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16. Abstract <p>The Lubbock District of the Texas Department of Transportation (TxDOT) is planning the acquisition of railroad right-of-way from the Seagraves, Whiteface, and Lubbock Railroad Company (SWLR) as part of the U.S. 82 East-West Freeway project. During the planning process, several questions have arisen regarding the long term commercial viability of the railroad. The SWLR is faced with several situations and conditions that could adversely impact the longer-term viability of the line. The schedule and form of debt service established with the purchase of the line requires renegotiation, refinancing, or as an alternative, sale of the line. Resolution of debt issues should be accomplished within a six-month period. Given the fact that Amerail has been looking for a buyer for several months, the railroad entering Receivership appears to be a relatively high probability outcome.</p> <p>The impacts of past deferred maintenance will continue to be an operating challenge for any owner of the railroad. The effects of past maintenance decisions and practices are beginning to be acutely felt in several aspects of the railroad's operations. Resolution of rehabilitation and maintenance issues is contingent upon sale or refinancing of the railroad. Regardless of the status of railroad ownership, rehabilitation must be carried out and a sound maintenance program must be in place within a five-year period.</p> <p>The analysis suggests that as far as TxDOT is concerned, stable ownership and operation of the SWLR is the key issue. Financial sources and the current owners of the company indicate that Amerail is actively seeking a buyer, and has been for some time. The current owners, however, prefer refinancing and continued operation of the SWLR. It is reasonable to expect ownership issues to be resolved within a one-year time frame. TxDOT's options with respect to the SWLR are discussed in terms of four likely scenarios: (1) a buyer is found and the SWLR is sold, (2) Amerail refinances the SWLR and continues operations, (3) a buyer is not found and the SWLR enters receivership, and (4) TxDOT determines that buying the SWLR best protects its investment and the regional transportation system.</p>					
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**ASSESSMENT OF THE OPERATIONAL AND COMMERCIAL  
VIABILITY OF THE SEAGRAVES, WHITEFACE AND LUBBOCK  
RAILROAD COMPANY**

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## **IMPLEMENTATION STATEMENT**

This study evaluated the business viability of the Seagraves, Whiteface and Lubbock Railroad Company (SWLR). The SWLR operates two rail lines, one between Lubbock and Seagraves and a second between Lubbock and Whiteface. Recently, members of the public and other parties voiced several concerns about the feasibility of continued shortline railroad service in this region. Notably, opposition has been expressed to the proposed relocation of a segment of the SWLR track to western Lubbock County. The findings of this study will aid the Texas Department of Transportation in the identification and implementation of an appropriate course of action with regards to the rail relocation project and future dealings with the SWLR. The findings will help to ensure that the chosen course of action fairly considers the needs of all parties to this issue.

This report provides an appraisal of the SWLR's current operations and the potential for continued shortline rail service to Brownfield, Seagraves, Levelland, and other South Plains communities. The report identifies specific options available to the Department which will ensure that the vital economic concerns of these communities, as well as other social and economic consequences, are addressed in a satisfactory manner.



## **DISCLAIMER**

The contents of this report reflect the views of the authors, who are responsible for the facts and the accuracy of the data presented herein. The contents do not necessarily reflect the official view or policy of the Texas Department of Transportation (TxDOT) or the Federal Highway Administration (FHWA). This report does not constitute a standard, specification, or regulation, nor is it intended for construction, bidding, or permit purposes.

The United States railroad industry has not adopted a definitive policy on metrication standards. As a result, railroad data and reporting requirements continue to utilize English units of measurement. Most of the material presented herein describes railroad physical and operating characteristics; therefore, the standard metrication requirement has been waived for this report.

## ACKNOWLEDGMENTS

This report was prepared as part of a study of the business viability of the Seagraves, Whiteface and Lubbock Railroad Company. The study was performed by the Texas Transportation Institute and sponsored by the Lubbock District of the Texas Department of Transportation under an Interagency Contract.

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## TABLE OF CONTENTS

LIST OF TABLES .....	xii
LIST OF ABBREVIATIONS AND SYMBOLS .....	xiv
SUMMARY .....	xv
1.0 INTRODUCTION .....	1
1.1 PURPOSE OF STUDY .....	1
1.2 DESCRIPTION OF THE SEAGRAVES, WHITEFACE AND LUBBOCK RAILROAD COMPANY .....	2
1.3 BACKGROUND .....	3
1.3.1 U.S. Highway 82 East-West Freeway Project .....	3
1.3.2 Final Environmental Impact Statement .....	4
1.3.3 Summary of Railroad Relocation Contract .....	6
1.4 HISTORICAL PERSPECTIVES ON SOUTH PLAINS RAIL SERVICE ..	8
1.5 PREVIOUS EVALUATIONS .....	9
1.5.1 Private Study by H. Huneke and H.A. Sessions .....	9
1.5.2 South Plains Rural Rail Transportation District Study .....	9
1.5.3 SWLR Application for Federal Rehabilitation Funds .....	14
1.6 IMPLICATIONS OF THE PROPOSED BN/ATSF MERGER .....	15
1.6.1 Present Relationship Between SWLR and Santa Fe Railroad .....	16
1.6.2 BN/ATSF Merger Application .....	17
1.6.3 Response and Application of SWLR .....	17
1.6.4 BN/ATSF Response to SWLR Application .....	20
1.6.5 Summary .....	21
2.0 DESCRIPTION OF THE RAILROAD AND TRAFFIC BASE .....	23
2.1 OPERATIONS .....	23
2.2 TRAFFIC .....	24
2.2.1 Customers .....	25
2.2.2 Commodities .....	27
2.2.3 Rail Routings .....	31
2.3 TRACK CONDITIONS AND REHABILITATION NEEDS .....	32
2.3.1 DeWeese Crawford Assessment of Track Condition .....	32
2.3.2 SWLR Assessment of Track Condition .....	34
2.3.3 Shipper Observations .....	35
2.3.4 Impact of SWLR Management on Track Compliance .....	35
2.4 ANNUAL REPORT TO THE RAILROAD COMMISSION OF TEXAS ..	36

## TABLE OF CONTENTS (CONTINUED)

3.0	COMPARISON WITH OTHER SHORTLINE RAILROADS	39
3.1	STUDY METHODOLOGY	39
3.1.1	Data Collection	39
3.1.2	Data Analysis	41
3.2	STUDY RESULTS	43
3.2.1	Operating and Physical Characteristics	44
3.2.2	Expenses	45
3.2.3	Revenues	47
3.2.4	Traffic Characteristics	48
3.2.5	Maintenance-of-Way Expenditures	50
3.3	COMPARISON TO U.S. SHORTLINE RAILROAD INDUSTRY	51
3.3.1	Average Revenue Per Car Load	51
3.3.2	Operating Ratio	51
3.3.3	Expenses	52
4.0	IMPACT OF ABANDONMENT	53
4.1	SURVEY RESULTS	53
4.1.1	Private Rail Sidings	53
4.1.2	Operation on Railroad Owned Property	54
4.1.3	Customer Satisfaction	54
4.1.4	Traffic Volume	55
4.1.5	Future Trends	56
4.1.6	Loss of Service	56
4.1.7	Service Improvements	57
4.2	INTERVIEW WITH SWLR OFFICIALS	59
4.3	INSPECTION AND EVALUATION OF TRACK AND INFRASTRUCTURE	61
5.0	CONCLUSIONS AND RECOMMENDATIONS	63
5.1	SUMMARY OF STATUS AND VIABILITY OF THE SWLR	63
5.1.1	Debt	64
5.1.2	Infrastructure	65
5.1.3	Proposed Burlington Northern-Santa Fe Merger	65
5.1.4	Ownership	66
5.2	LIKELY SCENARIOS AND OPTIONS AVAILABLE TO TXDOT	67
5.2.1	Scenario 1: A Buyer is Found, and the SWLR is Sold	67
5.2.2	Scenario 2: Amerail Refinances the SWLR and Continues Operations	68

**TABLE OF CONTENTS (CONTINUED)**

5.2.3 Scenario 3: A Buyer is Not Found, and the SWLR  
Enters Receivership ..... 68

5.2.4 Scenario 4: TxDOT Determines that Buying the SWLR Best  
Protects Its Investment and the Regional Transportation System ... 68

REFERENCES ..... 71

## LIST OF TABLES

<b>Table</b>	<b>Title</b>	<b>Page</b>
2-1	Active and Inactive Customers of the Seagraves, Whiteface and Lubbock Railroad, Lubbock-Whiteface Line (1991) . . . . .	25
2-2	Active and Inactive Customers of the Seagraves, Whiteface and Lubbock Railroad, Lubbock-Seagraves Line (1991) . . . . .	26
2-3	Summary of Carload Shipments on the Seagraves, Whiteface and Lubbock Railroad (1989) . . . . .	27
2-4	Summary of Rail Traffic Between Brownfield and Seagraves, Texas (1991) . . . . .	28
2-5	January-April Carloadings, 1995 Versus 1994 . . . . .	30
2-6	Routings, Origins, and Destinations for Rail Shipments . . . . .	31
2-7	Estimated Material Requirements for Rehabilitation of the Lehman and Seagraves Subdivisions (1989) . . . . .	33
2-8	Comparison of Revenues and Expenses, 1993 to 1994 . . . . .	37
3-1	Comparison of 1993 Operating and Physical Characteristics of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad . . . . .	43
3-2	Comparison of 1993 Expenses of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad . . . . .	45
3-3	Comparison of 1993 Revenues of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad . . . . .	47
3-4	Comparison of 1993 Traffic Characteristics of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad . . . . .	48
3-5	Comparison of 1993 Maintenance-of-Way Expenditures of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad . . . . .	50
3-6	Comparison of Shortline Expense Categories . . . . .	52

## LIST OF TABLES (CONTINUED)

<b>Table</b>	<b>Title</b>	<b>Page</b>
4-1	Use of Private Rail Sidings .....	54
4-2	Operations on Railroad-Owned Property .....	54
4-3	Customer Satisfaction .....	55
4-4	Annual Number of Carloads Shipped .....	55
4-5	Projected Future Use of Rail Transportation .....	56
4-6	Operational Change Required By Loss of Rail Service .....	57
4-7	Needed Rail Service Improvements .....	58

## LIST OF ABBREVIATIONS AND SYMBOLS

AAR	Association of American Railroads
Amerail	American Railway Corporation
ASLRA	American Shortline Railroad Association
ATSF	Atchison, Topeka and Santa Fe Railway Company
BN	Burlington Northern Railroad
DOJ	Department of Justice
FEIS	Final Environmental Impact Statement
FHWA	Federal Highway Administration
FRA	Federal Railroad Administration
ICC	Interstate Commerce Commission
LRFA	Local Rail Freight Assistance
RRCT	Railroad Commission of Texas
SP	Southern Pacific Transportation Company
SWLR	Seagraves, Whiteface and Lubbock Railroad Company
TSM	Transportation System Management
TTI	Texas Transportation Institute
TxDOT	Texas Department of Transportation
UP	Union Pacific Railroad

## SUMMARY

The Lubbock District of the Texas Department of Transportation (TxDOT) is planning the acquisition of railroad right-of-way from the Seagraves, Whiteface and Lubbock Railroad Company (SWLR) as part of the U.S. 82 East-West Freeway project. The arrangement with the SWLR calls for the relocation of approximately 10 to 12 miles of track to provide the railroad a link to the Santa Fe Railroad west of Lubbock. It has been estimated that the acquisition, relocation and track replacement will cost the State between \$10.8 million and \$18 million.

During the planning process, several questions have arisen regarding the long-term commercial viability of the SWLR. TxDOT is concerned about making investment decisions based on partial, flawed, or outdated information. The Texas Transportation Institute (TTI) has been asked to augment the resources of TxDOT by preparing a more comprehensive and current assessment of the operating and commercial viability of the SWLR over a ten-year period.

The SWLR is faced with several situations and conditions that could adversely impact the long-term viability of the line. The schedule and form of debt service established with the purchase of the line requires renegotiation, refinancing, or, as an alternative, selling the line. Resolution of debt issues should be accomplished within a six-month period (end of 1995). Given the fact that Amerail has been looking for a buyer for several months, the railroad entering receivership appears to be a relatively high probability outcome.

The impacts of past deferred maintenance, both under Santa Fe and SWLR ownership, will continue to be an operating challenge for any owner of the railroad. Several aspects of the railroad's operations are beginning to experience the effects of past maintenance decisions and practices. Resolution of rehabilitation and maintenance issues is contingent upon sale or refinancing of the railroad. Regardless of the status of railroad ownership, rehabilitation must be carried out and a sound maintenance program must be in place within a five-year period (by the year 2000).

The proposed merger of the BN and ATSF railroads has significant implications for the SWLR and its revenue stream. Interstate Commerce Commission (ICC) approval of the BN/ATSF merger is regarded by many observers to be a near-certainty. The ICC will also rule on the “responsive conditions” requested by SWLR. A likely scenario is that the ICC ruling will grant certain conditions; for example, SWLR may be granted haulage rights to access the UP at Sweetwater in lieu of trackage rights. A decision is expected in August 1995.

