lessons Learned from Railroad Advocates

Short line railroads are worth whatever effort it takes to preserve them. So say all the officials, planners and business people interviewed for this report. Asked for specific tips, they offered these comments and suggestions.

Cultivate regular communications with owners and operators of rail systems in your area, advises Thomas H. Barnes, senior regional economic development coordinator for Southern Tier West RPDB. "Rail operators are pretty focused on running trains," Barnes says. "They may need help but not know what you have to offer. There may be unexpected opportunities for public-private partnerships. You, as a regional development organization, need to knock on doors."

When planning industrial parks, says Jerry S. Walls, a land use planner based in Montoursville, Pennsylvania, give high priority to tracts of land reachable by rail spurs, even if no prospective tenant expects to need rail service immediately. "It's vitally important," Walls and other planners say, "to develop comprehensive plans and zoning to preserve rail-suitable acreage."

Everyone hopes to attract high-tech industries, says Robert P. Postal, president and CEO of Mifflin County [Pennsylvania] Industrial Development Corporation, but it can be at least as important to maintain older, often unglamorous industries that depend on rail to survive. These firms offer high-paying jobs that contribute to community stability. "Our county has a steel company that's maybe a hundred years old," Postal remarks. "They bring a payroll and social capital to the community that otherwise wouldn't be here."

Try to relate regional and national developments in specific industries to your own local situation, advises William Burt, president of the WNYP railroad. "It pays to know what's driving these developments," Burt says. "That is one of Don's [Rychnowski's] major contributions. He realized that the future of his local rail service was being driven by developments all through the Northeast and the Midwest."

If you reach the point of evaluating a potential rail acquisition, says Jeff Stover, director, SEDA-COG Joint Rail Authority, be sure to hire an expert consultant to avoid costly surprises. "If you have a line running over a stream, replacing a bridge can be very expensive," Stover says. "Maybe it can be rehabbed for $1 million, but it might have to be rebuilt for $4 – 5 million."

Never lose hope, urges John E. Margeson, Allegany County administrator, recalling a long and often contentious struggle to preserve short line rail service in New York's southern tier counties. "If you'd asked me 15 years ago," Margeson says, "I'd have declared without hesitation that it would be impossible to pull this off. The lesson is that, if you can pull enough people together who are determined to finish the job, it can be done, even against formidable odds." •

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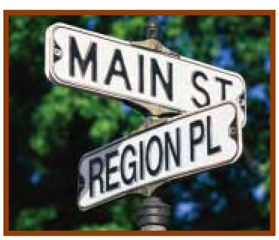

National Association of Development Organizations and the NADO Research Foundation

400 N. Capitol St., NW • Suite 390 • Washington, DC 20001

202.624.7806 • 202.624.8813 (fax) • info@nado.org

NADO.org • RuralTransportation.org