The analysis performed by TTI suggests that as far as TxDOT is concerned, stable ownership and operation of the SWLR is the key issue. Financial sources and the current owners of the company have indicated that Amerail is actively seeking a buyer, and has been for some time. The current owners prefer, however, refinancing and continued operation of the SWLR. Given that a receiver has been appointed, no buyer has yet been identified (numerous parties have expressed an interest, however), and the October 2nd deadline is close, it is plausible that a new owner or operator will be in control of the railroad by the end of 1995. Since it appears that the railroad has the potential to be a successful operation, there is a high probability that a sale or refinancing option can be worked out. It is reasonable to expect ownership issues to be resolved within a one-year time frame.

TxDOT’s options with respect to the SWLR are discussed in terms of four likely scenarios: (1) a buyer is found and the SWLR is sold, (2) Amerail refinances the SWLR and continues operations, (3) a buyer is not found and the SWLR enters receivership, and (4) TxDOT determines that buying the SWLR best protects its investment and the regional transportation system.



## **1.0 INTRODUCTION**

The Lubbock District of the Texas Department of Transportation (TxDOT) is planning the acquisition of railroad right-of-way from the Seagraves, Whiteface, and Lubbock Railroad Company (SWLR) as part of the U.S. 82 East-West Freeway project. The arrangement with the SWLR calls for the relocation of approximately 10 to 12 miles of track to provide the railroad a link to the Santa Fe Railroad west of Lubbock. It has been estimated that the acquisition, relocation and track replacement will cost the State between \$10.8 million and \$18 million.

### **1.1 PURPOSE OF STUDY**

During the planning process, several questions have arisen regarding the long-term commercial viability of the SWLR. TxDOT is concerned about making investment decisions based on partial, flawed, or outdated information. The Texas Transportation Institute (TTI) has been asked to augment the resources of TxDOT by preparing a more comprehensive and current assessment of the operating and commercial viability of the SWLR over a 10 year period.

The report that follows is a combination of existing and new information. It is partially drawn from documentation on file with the Railroad Commission of Texas, from previously developed reports, and from financial and traffic data provided by the SWLR during the course of this study. In addition, the report contains substantial new information and analyses developed by TTI to answer the basic question put forth by the sponsor: "Is the SWLR a viable rail transportation service?" In order to answer this and associated questions, TTI interviewed owners and shippers, examined the railroad's track and structures, and looked into the business operation to assess its level of activity and revenue relative to expenses. A portion of the report is a comparison of the SWLR to other shortline railroads.

## **1.2 DESCRIPTION OF THE SEAGRAVES, WHITEFACE AND LUBBOCK RAILROAD COMPANY**

The Seagraves, Whiteface and Lubbock Railroad (SWLR) operates two former branch lines of the Atchison, Topeka and Santa Fe Railway (Santa Fe) in and near Lubbock, Texas. The SWLR is a subsidiary of the American Railway Corporation (Amerail), an Illinois corporation headquartered in Lake Bluff, Illinois. The total mileage operated by SWLR is approximately 103 miles. These branch lines provide access to raw materials and markets, nationwide and globally, for businesses and industries in the South Plains communities of Seagraves, Brownfield, Whiteface, Levelland, and others. SWLR's shippers have an outlet to these markets via interchanges with the Santa Fe and Burlington Northern railroads in Lubbock. Community leaders and business managers from the South Plains region consider the lines absolutely essential to sustaining and growing the local and regional economy.

Under the Interstate Commerce Commission's (ICC) railroad classification, the SWLR is identified as a Class III railroad. The ICC, a Federal agency responsible for certain economic and regulatory aspects of the railroad industry, classifies railroads as Class I, Class II, or Class III by their level of annual operating revenue (3). In 1993, the revenue threshold for Class I railroads was \$253.7 million or more. For Class II railroads, the 1993 revenue threshold was \$20.4 million to \$253.6 million, and Class III railroads were those making less than \$20.4 million. (The revenue category thresholds are adjusted annually for inflation.)

The Association of American Railroads (AAR) has adopted its own scheme for classifying the nation's railroads (3). The AAR classification is not based on revenue classes as in the ICC classification, in recognition of many characteristics which separate and distinguish small- and mid-size railroads from their larger counterparts. Under the AAR classification, non-Class I railroads are defined as either "Regional" or "Local" railroads. A Regional railroad is a line-haul railroad operating at least 350 miles of road and/or earning revenues of \$40 million or more, but not exceeding the Class I revenue threshold of \$253.7 million. Local railroads are

line-haul railroads which do not meet either the Class I or the Regional criteria, plus Switching and Terminal railroads. There were 12 Class I, 34 Regional, and 463 Local railroads in 1993. The SWLR is a Local railroad under the AAR classification scheme.

### **1.3 BACKGROUND**

Public concerns about the viability of and long-term outlook for the railroad necessitated this study of the Seagraves, Whiteface and Lubbock Railroad Company. These concerns were raised during the planning, design and public hearing phases of the U.S. Highway 82 East-West Freeway Project. This section provides background information on and describes the current status of the freeway project, the Environmental Impact Statement, and the contract between the City of Lubbock and SWLR which provides for railroad relocation.

#### **1.3.1 U.S. Highway 82 East-West Freeway Project**

The Texas Department of Transportation (TxDOT) and the City of Lubbock plan to upgrade the U.S. Highway 82 corridor in Lubbock, providing a new freeway in this major east-west travel corridor (1). The need for traffic flow and safety improvements within a heavily-traveled urban corridor is the primary impetus for this action. The new facility will also improve connections between Lubbock's central business district, Texas Tech University, regional medical centers, rapidly-growing residential and commercial areas on the city's southwest side.

The project calls for providing a multilane, multilevel, access-controlled freeway in place of the existing four- and six-lane principal arterial highway (1). The completed facility will include a four-lane freeway with two- and three-lane frontage roads in each direction. The project limits cover an 8.75-mile section of U.S. 82, beginning on 4th Street near downtown Lubbock and Interstate Highway 27, then extending southwestward to 1.25 miles beyond the Loop 289 interchange. Four route alternatives, five design alternatives, a Transportation System Management (TSM) alternative, and a "No Build" alternative were also considered.

As proposed, the freeway construction project will require acquisition of additional rights-of-way along U.S. 82 in order to accommodate the expanded cross sectional width (1). The existing right-of-way width ranges from 110 to 150 feet wide; 300 to 600 feet of right-of-way will eventually be required. SWLR's right-of-way is adjacent and parallel to U.S. 82 for nearly the full length of the proposed project. Early in the design process, attempts were made to accommodate the rail line and the freeway within the same right-of-way. (Such arrangements have proven feasible elsewhere in Texas and other states, notably on the Mopac Expressway in west Austin and Broken Arrow Expressway in Tulsa, Oklahoma.) The constraints imposed on the available right-of-way by the nature and extent of public and private development along the corridor rendered this design option unfeasible. Relocation of the railroad will permit greater flexibility in the design, location and length of freeway entrance and exit ramps, and in the placement and design of turnaround roads at interchanges. The rail relocation will also remove several existing at-grade railroad crossings on arterial streets and facilitate implementation of other safety improvements.

Seven preliminary route alternatives, numerous variations of the preliminary and primary route alternatives, and a "No Build" alternative were considered during the development and evaluation of the rail relocation proposal (1). The existing rail right-of-way has a 100-foot typical cross section. The proposed rail construction retains this typical width. Approximately 140 acres of right-of-way will need to be acquired to accommodate the relocation and minimize adverse social, economic and environmental impacts. An estimated 48 parcels of land will be purchased to permit completion of the rail line. This action will necessitate seven relocations.

### **1.3.2 Final Environmental Impact Statement**

The City of Lubbock, in association with HDR Engineering, Hicks and Company, and Parkhill, Smith and Cooper, Inc. of Lubbock, has prepared a Final Environmental Impact Statement (FEIS) for the relocation of the SWLR (1). The FEIS identified several potential impacts or effects related to the construction and operation of the relocated SWLR line.

- *Land Use Impacts*

Between 104 and 170 acres of farmland will be converted from its existing use. Agricultural lands are impacted the most, with minimal impacts on residential and commercial/industrial land uses. The relocated rail line may act as a barrier to future urban growth to the west; however, this impact will be mitigated by maximizing the use of existing rail lines and placing new rail construction as far to the west within the study area as possible. The rail relocation could induce limited industrial development within the new rail corridor.

- *Social and Community Effects*

Rail construction and operations will affect the western part of Lubbock County. Introduction of rail operations may affect travel patterns, vehicular access, and travel times for residents of the study area.

- *Relocation Effects*

The selected route alternative minimizes relocations and displacements. Relocations include six residences and one other structure. About 127 acres of farmland will also be acquired.

- *Public Safety Effects*

An overall improvement in public safety should be realized by relocating the rail line from a densely-populated, congested corridor to one that is less developed, has fewer residents, and is primarily agricultural in nature. Other safety improvement actions are recommended to further reduce the accident potential.

- *Economic Effects*

Relocation of the rail line will have few long-term effects on the Lubbock regional economy. Near-term effects include additional short-term jobs, income benefits, and some secondary economic benefits in the Lubbock metropolitan area.

- *Agricultural Effects*

Immediate impacts include conversion of agricultural land to rail-related land uses. Rail construction may have negative effects on irrigation systems, may cause field segmentation, and may create noxious weed problems for area farmers. Several mitigation measures are recommended to reduce these undesirable impacts.

- *Effects on Hazardous Materials Sites*

An unauthorized, non-permitted waste dump is located near the rail relocation project. Should extensive remediation of the site be required, rail construction or operations could be temporarily adversely affected.

- *Construction Phase Effects*

Such impacts include dust generation, erosion and sedimentation, increased noise levels, and temporary interference with normal traffic patterns. These impacts will be confined to the approximately nine-month duration required for project completion. Construction effects at any given location will probably exist for much shorter durations.

- *Other Effects*

Effects on mineral resources, air and water quality impacts, noise and vibration effects, impacts to ecological and visual resources, floodplain encroachment, impacts on cultural resources, and energy effects are expected to be minimal or inconsequential.

### **1.3.3 Summary of Railroad Relocation Contract**

Under the terms of a contract between the City of Lubbock and the SWLR, the SWLR will exchange a seven-mile segment of their line for a new relocated line segment west of the city (2). The SWLR inherited the relocation project as well as the contract negotiations with the City of Lubbock; the ATSF had agreed to most, if not all, contract provisions prior to the SWLR's acquisition of the line. The following provisions of the contract spell out the

responsibilities of the SWLR and the City of Lubbock in the implementation of the relocated rail line segment.

*Provisions.* The contract between the City of Lubbock and the SWLR contains provisions for the exchange of land, construction of new facilities, damages, and salvage.

**Exchange of Land.** The SWLR will convey to TxDOT its rail right-of-way along the U.S. 82 corridor. In return, the SWLR will accept from the City of Lubbock a fee simple title to a new 100-foot right-of-way to be located on the west side of Lubbock.

**Construction of New Facilities.** The City of Lubbock will perform the necessary activities to have new rail facilities constructed upon the new right-of-way. In addition to the new track, the City of Lubbock will have constructed:

1. A switch to allow for potential future service to the Reese Air Force Base site;
2. An 8,000-foot passing track and interchange tracks capable of holding 80 cars where the new right-of-way intersects the ATSF mainline; and
3. A yard along the Levelland branch capable of storing at least 80 cars and providing track and facilities suitable for loading and unloading rail cars.

**Damages and Salvage.** The City of Lubbock will pay SWLR damages incurred in the taking and exchange of the rail facility. SWLR will have the right to salvage any of the rail infrastructure included in the line segment to be taken out in the U.S. 82 corridor.

*Analysis.* The contract between the City of Lubbock and SWLR appears to be very favorable to the SWLR. For example, the provision for a switch at Reese Air Force Base for potential future traffic can be considered a "betterment" for the SWLR. It is unusual that a railroad, in this type of contract, would receive access to a new potential customer at the expense of the project. The switching yard and interchange tracks appear to be more than a replacement

in kind for the current facilities. The provision for the SWLR to have "free" salvage rights for the released rail infrastructure also appears to be generous. The provision for the payment of damages could also be of significant value to the SWLR.

#### **1.4 HISTORICAL PERSPECTIVES ON SOUTH PLAINS RAIL SERVICE**

The South Plains and Santa Fe Railroad originally constructed the two lines which comprise the SWLR (4). The first line segment, a 63.86-mile line between Lubbock and Seagraves, was completed in 1918. This route was referred to as the Seagraves Subdivision by the ATSF. A second line extending from Doud to Bledsoe, Texas was finished in 1925. The ATSF referred to this route as the Lehman Subdivision. The Panhandle and Santa Fe Railroad acquired the South Plains and Santa Fe Railroad in 1949. The Panhandle and Santa Fe was subsequently merged into the Atchison, Topeka and Santa Fe Railway in 1965. The ATSF eventually abandoned the Lehman Subdivision beyond Whiteface, leaving the Doud-Whiteface segment intact.

The Seagraves and Lehman subdivisions were part of a larger network of railroad branch lines, commonly referred to as the "Lubbock Cluster," owned and operated by Santa Fe. In addition to the Seagraves and Lehman subdivisions, three additional lines comprised the Santa Fe's Lubbock Cluster: (1) Lubbock to Crosbyton, (2) Slaton to Lamesa, and (3) Plainview to Floydada. In the late-1980s, the Santa Fe sought to trim costs by eliminating low-traffic density and unprofitable rail lines from its system, either through sale to a shortline operator or abandonment. The five lines of the Lubbock Cluster were offered for sale, initially as a group but later individually. Amerail acquired the 39-mile line from Doud to Whiteface and the 64-mile line between Lubbock and Seagraves in March 1990 and began operating them as the SWLR on April 1, 1990. Another shortline railroad subsidiary of Amerail, the Floydada and Plainview Railroad, purchased the Plainview-Floydada line. Service over most of this line was discontinued in 1994, and the track was abandoned due to a lack of on-line business. A short segment in and near Plainview remains in operation as a switching operation. Similarly, ATSF



sold the Slaton-Lamesa line segment to the South Plains Lamesa Railroad, Ltd. in 1994. The line from Lubbock to Crosbyton was sold and operated briefly as the Crosbyton Railroad; however, rail service was eventually discontinued and the track dismantled.

## **1.5 PREVIOUS EVALUATIONS**

Various studies have considered the relative merits of purchasing and operating the Seagraves and Lehman subdivisions. Three recent studies are relevant, one performed by a private party, one commissioned by the South Plains Rural Rail Transportation District, and a third performed by the SWLR.

### **1.5.1 Private Study by H. Huneke and H.A. Sessions**

In the late-1980s, Mr. Henry Huneke and Mr. H. A. Sessions, Lubbock investors and land speculators, considered purchasing the two rail lines (5). Their intent was to operate the lines for a short period of time, subsequently abandon the lines, sell the real property to the state for the freeway project, and then salvage any personal or retained property. A private study of this plan, however, indicated that this investment would lose money. Attempts to obtain the actual contents and/or conclusions of the analysis have not been successful; thus, the extent to which operational capabilities of the rail lines were considered is not known.

### **1.5.2 South Plains Rural Rail Transportation District Study**

The first analysis of what is now known as the Seagraves, Whiteface and Lubbock Railroad Company was reported in a consultant's document prepared for the South Plains Rural Rail Transportation District (6). The District was formed in the late 1980s by Floyd, Hockley, Lubbock, Crosby, Terry, Lynn, Gaines, and Dawson counties, in response to concerns that rail freight service over the five lines comprising the so-called "Lubbock Cluster" would be abandoned in the absence of some form of intervention. The Rail District was interested in

preserving freight rail service on approximately 224 miles of ATSF branch lines serving the Lubbock area. The report stated that an average of some 5,000 rail cars per year were moved on the Lubbock Cluster rail system. Agricultural and mineral products were the principal products moved by rail.

The Rail District established five objectives for its study of continued rail freight service:

1. Obtain the lines at minimal cost to the Rail District;
2. Determine the minimum cost and the feasibility of upgrading the lines to permit 25-mph operation;
3. Determine the level of commitment of rail shippers to continued rail service, financially and activity-wise;
4. Determine the potential for an operator or joint venturer to operate the rail lines; and
5. For those lines deemed to be unprofitable, determine what means are available for the counties, communities and shippers to help underwrite preservation of rail freight service over the lines.

The Rail District contracted with DeWeese Crawford and Associates to perform the necessary analyses and prepare comprehensive determinations and recommendations on several specific issues:

1. The overall likelihood of locating a purchaser for the rail lines other than the Rail District and the associated advantages and disadvantages of this course of action;
2. A raw estimate of the cost of purchasing the rail lines and the various costs of other available options;
3. The feasibility of the project, given the five objectives outlined for continued rail freight service; and
4. The Rail District's options given the outcome of the three above issues.

A July 1989 report entitled "Analysis of Options for Continued Railroad Freight Service" documents the findings of the DeWeese Crawford study (6). According to the report, "Growth of rail traffic on these lines (cluster) had not been a focus of Santa Fe sales activities." During shipper interviews, it was determined that few rail customers reported any communication with the Santa Fe Railroad. In fact, sale of the lines to a single operator with access to Burlington Northern Railroad interchange seemed to be the only favorable method for improving traffic on the existing branch lines.

The study determined that the lines as a group had been for sale for over two years; however, they had proven unattractive to potential purchasers due to:

1. The apparent high costs of acquisition, estimated at \$7.75 million Net Liquidation Value;
2. High rehabilitation costs, estimated at \$16 million; and
3. Overall low traffic density and a traffic base not dependent on rail for transportation (6).

The study's authors concluded that there was little chance that a qualified independent purchaser that could arrange financing would be found. If a third party purchased and operated the lines, the chance of failure within a few years would be high. The chances of a successful long-term operation would be much better if the lines were to be purchased by, or the purchase were to be underwritten by, the lines' customers.

The DeWeese Crawford study also concluded that the lines as a group sold by Santa Fe should bring less than the stated net liquidation value because the sale would occur at once, instead of over time as would probably occur in the case of abandonment, and ATSF would continue to handle traffic originated and terminated on the lines (6). The five lines of the Lubbock Cluster were estimated to have a potential business value of approximately \$3 million. Rehabilitation costs to permit 25-mph operation would amount to \$5.25 million. The potential

cash flow from operation as a short line would support combined acquisition and rehabilitation costs of about \$4.4 million. Finally, achieving “feasibility” (defined as maintenance of freight service on all lines without subsidy) would be possible only under conditions of substantially increased traffic on all of the lines. Sufficient opportunities were identified to provide increased traffic levels on some of the lines, through both increased volumes of existing business and acquisition of new business. Increased railroad traffic would not occur, however, without definite and positive efforts on the part of the lines’ customers. Current trends, however, suggested increased use of trucks by many branch line customers because trucks are more flexible. A sound highway network serves the region, and truck transportation is a viable alternative in most cases.

The DeWeese Crawford study recommended that the Rail District actively seek the commitment of major rail customers in order to continue providing rail freight service (6). This recommendation recognized that realization of some or all of the potential for rail carload traffic on the Lubbock Cluster lines depended on customer commitment. “Customer commitment” may be in the form of guaranteed traffic levels, an agreement to purchase revenue bonds, or some other type of fiscal commitment. The study based its recommendation on three key points:

1. ATSF’s active effort to either sell or abandon the lines;
2. The potential to operate most of the lines on a “bare bones” basis for a sufficient period of time to determine if the traffic potential possible from focused marketing and increased service can be realized; and
3. The magnitude of the potential impact of the U.S. Highway 82 East-West Freeway project on operation of the two “best” lines.

DeWeese Crawford’s 1989 report included a line-by-line analysis of the Lubbock Cluster. However, only the Whiteface and Seagraves lines are discussed here, as these were the only two lines that became a part of the SWLR.

*Seagraves Subdivision (Lubbock-Brownfield-Seagraves).* According to the report, the Seagraves line was the financially strongest of the five Lubbock Cluster lines (6). DeWeese Crawford stated that, "the line has the lowest rehabilitation cost per mile of any of the lines and the highest traffic density in terms of carloads per mile." There were reported to be a number of customers on the line that would continue to use rail service. It was predicted that an \$877,000 (estimated cost) track rehabilitation project would further improve the financial viability of the line. In 1988, there were approximately 51 revenue cars per mile on the line producing a gross revenue of approximately \$1.1 million.

*Lehman Subdivision (Doud-Levelland-Whiteface).* Customers on the line were optimistic about the future of rail service on the Lehman Subdivision. Nevertheless, it was stated that "rehabilitation of the line is required almost immediately" (6). The report indicated an inspection of the line found that a systematic tie renewal program had not been implemented since the railroad's construction. Almost all ties appeared to be the original crossties installed in 1927. The consultant estimated that some \$1.5 million would be required to rehabilitate the Whiteface portion of the line. In 1988, there were approximately 34 revenue rail cars per mile on this line, producing gross revenue of \$394,000.

DeWeese Crawford made five-year projections for each of the lines in the Lubbock Cluster. Based upon assumptions regarding rehabilitation projects, average revenue per car and rail cars moved on each line, the following projections were made for the year 1994 for the Seagraves and Whiteface segments combined:

- 6,030 carloads;
- gross revenue of \$1,507,500;
- operating expenses of \$647,776; and
- net operating income of \$859,724.

### **1.5.3 SWLR Application for Federal Rehabilitation Funds**

In 1991, the SWLR submitted an application to the Railroad Commission of Texas (RRCT) for Federal funding, under the Federal Railroad Administration's Local Rail Freight Assistance Program (LRFA), to rehabilitate some 27 miles of track between Brownfield and Seagraves (7). As part of that application, the SWLR was required to prepare a benefit/cost analysis for the project (8). The SWLR requested approximately \$1.2 million for a 25,000 tie replacement program and other improvements. If the application were approved, SWLR would provide 50 percent of the estimated project cost, according to RRCT policy. The remainder of the project would be paid out of federal funds.

In calculating transportation efficiency benefits, SWLR examined the following three benefit areas:

1. Reduced transportation cost to shippers and base traffic,
2. Profits earned by shippers on incremental traffic, and
3. Increase in branchline operating profits.

According to the analysis performed by SWLR, upon completion of the project, shippers would realize reduced transportation cost to their base traffic by shifting shipments from trucking to rail. This report was the first public disclosure of the then \$350 per carload rate in place on the SWLR. The report suggested that rail transportation costs on the line were 25 percent to 50 percent less than trucking costs, with an average savings of 40 percent for shippers on the line. Based upon shipper interviews and a reported 20 percent increase in traffic during the initial year of SWLR operation, SWLR projected an incremental increase of 600 carloads per year through the year 2002 (if the project were approved). The primary benefit from the rehabilitation project would be the ability to increase train speeds from the existing 10 mph operation to 20 mph. The reduction of possible derailments and interruptions in service were also important benefits to accrue to SWLR when the project was completed.

Pro forma profit and loss statements included in the application predicted that without the rehabilitation project, SWLR's 1994 freight revenue would be approximately \$1.9 million, while operating expenses would be just over \$740,000. With the rehabilitation project, freight revenues for 1994 were projected to be \$2.2 million, and operating expenses slightly less than \$700,000 were expected.

In the application's concluding statement, it was pointed out that the proposed rehabilitation project would result in increased freight revenue for the SWLR. SWLR suggested, "Much of the increase in traffic would come from the return of shipments to rail from customers that were lost by the Santa Fe due to poor service and a lack of commitment and attention to their customers." In a final appeal to the RRCT for the project's approval, the SWLR stated:

"The rehabilitation project we have proposed should be funded and completed to ensure the viability and profitability of our railroad, the economic strength and profitability of the businesses on our branch line, and the continued and improved health of the local economies in Terry County and Gaines County where our shipper customers provide a great portion of the jobs and tax revenues to the communities. The favorable consideration of our proposed project and benefit/cost analysis is appreciated."

The RRCT was not swayed by SWLR's arguments, and remained unconvinced that the project, as proposed, would constitute a wise investment of public funds. Thus, rehabilitation of the Brownfield-Seagraves line segment was never funded or implemented.

## **1.6 IMPLICATIONS OF THE PROPOSED BN/ATSF MERGER**

This section presents background information on the proposed merger of the Burlington Northern Railroad (BN) and the Atchison, Topeka and Santa Fe Railway (ATSF). (A name for the proposed combined rail system has not yet been finally determined; this report adopts the convention of referring to the combined system as the BN/ATSF.) This section also summarizes SWLR's response to the merger application and request for conditions and the reaction of BN/ATSF to SWLR's demands.

### **1.6.1 Present Relationship Between SWLR and Santa Fe Railroad**

Except in the case of BN interchange traffic, between two-thirds and three quarters of SWLR's traffic is controlled by the Santa Fe. This traffic is "controlled" by the Santa Fe because Santa Fe sets the rates and is responsible for car supply. SWLR officials indicate that as part of an ongoing effort to increase traffic volumes, they have asked Santa Fe to restructure rates based on distance and commodity. It is expected that such action by the Santa Fe would place SWLR in a better position to compete for traffic presently moved by truck. SWLR states that this request has been made repeatedly, but the Santa Fe only recently agreed to examine it.

SWLR officials indicate that several other aspects of the company's relationship with the Santa Fe have had a large impact on the shortline's present situation. The SWLR repeatedly asked Santa Fe to reduce cotton rates in order to compete with traffic that was trucked off line. SWLR noted that in Santa Fe's only attempt to accommodate this request, Santa Fe wanted SWLR to absorb 75 to 100 percent of the reduction in the rates.

SWLR also related that litigation filed by SWLR against the Santa Fe has had significant bearing on the shortline's financial condition. Substantial legal fees have been incurred by SWLR as a result of this litigation. As part of the suit, SWLR made financial commitments based on the Santa Fe's oral and written commitments to supply hopper cars during the milo harvest. SWLR indicates that it would not have made such financial commitments otherwise. SWLR maintains that Santa Fe failed to provide the hopper cars as promised. As a result, a customer sued the SWLR, resulting in additional litigation expenses. SWLR states further that the Santa Fe leased an intermodal ramp to a trucking firm just months after the SWLR had purchased the railroad from Santa Fe. SWLR maintains that such action by Santa Fe constituted a violation of a joint marketing agreement between Santa Fe and SWLR. The two companies are presently negotiating to resolve the dispute.



### **1.6.2 BN/ATSF Merger Application**

Burlington Northern, Inc. and Burlington Northern Railroad Company have filed with the Interstate Commerce Commission (ICC) for control and merger of the Santa Fe Pacific Corporation and the Atchison, Topeka and Santa Fe Railway Company. The merger, which is expected to be approved by the ICC, will have a significant impact on rail competition in the Amarillo, Plainview and Lubbock service areas. Presently, BN and Santa Fe are the only rail carriers serving these cities (with the exception of Amerail's lines in Lubbock and Plainview).

### **1.6.3 Response and Application of SWLR**

On May 10, 1995, SWLR filed with the ICC its "Responsive Application and Opposition to the Primary Application" for BN to acquire control of and to merge with ATSF (9). SWLR's application seeks to acquire trackage rights over certain ATSF lines, and additionally to ensure that certain contractual obligations under ATSF's agreement with American Railway Corporation are honored. The application states:

"...the proposed consolidation will have a significant adverse impact on competitive options for Lubbock, Texas. The relief sought by SWLR will enable the Commission to ameliorate the anticompetitive consequences of this merger on rail service and rail markets in the Lubbock area. In addition, the conditions requested by the SWLR will also serve to prevent potential loss of essential rail services, and enhance the public interests in efficient, economical, and innovative rail service" (9).

On May 25, 1995, the ICC issued Decision Number 27 accepting the SWLR's Responsive Application. A ruling on the application is anticipated later in 1995.

Specifically, SWLR has requested that the ICC impose the following conditions on the BN-Santa Fe merger transaction:

1. Unrestricted overhead trackage rights granted to SWLR on ATSF's Lubbock and Slaton subdivisions between Lubbock and Sweetwater, Texas, a distance of 67 miles, with unrestricted interchange rights with the Union Pacific Railroad at Sweetwater;
2. The ICC retain jurisdiction to set reasonable compensation for the proposed trackage rights in the event that the two parties are unable to negotiate such compensation;
3. Elimination of ATSF's \$75 per car each way reciprocal switch charge at the Lubbock rail yard for all traffic moving between Seagraves and points on BN lines;
4. Continuation of revenue divisions on movement over BN lines;
5. Enforcement of current contractual obligations between SWLR and BN and between SWLR and ATSF; and
6. Maintenance of comparable pre-existing railcar supply conditions from BN and ATSF under the consolidated system (9).

SWLR justifies the proposed trackage rights and conditions on the basis that they preserve competitive options, especially for traffic moving to the southeast and the west coast. SWLR also claims the proposed conditions will foster greater intramodal competition in certain markets, notably cotton, by creating a new freight option for shippers. The SWLR believes that its proposal would create incentives for the consolidated carriers to offer competitive rate and service levels, preserve availability of rate and service options to SWLR's shippers, and insure that essential services continue to be provided to these shippers.

*Trackage Rights to Access Union Pacific Railroad at Sweetwater, Texas.* The SWLR is asking for unrestricted access to the Union Pacific Railroad (UP) via the ATSF tracks from Lubbock to Sweetwater, Texas. Because the ATSF has never granted trackage rights, the best the SWLR can hope for is a haulage agreement. In this case the ATSF would move the traffic from Lubbock to Sweetwater, and the SWLR would pay the ATSF a per car charge. This would

allow the SWLR to compete with the cotton that is currently being trucked to Sweetwater and shipped by UP to the west coast. Approval of this condition would also open up new fertilizer supply options for current fertilizer dealers on the SWLR.

*Elimination of the Reciprocal Switch Charge at the Lubbock Yard.* With the consolidation of the ATSF and the BN, the justification for the \$75 switch fee each way on traffic going to the BN will be eliminated as the ATSF will no longer be switching cars between separately owned and competing railroads. At current traffic levels, the elimination of this charge will save SWLR approximately \$100,000 per year.

*Continuation of Revenue Divisions on BN Line Movements.* Currently the SWLR is paid a flat fee per car handled by the ATSF and negotiates division of revenue for each joint line contract entered into with the BN. SWLR revenue divisions could be higher on BN movements. SWLR has asked the ICC to allow SWLR to continue to be paid negotiated revenue divisions on traffic that moves on former BN lines.

*Enforcement of Current Contractual Obligations.* The ATSF is bound by numerous contractual obligations made to the SWLR under the acquisition and operating agreement dated March 12, 1990, and the amendment dated May 29, 1992. These agreements include car hire relief, car supply and other agreements. SWLR is asking the ICC to bind the combined BN/ATSF system to these same obligations for the term of the agreements.

*Rail Car Supply.* SWLR is asking the ICC to require that the BN/ATSF consolidated system supply to SWLR shippers at quantities comparable to those currently and historically made available to shippers along the SWLR by the ATSF and BN individually. This combined car supply from the SP and possibly the UP will ensure an adequate supply of cars to meet the demand of the shippers on the SWLR.

#### **1.6.4 BN/ATSF Response to SWLR Application**

BN and Santa Fe have responded negatively to SWLR's application for conditions. In their response and rebuttal, the BN/ATSF states, "none of the conditions sought by Seagraves responds to circumstances arising from the consolidation" (10). The BN/ATSF response also notes that a settlement agreement with the Southern Pacific Transportation Company (SP) grants SP access to SWLR's Lubbock traffic via haulage rights at negotiated rates. SP will receive trackage rights on the combined BN/Santa Fe system between Pueblo, Colorado, and Fort Worth, Texas, via Amarillo, Texas. SP will be granted the rights to serve all shippers now served by either BN or Santa Fe at Amarillo. The haulage rights agreement extends SP's access to the Plainview and Lubbock markets. SP would receive access to all Lubbock industries served directly or by reciprocal switching by either BN or Santa Fe. The rebuttal verified statement of Joseph P. Kalt for BN/Santa Fe states:

"The agreement among SP, BN and Santa Fe not only remedies any potential competitive harm from the merger for shippers in the Texas Panhandle, but also improves rail service and competition for shippers at these locations. The merger of BN and Santa Fe provides enhanced single-line service to a variety of locations not otherwise accessible. The introduction of SP as a competitor into Amarillo, Lubbock, and Plainview not only restores the number of competing rail carriers at these locations, but also improves service on competitive routes to a number of important locations. SP will reach, via single-line service from the Texas Panhandle, the important gateway cities of Fort Worth, Kansas City, and Chicago. For the first time, shippers will have the choice of multiple, efficient single-line routes to California, El Paso, Texas and Mexico. Thus, the agreement with SP acts to improve the competitive options of shippers at Amarillo, Plainview, and Lubbock, relative to their pre-existing options; shippers continue to have the choice of two major Class I railroads. In addition, they acquire access to an improved network of locations served through single-line service, and an increased number of destinations served by competing single-line carriers" (11).

SP's access rights would be unrestricted and would apply to rail traffic of all kinds, carload and intermodal, for all commodities. Thus, SWLR would not have to pay a switching charge in order to gain access to SP at Lubbock, as it currently pays to the Santa Fe in order to access the BN.

SWLR contends that the SP haulage rights agreement with BN/Santa Fe will not replace the current level of rail competition in the Lubbock market (12). This concern is based on the claim that SP currently has no presence in the Lubbock market and would have to invest great time and money to develop a presence. SWLR is also concerned that the haulage rights agreement between BN/ATSF and SP has not even been drafted. Furthermore, since such agreements are not regulated by the ICC, the SP may elect never to exercise the agreement. SWLR contends that a UP connection is the only reasonable guarantee that the level of competition in the Lubbock market would remain equal to or better than that which presently exists. SWLR cites a Department of Justice analysis which determined that the UP already has an \$8 million presence in the Lubbock market and would be able to immediately replace the loss of a second interchange partner at Lubbock.

#### **1.6.5 Summary**

The outcome of these deliberations and negotiations remains to be seen. The ICC has not yet ruled on the BN/Santa Fe merger application; however, the agency has promised to expedite their usually lengthy review process, and a ruling is expected in August 1995. Most observers anticipate a favorable ruling on the merger application itself. As a part of this decision, the ICC will respond to the "Responsive Conditions" requested by the SWLR. In a May 10, 1995, filing by the Department of Justice (DOJ) with the ICC, it was recognized by the DOJ that the BN/ATSF merger would impact competition in the Lubbock market. This filing and strong shipper support for SWLR's position has caused SWLR officials to be highly optimistic of a favorable decision from the ICC. It is obvious that if all "conditions" requested by SWLR are met, the value of the SWLR will increase significantly. If all the conditions were to be rejected by the ICC, however, the SWLR could be negatively impacted by the merger. The magnitude and significance of the impacts of an unfavorable ICC ruling on SWLR's conditions are unclear at this time. Conditions imposed on the merger by the ICC, if any, are less certain. BN/Santa Fe have adopted a strategy of negotiated agreements with most major rail carriers, notably the SP, Union Pacific, Kansas City Southern, and others, to reduce the potential for

opposition and for unfavorable conditions to be imposed on the merger. At first glance, the haulage rights agreement negotiated between BN/Santa Fe and the SP would appear to resolve any concerns about the continuation of rail competition in the Lubbock market. As SWLR has argued, however, such concerns may not be alleviated in the event that SP decides not to utilize its rights or if it does not aggressively pursue business with SWLR's shippers.

## **2.0 DESCRIPTION OF THE RAILROAD AND TRAFFIC BASE**

The following sections describe present-day operations on the Seagraves, Whiteface and Lubbock Railroad. Information such as service frequency and train speed are discussed in the section on operations. The section on traffic describes customers and the commodities handled. The third section discusses track conditions and rehabilitation needs. Finally, the last section presents pertinent data on SWLR's income and expenses.

### **2.1 OPERATIONS**

The SWLR provides service six days per week, operating Monday through Saturday (1). The railroad typically does not operate on Sundays. Average train length ranges from 10 to 20 cars per train. A typical train consist includes three to five carloads of hazardous materials, primarily hydrochloric acid, LPG, and anhydrous ammonia. The average length of haul is approximately 50 miles per car (13). Railcars moved over the SWLR may be classified as (1) inbound loads destined for unloading by SWLR customers, (2) inbound empties destined for loading by SWLR customers, (3) outbound loads originating at SWLR customers, or (4) outbound empties originating at SWLR customers. Currently no local traffic (shipments which originate and terminate on line) is handled. The SWLR connects with the Santa Fe and Burlington Northern railroads at Lubbock. Interchange with the Santa Fe is possible via a direct connection near Santa Fe's switching yard in downtown Lubbock. SWLR lacks a direct connection with the BN; SWLR's interchange traffic to and from the BN is moved to the SWLR by ATSF. SWLR pays a switching fee to ATSF for this service. There are no additional rail connections on the SWLR; thus, no bridge traffic operates over the line.

Much of the SWLR's track meets FRA Class 1 track standards, for which the maximum allowable operating speed for freight trains is 10 mph (1). The railroad is classified as "Excepted Track," however, which requires that no train may operate in excess of 10 mph and that no

freight train may contain more than five cars required to be placarded by the Hazardous Materials Regulations of 49 CFR Part 172. The low maximum allowable operating speed and the requirements of Excepted Track pertaining to hazardous materials shipments impact both the frequency of service to some customers and the railroad's ability at times to adequately supply receivers of hazardous materials shipments.

Shippers on the Lubbock-Levelland line report current service levels are three trains per week, with a train scheduled for every other day. This service frequency is an improvement over that provided by the Santa Fe Railroad prior to sale of the line to SWLR. Santa Fe had operated trains to Levelland twice per week before the sale.

Shippers on the Lubbock-Seagraves line indicate they now receive daily service on Monday through Friday. Seagraves shippers noted the current level of service is an improvement over the three days per week service furnished by Santa Fe prior to the line's purchase by SWLR. Furthermore, the current train frequency also represents an improvement over the two- and three-day per week service schedules formerly provided by SWLR on this line. The shippers indicated SWLR implemented this change as recently as late-spring of 1995.

## **2.2 TRAFFIC**

This section describes the number of active and inactive customers on the SWLR and their locations, and presents and analyzes the types of commodities moved and rail traffic volumes. Finally, this section discusses rail routings of a sample of the shipments handled by the SWLR.



**Table 2-1. Active and Inactive Customers of the  
Seagraves, Whiteface and Lubbock Railroad, Lubbock-Whiteface Line (1991)**

COMMUNITY	ACTIVE CUSTOMERS	INACTIVE CUSTOMERS
Carlisle	None	Samuel Jackson Grain
Hurlwood	Frontier Fertilizer and Chemical	Phillips Petroleum
Smyer	Anderson Grain	None
Levelland	Proctor and Gamble Bledsoe Grain Levelland Compress Anderson Grain Lemco Industries Goodpasture Grain	Levelland Vegetable Oil Fina Oil Universal Treating Company Halliburton Company Gulf Oil Company Dowell Company Levelland Coop Pan American Oil
Coble	Amoco	None
Whiteface	Beseda Grain	None
TOTAL	10 Active	10 Inactive

Source: Final Environmental Impact Statement (1).

### 2.2.1 Customers

The SWLR serves approximately 40 active customers, primarily in the outlying communities west and southwest of Lubbock. In addition, the SWLR serves a nearly equal number of inactive customers. Tables 2-1 and 2-2 list active and inactive rail customers in each community.

**Table 2-2. Active and Inactive Customers of the  
Seagraves, Whiteface and Lubbock Railroad, Lubbock-Seagraves Line (1991)**

<b>COMMUNITY</b>	<b>ACTIVE CUSTOMERS</b>	<b>INACTIVE CUSTOMERS</b>
Lubbock	City of Lubbock Southwestern Public Service Badley Lumber	Layne-Bowler Pump McCoy Builders Lakewood Pipe Company
Doud	Kerr Paving	Chupik Corporation
Wolfforth	Caprock Construction	None
Ropesville	Anderson Grain Terra International	Goodpasture Grain
Meadow	Cone Elevator Goodpasture Grain Anderson Grain	Meadow Coop Gin
Brownfield	Ozark Mahoning Anderson Grain Goodpasture Grain BE Implement Halliburton Company Brownfield Coop Fertilizer Trinity Industries	Dresser Industries Anderson Grain and Fertilizer West Texas Industries Flowers Fertilizer City Power Plant Nachurs Plant Food Western Company Tri State Chemical
Wellman	Anderson Grain Goodpasture Grain Pendegrass Producers Gin	None
Seagraves	Anderson Grain Goodpasture Grain Reagent Chemical Ozark Mahoning Vulcan Materials Frontier Fertilizer and Chemical West Texas Industries Venture Chemical Reede Brothers	Venture Chemical J.D. Schaumburg Company Milchem Company Harvest Queen Mill Buriod Company Dresser Company Riverside Chemical Columbian Carbon Company Cities Service Company
<b>TOTAL</b>	<b>29 Active</b>	<b>24 Inactive</b>

Source: Final Environmental Impact Statement (1).

**Table 2-3. Summary of Carload Shipments  
on the Seagraves, Whiteface and Lubbock Railroad (1989)**

COMMODITY	CARLOADS	PERCENT OF TOTAL	CUMULATIVE PERCENT
Industrial Chemicals <sup>1</sup>	1,643	33.1	33.1
Agricultural Chemicals	892	18.0	51.1
Cotton	633	12.8	63.9
Petroleum Products	550	11.1	75.0
Miscellaneous	401	8.1	83.1
Grain Sorghum	326	6.6	89.7
Wheat	281	5.7	95.4
Sulfur	126	2.5	97.9
Scrap	97	2.1	100.0
TOTAL	4,949	100.0	N/A

Note 1: Industrial Chemicals include sodium compound, potash, treating chemicals, and hydrochloric acid.  
Source: Final Environmental Impact Statement (1).

### 2.2.2 Commodities

The commodities handled by SWLR may be broadly classified as farm products and chemicals. Information supplied by the AAR for 1990 indicates a nearly even split between the two categories, with farm products accounting for 55 percent of the carloadings and chemicals contributing 45 percent (13). Table 2-3 shows 1989 data that illustrate the composition of SWLR's traffic base in greater detail (1). If it is assumed that these data represent a "typical" year, several observations may be inferred about the diversity of the railroad's traffic base. Two commodity classes -- industrial chemicals and agricultural chemicals -- account for just over 50 percent of SWLR's carload traffic base. Furthermore, just four commodity groups -- cotton and

petroleum products in addition to the two previously named -- contribute 75 percent of the carload traffic. Agricultural products, including cotton, grain sorghum, and wheat, contribute at least one-quarter (25.1 percent) of SWLR's traffic base. The agricultural sector (agricultural products and chemicals) is responsible for nearly half (43.1 percent) of SWLR's carload traffic.

**Table 2-4. Summary of Rail Traffic Between Brownfield and Seagraves, Texas (1991)**

RAIL USER	CARLOAD TYPE	COMMODITY	ANNUAL CARLOADS
B&E Implement	Flat	Farm Equipment	4
T&T Produce	Covered Hopper	Peas	9
Terra International	Tank, Covered Hopper	Fertilizers <sup>1</sup>	24
PPG Cotton Warehouse	Box	Cotton	31
Brownfield Farmers Coop	Covered Hopper	Dry Fertilizer Products	33
Anderson Grain (Wellman)	Tank	Fertilizer	33
Depoyster Iron/Metal	Gondola	Scrap Iron	42
Goodpasture Grain	Covered Hopper, Tank	Grain, Fertilizers	116
Anderson Grain (Seagraves)	Tank	Fertilizer	118
Anderson Grain (Brownfield)	Tank	Fertilizer	129
Seagraves Compress	Box	Cotton	147
Frontier Fertilizer and Chemical	Tank	Acid, Fertilizer <sup>1</sup>	154
Brownfield Compress	Box	Cotton	163
Reagent Chemical Company	Tank	Hydrochloric Acid <sup>1</sup>	239
Ozark Mahoning (Brownfield)	Box	Sodium Sulfate	371
Vulcan Chemical Company	Tank	Hydrochloric Acid <sup>1</sup>	480
Ozark Mahoning (Seagraves)	Covered Hopper	Sodium Sulfate	536
TOTAL			2,629

Note 1: Hazardous material.

Source: (7)

Data supplied by SWLR in its 1991 application for federal LRFA funds provide some insight on the composition of traffic over the most active segment of the rail line, the 27-mile segment between Brownfield and Seagraves (7). This portion of the railroad generates over half of the total carload traffic moved by SWLR. The traffic mix is described in terms of the annual number of carloads, the carload type, and the commodity. Table 2-4 shows the data.

The FEIS reports SWLR monthly inbound and outbound railcar totals for 1991 (1). The data reveal that 5,295 railcars were received from connecting railroads at Lubbock in 1991, including 1,880 loads and 3,415 empties. A total of 4,901 railcars were delivered to connecting railroads at Lubbock, consisting of 2,935 outbound loads and 1,966 outbound empties. Thus, a total of 10,196 railcars were moved by SWLR in 1991. The total consists of 4,815 loads and 5,381 empties. Hazardous materials handled by SWLR in 1991 amounted to 1,112 carloads, or about 23 percent of the total carload traffic.

SWLR provided carload data for the period January-April 1995, classified by commodity and interchange partner (14). In addition, SWLR furnished data for the comparable period in 1994, permitting an analysis of recent traffic trends on the railroad. The data are reproduced in Table 2-5.

The data indicate that January-April shipments of several commodities are down in 1995 versus the same period in 1994. Note, however, that shipment totals are up for SWLR's primary commodities of fertilizers (+31.8 percent), cotton (+45.0 percent), and oil products (+19.4 percent). Shipments of the remaining primary commodities are down by just a small amount, namely acid/industrial chemicals (-1.4 percent) and salt (-2.1 percent). Traffic growth in the primary commodities has contributed to an overall +13 percent growth rate in total carloads and a +17 percent growth rate in total traffic for 1995 versus 1994.

These data should be considered with a certain degree of caution. Shipment volumes for certain commodities may fluctuate significantly from year to year as a result of external factors. Agricultural products such as cotton and corn may be subject to certain government regulations and policies that might impact the total amount shipped during a given season. Weather and climate may also affect the volume of agricultural products shipped during a given year. Also, shipments of other commodities, including oil and agricultural products, may be impacted positively or negatively by market conditions for these products.

**Table 2-5. January-April Carloadings, 1995 Versus 1994**

COMMODITY	1994 CARLOADINGS			1995 CARLOADINGS			PERCENT CHANGE, 1994-1995
	ATSF	BN	TOTAL	ATSF	BN	TOTAL	
Acid	216	3	219	192	24	216	-1.4
Fertilizer	412	3	415	533	14	547	+31.8
Soybeans	0	0	0	2	0	2	-----
Salt	237	177	414	242	162	404	-2.1
Grain <sup>1</sup>	0	n/a	0	17	n/a	17	-----
Sorghum <sup>1</sup>	0	n/a	0	27	n/a	27	-----
Wheat	0	0	0	1	0	1	-----
Milo	10	0	10	0	0	0	-100.0
Corn <sup>1</sup>	0	n/a	0	59	n/a	59	-----
Corn	38	0	38	5	0	5	-86.8
Cotton <sup>1</sup>	208	n/a	208	210	n/a	210	+1.0
Cotton	483	0	483	710	0	710	+45.0
Scrap	50	0	50	44	0	44	-12.0
Molasses	4	0	4	2	0	2	-50.0
Oil	89	4	93	109	2	111	+19.4
Meal	0	0	0	5	0	5	-----
Linters	0	0	0	2	0	2	-----
Sulfur	18	0	18	14	0	14	-22.2
Lumber	18	14	32	2	5	7	-78.1
Farm Equipment	3	0	3	1	0	1	-66.7
AA	33	2	35	14	4	18	-48.6
Steel Pipe	17	0	17	2	0	2	-88.2
Lube Oil	0	0	0	0	1	1	-----
Potatoes	0	0	0	0	4	4	-----
Revenue Empty	n/a	n/a	4	n/a	n/a	1	-75.0
Misc. ATSF	18	n/a	18	0	0	0	-100.0
TOTAL SWITCH	208	n/a	208	313	n/a	313	+50.5
TOTAL LOADS	1,646	203	1,853	1,880	216	2,097	+13.2
GRAND TOTAL	1,854	203	2,061	2,193	216	2,410	+16.9

n/a - Not Applicable; Note 1 - Cars switched for ATSF.

Source: (14)

**Table 2-6. Routings, Origins and Destination for Rail Shipments**

<b>ORIGIN</b>	<b>ROUTE</b>	<b>DESTINATION</b>
Brownfield	SWLR-ATSF-CR-PW SWLR-ATSF-SP SWLR-ATSF-KCS-CSXT SWLR-BN-CSXT SWLR-ATSF	Cranston, Rhode Island Eagle Pass, Texas New Orleans, Louisiana Charlotte, North Carolina Various points in Oklahoma, California, Kansas and Texas
Seagraves	SWLR-ATSF-CR-PW SWLR-ATSF-GTW-CMGN SWLR-ATSF-BN SWLR-ATSF-CR SWLR-ATSF-CSXT SWLR-ATSF-TP&W SWLR-ATSF-EJ&E SWLR-BN-CSXT SWLR-BN-NS SWLR-ATSF	Cranston, Rhode Island Ada, Michigan Ada, Oklahoma Cleveland, Ohio Jacksonville, Florida Reynolds, Indiana Joliet, Illinois Rocky Mount, North Carolina Charlotte, North Carolina Various points in Oklahoma, California, Kansas and Texas

Note: **ATSF** -- Atchison Topeka and Santa Fe Railway (Santa Fe); **BN** -- Burlington Northern Railroad; **CMGN** -- Central Michigan Railroad; **CR** -- Consolidated Railroad Corporation (Conrail); **CSXT** -- CSX Transportation Company; **EJ&E** -- Elgin Joliet and Eastern Railroad; **GTW** -- Grand Trunk Western Railroad (CN North America); **KCS** -- Kansas City Southern Railway Company; **NS** -- Norfolk Southern Corporation; **P&W** -- Providence and Worcester Railroad; **SP** -- Southern Pacific Transportation Company

Source: (7)

### 2.2.3 Rail Routings

The SWLR connects its customers, both receivers and shippers of goods and products, with sources and markets throughout the United States and the world. These connections are possible due to interchange agreements with the Santa Fe and Burlington Northern railroads. Interchange is made with these railroads at Lubbock. Information from SWLR's 1991 application for LRFA funding is representative of the typical routings, origins, and destinations of goods shipped via the SWLR (7). This information describes typical rail routings for traffic originating on the Brownfield to Seagraves line. Table 2-6 reports the rail routings.

## 2.3 TRACK CONDITIONS AND REHABILITATION NEEDS

The primary sources of information on the condition of SWLR track and facilities include the DeWeese Crawford report to the South Plains Rural Rail Transportation District (6) and an application for Local Rail Freight Assistance funds filed by SWLR in 1991 (7). Personal inspections of the railroad property and conversations with SWLR shippers have provided additional, supplementary information.

### 2.3.1 DeWeese Crawford Assessment of Track Condition

DeWeese Crawford and Associates conducted a physical inspection and provided rehabilitation recommendations for the five lines in the Lubbock Cluster, including the Santa Fe's Lehman and Seagraves lines (6). The assumptions regarding any rehabilitation project required that the project: (1) provide continued service to all lines and (2) improve operating speeds such that desired service frequencies could be economically provided. The analysis estimated material requirements to bring the lines up to 25-mph maximum operating speed, or FRA Track Class 2. This level of rehabilitation and maintenance requires eight "good" crossties per 39-foot rail, and one "good" crosstie with its centerline within 24 inches of the rail joint location. Alignment must be within 3 inches and cross level within 2 inches. Given these requirements, it was estimated that between 1,080 and 1,120 crosstie insertions per mile of track would be necessary. Table 2-7 summarizes the basic material requirements to provide Class 2 track on the Lehman and Seagraves subdivisions.

*Lehman Subdivision (Lubbock-Levelland-Whiteface).* The DeWeese Crawford report made the following statements as to the physical integrity of the line to Levelland and Whiteface:

"Rehabilitation of the Lehman line is required almost immediately, and is estimated to cost almost \$1,500,000. Tie inspection shows that there has not been a systematic tie renewal program since the line was constructed. Almost all of the ties are original, installed in 1927. Between Doud and Levelland, where tonnage has been heavier, there



is evidence that all of the ties in some areas are failing at once, forming ‘nests’ requiring immediate attention to continue operation. At current traffic levels, maintenance problems on the line may be expected to increase rapidly within the next year or two. Increased freight traffic on the line will materially hasten the onset of these problems.”

The report estimated that the “business value” of the route was about 25 percent less than the rehabilitation estimate. The rehabilitation estimate equated to roughly \$38,000 per mile.

**Table 2-7. Estimated Material Requirements for Rehabilitation of the Lehman and Seagraves Subdivisions (1989)**

<b>TRACK COMPONENT</b>	<b>LEHMAN SUB (LUBBOCK-WHITEFACE)</b>	<b>SEAGRAVES SUB (LUBBOCK-SEAGRAVES)</b>
Ties (number per mile)	600	250
Total Ties	29,880	15,975
Spikes	119,520	63,900
Ballast (tons per mile)	250	150
Total Ballast (tons)	12,450	9,585
Switch Tie Sets	7	5

Source: (6)

*Seagraves Subdivision (Lubbock-Brownfield-Seagraves).* The report also provided a brief assessment of the physical integrity and rehabilitation requirements of the Seagraves line:

“The line has the lowest rehabilitation cost per mile of any of the lines. There is evidence of at least two systematic tie renewal programs having been carried out since the line was constructed. Rehabilitation to 25 mph standards will not require extensive work and is estimated to cost \$877,000.”

The estimated rehabilitation cost amounted to about \$13,700 per mile.

### 2.3.2 SWLR Assessment of Track Condition

The 1991 application to the RRCT sought funding from the Federal Railroad Administration's Local Rail Freight Assistance Program (LRFA) for a \$1.17 million rehabilitation of the 27-mile segment of track between milepost 37 at Brownfield and milepost 63.9 at Seagraves (Z). This portion of the SWLR generates over half of the line's total traffic, but is also in the poorest physical condition according to railroad officials and others familiar with the railroad. The application stated, "Present track conditions put trackage at a marginal Class I with from one to twelve slow orders according to wet weather conditions, frequency of trips and number of loads per trip." SWLR estimated the following material requirements for rehabilitation of the Seagraves to Brownfield line segment:

- 25,000 crossties,
- 135 carloads of ballast,
- 26.9 miles of track surfacing,
- 8 sets of switch ties,
- 100 joints of 85-pound rail,
- 9,000 tie plates,
- 100 kegs of spikes,
- 50 kegs of bolts, and
- 1,000 angle bars.

SWLR predicted that this rehabilitation project, coupled with rehabilitation of the adjacent 17-mile segment between milepost 20 and Brownfield, would provide safer operations and allow more frequent and timely service to customers. The Railroad Commission, however, ultimately rejected the application due to concerns that the condition of the track was actually worse than thought. Proper determination of the true condition of the track was and continues to be very difficult on account of substantial accumulations of sand on the track. In many locations, sand completely obscures the crossties and all but the head of the rail. This condition created concerns that the amount requested would prove to be insufficient, resulting in a high chance of project failure. SWLR maintains that the rehabilitation funds, coupled with the

railroad's routine and ongoing maintenance-of-way program, would have greatly improved the railroad's present competitive and financial positions.

### **2.3.3 Shipper Observations**

Comments by one SWLR shipper underscore the maintenance headaches created by the local soil conditions. The shipper indicated that sand blown over the tracks frequently disrupts rail service on the line serving his business. High winds cause the sand to drift, with accumulations forming against the rails, crossties, and roadbed of the railroad track. This shipper stated, however, that SWLR has been quick to reopen the track after sandstorms occur, with service delays usually totaling no more than a day.

The DeWeese Crawford report, prepared in 1989 just one year prior to the sale of the lines to SWLR, indicated there was no evidence that a systematic tie renewal project had been conducted on the Lubbock-Whiteface line segment since the line was built. One shipper on this line, however, reported that the ATSF had replaced every fifth crosstie shortly before the line was sold. This particular shipper depends heavily on rail service and has thus taken a keen interest in the ongoing operation and maintenance of the line over the years. In this context, the information provided by this individual is probably credible. It is possible that the Santa Fe tie renewal project was undertaken after the release of the 1989 report.

### **2.3.4 Impact of SWLR Management on Track Compliance**

SWLR has indicated that Amerail experienced problems with a previous manager of the property. The problem was brought to the attention of Amerail's executive management by the FRA. The company responded by removing and replacing the manager in question and expending "large amounts of money" to restore the line to FRA compliance. SWLR reports that these expenditures have had a "major impact" on the financial condition of the line, however, the line has remained in FRA compliance ever since.

## **2.4 ANNUAL REPORT TO THE RAILROAD COMMISSION OF TEXAS**

The 1994 SWLR annual report on file with the Railroad Commission of Texas reveals that the railroad handled 4,759 revenue carloads during the year (15). Freight revenue from this service exceeded \$2.55 million or approximately \$535.00 per carload. Total operating revenues were reported as approximately \$2.98 million. SWLR total operating expenses for the year 1994 were approximately \$2.5 million, and "net revenue" was just less than \$540,000. Maintenance of way and structures was reported to be \$400,000.

Table 2-8 presents a comparison of 1993 to 1994 operating results for the SWLR. The reported amounts show that the railroad posted gains in revenue of more than 14 percent from 1993 to 1994. This trend seems to be continuing with car loadings up 17 percent in the first four months of 1994 compared to the same period in 1993. Expenses, on the other hand, were reported to be up only 7.9 percent from 1993. The increases in expenses were led by a significant additional expenditure for maintenance of way, up almost \$100,000 over 1993 totals. In addition, General Administrative expenses were higher in 1994, with almost \$350,000 more in this category.

**Table 2-8. Comparison of Revenues and Expenses, 1993 to 1994**

RESULTS OF OPERATIONS -- SWLR		1993	1994	PERCENT CHANGE
Income	Freight Revenue	2,288,601	2,550,888	11.5
	Other Revenue	312,048	427,113	36.9
	Total Income	2,600,649	2,978,001	14.5
Operating Expense	Maintenance of Way	301,429	400,195	32.8
	Maintenance of Equipment	185,054	131,285	<29.1>
	Transportation	698,649	474,983	<32.0>
	General Administrative	1,055,061	1,383,217	31.1
	Total Operating Expense	2,240,193	2,439,680	8.9
Other Expenses	Interest	501,505	518,507	3.4
Total Expenses (Operating + Other)		2,741,698	2,958,187	7.9
Net Income		<141,049>	20,814	

Source: (15)



### **3.0 COMPARISON WITH OTHER SHORTLINE RAILROADS**

It is useful to understand how the SWLR compares with other shortline railroads when assessing the operational, physical, and commercial viability of the company and the railroad. Furthermore, such an analysis may provide insight into the viability of rail service in the region of the South Plains served by the SWLR. To this end, data describing the physical, operational and financial characteristics of the SWLR and other shortline railroads were obtained and analyzed. Due to time constraints, only data pertaining to other Texas shortline railroads were obtained for the analysis. Using these data, it was possible to analyze the SWLR as it fits in the larger overall context of the Texas shortline railroad industry.

#### **3.1 STUDY METHODOLOGY**

These subsections describe the identification and collection of relevant data for the shortline comparison, and the analyses performed on these data.

##### **3.1.1 Data Collection**

Railroad Annual Reports for 1993 were obtained from the Railroad Commission of Texas and reviewed. Although some 1994 reporting data were available, 1993 was the latest year for which a complete or near-complete set of reports was available. The Annual Reports provided statistics on 38 “shortline” railroads operating within the state of Texas:

- Angelina and Neches River Railroad Company,
- Austin and Northwestern Railroad Company,
- Border Pacific Railroad Company,
- Brownsville and Rio Grande International Railroad,
- Chaparral Railroad Company,
- Crystal City Railroad (operated by Texas Railroad Switching, Inc.),
- Dallas, Garland and Northeastern Railroad Company,
- Floydada and Plainview Railroad Company,

- Fort Worth and Western Railroad,
- Galveston Railroad,
- Georgetown Railroad Company,
- Gulf, Colorado and San Saba Railway Corporation,
- Houston Belt and Terminal Railway Company,
- Kiamichi Railroad Company,
- Moscow, Camden and San Augustine,
- The Pecos Valley Southern Railway Company,
- Point Comfort and Northern Railway Company,
- Port Terminal Railroad Association,
- Rio Valley Railroad,
- Rockdale, Sandow and Southern Railroad Company,
- Sabine River and Northern Railroad Company,
- Seagraves, Whiteface and Lubbock Railroad Company,
- South Orient Railroad Company,
- Southwestern Railroad Company,
- South Plains-Lamesa Railroad,
- Texas and Northern Railway Company,
- Texas-New Mexico Railroad Division (Austin and Northwestern Railroad Company),
- Texas Northeastern Division, Mid-Michigan Railroad Company,
- Texas Central Railroad Company,
- Texas City Terminal Railway Company,
- Texas and Oklahoma Railroad Company (operated by Texas North Orient Corporation),
- Texas, Gonzales and Northern Railway Company,
- The Texas Mexican Railway Company,
- Texas North Western Railway Company,
- Texas South-Eastern Railroad Company,
- Texas Transportation Company,
- Western Rail Road Company, and
- Wichita, Tillman and Jackson Railway Company.

Nine of these companies were deleted from the analysis. The Texas Mexican Railway Company was an ICC Class II carrier, whereas the remainder fall into the Class III category; thus, it was not included in the database. Five railroads were classified as “Switching and Terminal” companies, whose physical plant and operational characteristics may vary significantly from other shortline railroads. Two of the companies operated significant amounts of trackage outside of the state, and it was not clear whether the information reported described



the entire system or just the Texas portion of their operations. One carrier's report was mostly incomplete. Thus, data for a total of twenty-nine shortline railroads comprised the database for this study.

The Annual Reports provide a wealth of information describing each railroad company and its operations, including statistics for rail line road-haul traffic, mileage operated, railway operating expenses, results of operations, revenue freight carried, recent substantive changes in the company or its operations, equipment inventory, and other general information. The following nineteen items were derived from each report:

- Miles of single or first main track owned/operated (track-miles),
- Total miles of track owned/operated (track-miles),
- Average length of haul (miles),
- Total train-miles (train-miles),
- Operating Expenses--maintenance-of-way and structures (\$),
- Maintenance-of-Way Expenses--roadway maintenance (\$),
- Operating Expenses--maintenance of equipment (\$),
- Operating Expenses--transportation (\$),
- Operating Expenses--general and administrative (\$),
- General & Administrative Expenses--administration (\$),
- Grand total railway operating expenses (\$),
- Freight income (\$),
- Railway operating revenues (\$),
- Net revenue from railway operations (\$),
- Total carload traffic originated (carloads, tons),
- Total carload traffic terminated (carloads, tons), and
- Total revenue freight (carloads, tons, ton-miles).

### **3.1.2 Data Analysis**

The data for each railroad company were entered to a Microsoft Excel spreadsheet to facilitate the necessary calculations and analysis. Several additional unit costs and statistics were derived using the statistics listed above.

*Operating Ratio.* The operating ratio is determined by dividing railway operating expenses into railway operating revenues. The resulting ratio expresses the cost of earning \$1 of revenue. An operating ratio less than 1.0 is desirable.

*Cost Per Train Mile.* The cost per train mile statistic is calculated by dividing the total operating expenses by the total number of train-miles. It is a useful statistic for comparing the costs of handling a given volume of traffic in a varying number of trains.

*Revenue Per Carload.* This statistic can be calculated in at least two ways depending on how revenue is accounted. First, freight revenue was divided by total revenue carloads. In the second method, railway operating revenue, which may include revenue from sources other than freight transportation services, was divided by the total number of revenue carloads.

*Traffic Density.* The volume of revenue traffic over a given railroad segment may be expressed in terms of ton-miles per track-mile. The statistic is determined by dividing the total amount of revenue freight, in ton-miles, by the number of miles of main track over which the traffic is moved.

*Maintenance-of-Way Expenditures.* In railway accounting practice, expenditures for maintenance-of-way and structures are a subset of railway operating expenses. The costs of superintendence, roadway maintenance, maintenance of structures, roadway retirement, roadway dismantling, depreciation, maintenance of various yard and other tracks, and other maintenance-of-way expenditures comprise the total maintenance-of-way and structures account. This study considered two specific items, roadway maintenance and the account total. For purposes of comparison to other shortline railroads, both amounts were divided by the main track mileage and by the total track mileage.

### 3.2 STUDY RESULTS

Tables 3-1 through 3-5 show a comparison of the SWLR to other Texas shortline railroads. Operating and physical characteristics, expenses, revenues, traffic characteristics, and maintenance-of-way spending were analyzed. The information contained in tables 3-1 through 3-5 illustrates broadly the parameters of the Texas shortline railroad industry, as well as how the SWLR compares to an average or “typical” shortline railroad operating within the state. The tables indicate the number of observations for each reporting category, the maximum and minimum values in each category, the average and median values calculated for all railroads reporting, and the value and rank for the SWLR. For most categories, the number of observations is less than the total number of railroads in the database. The discrepancy is due to non-reporting of items requested on the Railroad Commission’s reporting forms. Average and median values were calculated by considering all railroads reporting in that category except for the SWLR.

**Table 3-1. Comparison of 1993 Operating and Physical Characteristics of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad**

STATISTICAL CATEGORY	OBS.	MAX./MIN.	AVERAGE	MEDIAN	SWLR VALUE	SWLR RANK
Main Track Owned/Operated (track-miles)	25	210.8 3.9	54.1	34.0	103.3	4
Total Track Owned/Operated (track-miles)	25	210.8 6.5	57.8	42.0	129.9	4
Average Length of Haul (miles)	21	67 1	23	16	45	5
Total Train-Miles (train-miles)	22	206,230 140	25,890	8,430	22,950	8

Source: 1993 Railroad Annual Reports, Railroad Commission of Texas.

### **3.2.1 Operating and Physical Characteristics**

Table 3-1 compares physical and operating characteristics of the SWLR to other Texas shortline railroads. SWLR is the fourth largest shortline railroad operating exclusively within the state, in terms of both total miles of main track owned and operated (103.3 miles) and total miles of all track owned and operated (129.9 miles). The averages for Texas shortlines are 54.1 miles (main track only) and 57.8 miles (all track). For purposes of comparison, the largest shortline railroad in this study owned and operated about 211 miles of track.

On average, a carload on the SWLR is moved 45 miles. This ranks as the fifth longest average haul of the Texas shortlines included in this study. The average length of haul for a Texas shortline was 23 miles, with a range of from one mile to 67 miles. The SWLR reported nearly 23,000 total train-miles in 1993, ranking it eighth in this study. On average, Texas shortlines in 1993 reported nearly 26,000 total train-miles resulting from their operations, with a range of 140 train-miles at the low end to over 206,000 train-miles.

**Table 3-2. Comparison of 1993 Expenses of Texas  
Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad**

STATISTICAL CATEGORY	OBS	MAX./MIN.	AVERAGE	MEDIAN	SWLR VALUE	SWLR RANK
Operating Expenses-- MOW/Structures (\$)	25	1,171,700 7,200	315,900	248,600	301,400	12
MOW Expense/Total Operating Expense (%)	25	40.9 0.3	21.9	23.4	13.5	20
Operating Expenses-- Equipment Maint. (\$)	26	3,936,700 10,500	409,800	102,000	185,100	12
Equipt. Expense/Total Operating Expense (%)	26	56.8 1.5	17.0	15.8	8.3	19
Operating Expenses-- Transportation (\$)	25	2,480,900 39,400	528,200	400,300	698,600	7
Transp. Expense/Total Operating Expense (%)	25	62.3 11.2	33.6	32.1	31.2	14
Operating Expenses-- General & Admin. (\$)	26	1,943,600 32,000	422,000	320,200	1,055,100	3
General & Adm. Exp./ Tot. Oper. Expense (%)	26	46.4 6.7	27.1	28.2	47.1	1
General & Adm. Exp.-- Administration (\$)	23	414,800 12,600	159,100	164,400	501,900	1
Railway Operating Expenses (\$)	27	9,082,400 207,100	1,657,900	1,118,500	2,240,200	8
Operating Ratio (Expenses/Revenues)	27	4.48 0.26	1.43	1.19	1.16	16
Cost Per Train Mile (\$/train-mile)	20	497.81 2.69	143.75	88.29	97.61	10

Source: 1993 Railroad Annual Reports, Railroad Commission of Texas.

### 3.2.2 Expenses

Table 3-2 shows the results of an analysis of the 1993 expenditures of the SWLR and presents a comparison of these results to average and median values for Texas shortline railroads.

Operating expenses may be broken into five general categories:

1. Maintenance-of-way and structures,
2. Equipment maintenance,
3. Transportation,
4. General and administrative, and
5. Miscellaneous and other.

The present study examined SWLR's 1993 expenditures in the areas of maintenance-of-way and structures, equipment maintenance, transportation, and general and administrative. Comparisons were drawn to other Texas shortline railroads in terms of absolute dollars spent in each category and the proportion of total operating expenses represented by each category.

Few similarities were identified between the SWLR's 1993 spending and expenditures by other Texas shortline railroads. One similarity was present in the relative amount of spending for transportation. Using the SWLR numbers, about 31 percent of its total operating expenses were for transportation, versus about 34 percent for all Texas shortlines studied. In terms of absolute dollars, SWLR's spending (almost \$699,000) actually exceeded the average (about \$528,000). Total spending for maintenance-of-way and structures (\$301,400) approached the statewide average (about \$316,000). The relative level of spending for maintenance-of-way, however, was substantially less than the state average (13.5 percent on SWLR versus almost 22 percent). Spending for maintenance of equipment on the SWLR (\$185,100, or 8.3 percent of total operating expenses) was also substantially less than the state averages (\$409,800, or 17 percent of total operating expenses).

The most significant discrepancy between the SWLR's spending and the rest of the Texas shortline railroad industry was present in the amount of spending attributed to the "General and Administration" account. SWLR reported spending of nearly \$1.1 million in this account, versus the state average of \$422,000. As a fraction of the total operating expenses, this level of

spending represented about 47 percent of all expenditures; the state average was about 27 percent. About half of the \$1.1 million was due to spending on "Administration." Other shortline railroads reported spending an average of \$159,100 on administration.

SWLR reported total railway operating expenses of more than \$2.2 million in 1993, ranking it eighth out of all Texas shortlines. The state average was nearly \$1.7 million. SWLR's operating ratio was estimated to be 1.16, which was substantially better than the average for all Texas shortlines (1.43). The cost per train-mile was also estimated. For the SWLR, this value was about \$98; the state average was nearly \$144.

**Table 3-3. Comparison of 1993 Revenues of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad**

STATISTICAL CATEGORY	OBS	MAX./MIN.	AVERAGE	MEDIAN	SWLR VALUE	SWLR RANK
Freight Income (\$)	24	8,386,100 53,800	2,006,300	1,443,700	2,288,600	8
Railway Operating Revenues (\$)	27	12,596,600 53,800	2,452,300	1,326,700	2,600,600	10
Net Revenue from Rwy. Operations (\$)	27	6,803,100 -1,230,000	702,200	121,000	360,500	11
Revenue Per Car Load-- Freight Income/Car Load Method (\$)	22	399 64	258	256	421	1
Revenue Per Car Load-- Oper. Revenue/Car Load Method (\$)	23	914 94	331	317	479	4

Source: 1993 Railroad Annual Reports, Railroad Commission of Texas.

### 3.2.3 Revenues

1993 reported revenues of the SWLR were compared to those of Texas shortline railroads. Table 3-3 provides the results of the comparison. SWLR reported freight income of

almost \$2.3 million and railway operating revenue of about \$2.6 million. These earnings compare favorably with the state averages of \$2.0 million (freight income) and \$2.5 million (operating revenue). The net revenue from railway operations reported by SWLR was just over half of the average for other shortlines (\$360,500 for the SWLR versus an average of \$702,200). Based on freight income, the SWLR earned \$421 in revenue on each carload transported; the state average was \$258 per carload. Using operating revenue to calculate average revenue per carload, SWLR earned \$479 per carload, versus the state average of \$331 per carload.

**Table 3-4. Comparison of 1993 Traffic Characteristics of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad**

STATISTICAL CATEGORY	OBS.	MAX./MIN.	AVERAGE	MEDIAN	SWLR VALUE	SWLR RANK
Carload Traffic Originated (carloads)	22	40,380 10	5,170	1,030	3,420	5
Carload Traffic Originated (tons)	18	4,282,000 1,200	596,400	175,600	336,900	5
Carload Traffic Terminated (carloads)	23	15,860 0	3,160	910	2,020	11
Carload Traffic Terminated (tons)	17	778,700 300	185,000	84,600	199,800	7
Total Revenue Freight (carloads)	24	41,110 160	8,580	3,190	5,430	11
Total Revenue Freight (tons)	18	4,343,700 39,400	820,000	282,400	536,700	7
Total Revenue Freight (ton-miles)	15	23,538,600 11,700	6,578,900	3,717,300	24,150,600	1
Traffic Density (1,000 ton-miles/mile)	15	2,080 0	580	110	230	8

Source: 1993 Railroad Annual Reports, Railroad Commission of Texas.

### 3.2.4 Traffic Characteristics

Table 3-4 compares amounts of carload traffic originated and terminated by the SWLR in 1993 to other Texas shortline railroads.



In terms of carloads and tons originated, the SWLR appears to be somewhat below average. It should be noted, however, that one of the shortlines in the database used to estimate these averages carried an unusually high amount of traffic compared to the other shortlines; therefore, the average is probably skewed toward the high end of the distribution. If the median number of carloads and amount of tonnage originated is considered, then SWLR is cast more favorably. The median number of carloads originated was 1,030; the median tonnage originated was 175,600. For comparison, the SWLR originated 3,420 carloads and 336,900 tons of traffic. Overall, SWLR ranked fifth in carload traffic originated in terms of both absolute numbers of cars and tonnage.

Examining the level of traffic terminated, SWLR's 1993 amount (2,020 carloads) was less than the state average (3,160 carloads) but considerably greater than the state median (910 carloads). Again, one or more outliers appeared to skew the data. In terms of tonnage terminated, SWLR handled 199,800 tons of traffic, which exceeded the state average of 185,000 tons. Overall, SWLR was ranked eleventh in number of carloads terminated and seventh in number of tons.

Total revenue freight was examined in terms of carloads, tonnage, and ton-miles. The SWLR handled about 5,430 carloads in 1993, which was less than the state average (8,580 carloads) but more than the state median (3,190 carloads). Overall, SWLR was ranked eleventh in number of carloads originated. SWLR handled a total of 536,700 tons of revenue freight in 1993; the state average was 820,000 tons, and the state median was 282,400 tons. SWLR ranked seventh in the state in revenue tonnage. SWLR's ton-miles (24.2 million) were substantially greater than the state average (6.6 million). In fact, SWLR's ton-miles rank first out of all Texas shortlines considered by this study. Traffic density on the SWLR was 230,000 ton-miles/mile, which compares to the state average of 580,000 ton-miles/mile and the state median of 110,000 ton-miles/mile. The SWLR ranked eighth in terms of traffic density.

**Table 3-5. Comparison of 1993 Maintenance-of-Way Expenditures of Texas Shortline Railroads and the Seagraves, Whiteface and Lubbock Railroad**

STATISTICAL CATEGORY	OBS	MAX./MIN.	AVERAGE	MEDIAN	SWLR VALUE	SWLR RANK
Operating Expenses-- MOW/Structures (\$)	25	1,171,700 7,200	315,900	248,600	301,400	12
MOW Expense/Total Operating Expense (%)	25	40.9 0.3	21.9	23.4	13.5	20
MOW Expense Per Miles of Main Track Owned/Operated (\$/track-mile)	23	86,560 1,180	15,660	4,900	2,920	16
MOW Expense Per Total Miles of Track Owned/Operated (\$/track-mile)	23	67,240 1,110	10,570	4,530	2,320	17
Roadway Maintenance Expense Per Miles of Main Track Owned/ Operated (\$/track-mile)	23	47,710 120	8,050	2,580	410	22
Roadway Maintenance Expense Per Total Miles of Track Owned/ Operated (\$/track-mile)	23	37,060 80	5,040	2,430	320	23

Source: 1993 Railroad Annual Reports, Railroad Commission of Texas.

### 3.2.5 Maintenance-of-Way Expenditures

Railway operating expenditures were analyzed previously. Maintenance-of-way expenditures were examined more closely to determine how the amount spent by SWLR on track and infrastructure maintenance compares to that spent by other shortline railroads. Table 3-5 shows the results.

If total maintenance-of-way and structures operating expenditures are considered, SWLR spent \$2,920/track-mile of main track owned and operated, and \$2,320/track-mile of all track

owned and operated. The state averages were \$15,660/track-mile of main track and \$10,570/track-mile of all track. SWLR's spending levels ranked sixteenth in the state, below both the state average and the state median levels.

If only dollars spent for roadway maintenance are considered, SWLR reported spending \$410/track-mile of main track and \$320/track-mile of all track, which were considerably less than the state averages of \$8,050/track-mile and \$5,040/track-mile, for main track and all track respectively. SWLR's spending level was ranked next to last in the state (data were available for 23 railroads).

### **3.3 COMPARISON TO U.S. SHORTLINE RAILROAD INDUSTRY**

A recent study by the American Shortline Railroad Association (ASLRA) was obtained and reviewed. This publication provides statistical data comparing shortlines to switching and terminal, regional and Class I railroads.

#### **3.3.1 Average Revenue Per Car Load**

Nationally, local/line-haul railroads realized an average of \$221.80 per carload. Using 1993 freight income and revenue carloads as the basis for the calculation, this study obtained \$258/carload as the average carload revenue for Texas shortline railroads. 1993 revenue per carload for the SWLR was estimated as \$421/carload, which exceeds both the state and national averages by a substantial amount.

#### **3.3.2 Operating Ratio**

The national average operating ratio for local/line-haul railroads was 78.3 percent (0.783), which was the lowest ratio when compared to the operating ratios for Class I, regional, and switching and terminal railroads. This study estimated the average operating ratio for a

Texas shortline railroad in 1993 to be 143 percent (1.43), substantially larger than the national average. The SWLR's 1993 operating ratio was 116 percent (1.16), which is worse than the national average operating ratio but substantially better than the state average and slightly better than the state median operating ratio.

### 3.3.3 Expenses

The study by ASLRA provided a breakdown and comparison of railroad expenditures by expense category. The national averages for "small" railroads and the Texas averages estimated by this study are compared to one another and to the SWLR breakdown in Table 3-6.

**Table 3-6. Comparison of Shortline Expense Categories**

EXPENSE CATEGORY	NATIONAL AVERAGE	TEXAS AVERAGE	SWLR
Maintenance-of-Way and Structures	16%	22%	14%
Maintenance of Equipment	15%	17%	8%
Transportation	39%	34%	31%
General and Administrative	21%	27%	47%
Other	9%	0%	0%
TOTAL	100%	100%	100%

Source: American Shortline Railroad Association.

Spending on maintenance-of-way on the SWLR compares favorably with the national average and is somewhat below the state average. Maintenance of equipment spending on the SWLR in 1993 was considerably less than both the state and national averages. Transportation expenses on the SWLR were very comparable to the state average and slightly less than the national average. The general and administrative expenses category, however, shows a significant discrepancy between the SWLR and the state and national averages. The proportion of operating expenses accounted for under the "General and Administration" account for the SWLR is more than twice the national average and almost twice average for Texas shortlines.

## **4.0 IMPACT OF ABANDONMENT**

TTI conducted a survey of the shippers using the SWLR in order to characterize current rail service, estimate the magnitude of rail use, and document any problems associated with the existing service. The data obtained in the survey is reported in aggregate numbers to maintain the confidentiality of the information.

Over 150 surveys were sent to businesses in the region served by the SWLR with more than fifty companies responding to the survey. Eighteen firms reported that they were current shippers on the SWLR and another 14 have interest in the service. Supporting documentation on the railroad citing the number of railcars moved per year suggests that the TTI survey captured the majority of the shippers using the SWLR.

### **4.1 SURVEY RESULTS**

The shipper survey produced several key findings. The findings relate to shipper use of private rail sidings, location of shipper operations on railroad-owned property, the level of customer satisfaction with rail service, volumes of traffic shipped (historic and projected), plans for future rail use, the potential impacts of a discontinuation of rail service, and ways that rail service could be improved.

#### **4.1.1 Private Rail Sidings**

Private rail sidings provide businesses a convenient means of preparing shipments via rail. The survey asked each shipper along the SWLR whether or not they had a private siding. The results indicated over 80 percent of the respondents (16 of 20) use a private siding to facilitate rail transportation. Those using private sidings indicated they considered rail transport of their products a major facet of their business operation. Table 4-1 summarizes the responses.

**Table 4-1. Use of Private Rail Sidings**

Do you have a private rail siding at this location?		
RESPONSE	FREQUENCY	PERCENT
Yes	16	80
No	4	20
TOTAL	20	100

#### **4.1.2 Operation on Railroad Owned Property**

The survey indicated that more than one-third of the businesses using the SWLR are located or operate on railroad-owned property. Any work done on the rail line could impact the operations of these companies. Table 4-2 summarizes the shippers' responses to this question.

**Table 4-2. Operations on Railroad-Owned Property**

Is your business located on railroad-owned property?		
RESPONSE	FREQUENCY	PERCENT
Yes	7	35
No	13	65
TOTAL	20	100

#### **4.1.3 Customer Satisfaction**

SWLR shippers were asked to rate their current rail service. Four response choices were presented: excellent, average, satisfactory, and poor. Table 4-3 presents the results. The survey indicated shippers are not unhappy with the current service, but improvements are possible. The shippers indicated the track itself should be upgraded to improve on-time performance.

**Table 4-3. Customer Satisfaction**

How would you classify your current rail service?		
CUSTOMER SATISFACTION	FREQUENCY	PERCENT
Excellent	1	5
Average	10	50
Satisfactory	9	45
Poor	0	0
TOTAL	20	100

**4.1.4 Traffic Volume**

The volume of rail traffic was also investigated in the TTI survey. The users of the SWLR line cooperated by reporting the amount of inbound and outbound shipments. The average annual carloads shipped and received were reported to be 70 cars outbound and 60 inbound, with a total annual volume of 4,313 carloads shipped. Table 4-4 summarizes the data.

**Table 4-4. Annual Number of Carloads Shipped**

How many outbound rail shipments did you make in calendar year 1994? How many inbound rail shipments did you receive in calendar year 1994?					
SHIPPERS	DIRECTION	MINIMUM	MAXIMUM	SUM	MEAN
20	Outbound	0	912	2,312	70
20	Inbound	0	332	2,001	60
TOTAL				4,313	130

**Table 4-5. Projected Future Use of Rail Transportation**

Do you expect to increase your rail shipments?				
YEAR	INCREASES	DECREASES	NO CHANGE	NOT AVAILABLE
1995	13	5	0	2
1996	12	5	0	3
1997	11	6	0	3
1998	11	6	0	3

#### **4.1.5 Future Trends**

Shippers were also asked to give the direction their company was headed, relative to the use and reliance on the SWLR. Table 4-5 presents shippers' rail shipment increases and decreases compared to 1994. Companies relying on the SWLR reported, not surprisingly, that they plan to increase their use of the railroad in the future.

#### **4.1.6 Loss of Service**

The survey asked companies what they would do if rail service were canceled or otherwise unavailable. Respondents were given a list of four choices ranging from relocation to shipping by truck. Table 4-6 summarizes the shipper responses.

The results indicate eight of the companies would no longer be in business in this vicinity if rail transportation were unavailable. This impact would mean loss of over \$20 million in annual sales to the South Plains region from displaced businesses. The net impact would be considerably higher due to the economic "multiplier" effect that one business has on another. Economic multipliers reflect the fact that companies transact business with each other, pay wages, or pay taxes, thereby impacting the economic health of a region more than the per dollar amount indicates. In addition, the survey indicated that shipments in over two thousand rail cars



would have to be transferred to truck transportation. A straight rail-to-truck conversion suggests that this would add between 8,000 and 10,000 trucks to regional highways each year.

**Table 4-6. Operational Change Required By Loss of Rail Service**

If freight rail service was canceled at your present location, would you close your facility and relocate within Texas, close your facility and relocate outside Texas, go out of business and not relocate, or remain in business at your present location and ship by truck?		
RESPONSE CHOICE	YES	NO
Relocate in Texas?	2	18
Relocate Outside of Texas?	1	19
Go out of Business?	5	15
Ship by Truck?	13	6

#### 4.1.7 Service Improvements

Table 4-7 examines the most important ways that railroad service could be improved. Shippers were offered ten items from which to choose the three most important ways that railroad service could be improved. The results indicated the three most cited ways were: (1) increasing the frequency of local switching, (2) decreasing transit time, and (3) reducing rates.

**Table 4-7. Needed Rail Service Improvements**

Please select the three most important ways that your railroad service can be improved.		
RESPONSE	YES	NO
Reduce loss and damage experience	1	19
Increase frequency of local switching	11	9
Reduce shipment transit time	11	9
Improve consistency of rail service	9	11
Provide trailer-on-flatcar loading ramp	2	18
Reduce rates	10	10
Provide better quality rail equipment	3	17
Provide for greater availability of rail cars	7	13
Provide more personal attention to customers	1	18

It should be noted that the SWLR has been responsive to these shipper concerns. The frequency of local switching was improved when service on the Seagraves line was increased from three days per week to five days per week (see Section 2.1). This service level represents a significant improvement over previous service levels offered by Santa Fe. Furthermore, this level of service is comparable to that provided by most Class I railroads to their on-line customers.

With respect to reductions in shipment transit time, this issue is not entirely controlled by SWLR. All shipments on the SWLR involve at least one other railroad besides the SWLR, namely the ATSF or the BN, which are SWLR's interchange partners. Typically, at least two other railroad carriers are involved, as indicated in Table 2-6. SWLR maintains that interchange connections with the Santa Fe at Lubbock for outbound shipments and car delivery to customers for inbound shipments take a maximum of one day. This is the best transit time achievable by SWLR given the five day per week service level presently offered. The transit time components while shipments are on SWLR's Class I railroad connections are not under SWLR's control.

Rate reduction is another issue not entirely controlled by SWLR. As discussed in Section 1.6.1, the Santa Fe controls a majority of SWLR's traffic because it establishes rates and controls car supply. SWLR has indicated that efforts to work with Santa Fe to reduce rates have been unsuccessful. SWLR also stated that it has been willing to reduce its share of the rate division in order to achieve lower rates. Attempts to restructure rates based on distance and commodity in order to more effectively compete on truck business have met with limited success; Santa Fe recently agreed to examine this issue.

## **4.2 INTERVIEW WITH SWLR OFFICIALS**

On June 8, 1995, TTI interviewed the president of the SWLR, Ms. Susan York, and the company's owner, Mr. Bruce Borland. The interview was held at the American Railway Corporation's headquarters in Lake Bluff, Illinois. Subsequent to this personal interview, TTI staff spoke with Ms. York by telephone on several occasions to confirm or clarify information provided by the railroad and to obtain additional information. SWLR officials were willing to cooperate with TTI's requests for information and were generally open to a discussion of the relevant issues surrounding the operation and viability of the railroad. This section summarizes and analyzes important findings gained through these discussions with the company officials.

There have been rumors that the SWLR is for sale. During the interview, it was confirmed that "the railroad can be bought." In fact, a recent letter from the SWLR to shippers makes it plain that several parties are interested in purchasing the railroad and that the railroad might be sold; at the same time, the company is not convinced that this is the course of action it wishes to pursue and is "exploring other alternatives" (16). This action may be an attempt to establish the market value of the line. There is no doubt SWLR is attempting to refinance their debt obligation. In a recent telephone conversation, an official of the SWLR revealed that they are trying to contract with a consulting firm to appraise the company's assets. The appraisal would establish value for the refinancing negotiations.

Although a price has not been set for the line, it is estimated that the line may have a value of \$7 million.

The interview also included a discussion of current infrastructure rehabilitation requirements. According to SWLR, the Brownfield-Seagraves segment (about 27 miles) is in the most need of rehabilitation. (Note: This is the same segment that was submitted to the RRCT for Federal funding.) This statement confirms site inspections conducted by the project staff, RRCT track inspectors, and representatives of the previous owners of the line. The SWLR application stated that it would cost \$1.2 million to rehabilitate that segment, or about \$44,400 per mile. If that application had been approved, present conditions on the line might be significantly different. At the time of the application, SWLR had agreed to put \$600,000 into the project, or 50 percent of the total project cost. According to SWLR officials, an estimated \$200,000 in rehabilitation expenditures have been invested in the line segment during the past two years. SWLR officials stated that this segment is the only "exempt" track on the system, and that when rehabilitation on this segment is completed, the entire railroad could be operated at 20 mph. Such operation would produce additional improvements in service frequency and reliability, and reduce current constraints on the company's ability to meet some shipper needs.

In addition to information provided during the interview by SWLR staff, additional documents were provided for further reference. One document included rail carloadings for the first four months of 1995. According to the document carloadings had increased from 2,061 in 1994, to 2,410 in the same four-month period of 1995. This represents an approximately 17 percent increase in carloadings. Based upon these preliminary statistics, the SWLR is projecting 1995 carloads to be in the range of 5,570 revenue carloads. Assuming an average of \$535 per carload, predicted freight revenue for the year 1995 is estimated at \$3 million. A recent study by the Short Line Association reports that the average for all local/line-haul (shortline) is about \$222. Therefore, the estimated \$535 revenue per car

suggests that the SWLR has been aggressive in negotiating rates and contracts with its Class I interchange partners at Lubbock.

#### **4.3 INSPECTION AND EVALUATION OF TRACK AND INFRASTRUCTURE**

In late May, a member of the project staff conducted a brief inspection of the SWLR track and right-of-way, including the segment to be relocated from the current ATSF interchange to the Whiteface connection at Doud (about eight miles). The reason for inspecting the "relocation" segment was to determine the impact of a relocation upon the future financial viability of the SWLR. It was observed that several positive things happen for the SWLR by relocating. For example, the railroad may experience reduced maintenance costs for active traffic control devices, crossing surfaces, and track and structures. The SWLR can eliminate a major bridge rehabilitation project; motor vehicle, pedestrian and trespasser accidents; and the problems associated with emergency vehicle blockage. Based upon these considerations, the SWLR is likely to accrue significant benefits from the relocation.

Customers served on this portion of the line are limited. Most customers on this portion of the line have already relocated due to the pending railroad relocation. A number of SWLR properties along the line segment are under lease and generate some revenue income for the railroad. The reduction in signal, track, structure and surface maintenance cost will be substantial. The additional operating time and distance over the new route will increase SWLR's total operating cost; however, the increase should be more than offset by the benefits accruing from the relocation.

The line segment from about milepost 8 (near the Loop 289 interchange) to Seagraves revealed that the rail over the entire segment is of sufficient weight for a shortline railroad operation. All rail, including sidings, appears to be in reasonably good condition. Crossties were difficult to evaluate due to excessive sand between the rails. In several locations, a front

end loader had been used to remove sand from the track and right-of-way. The track appeared to be in good alignment and in most cases well spiked. Crossbucks are installed at most roadway intersections. There are a few active devices in urban areas and on major highways. The rail is shiny in appearance, suggesting frequent use. There appear to be several active shipper facilities on the line segment. Also, some work is currently underway to improve track-side shipper facilities. Other shipper facilities have been improved recently. Due to recent rehabilitation, this segment of the railroad appears to be in relatively good condition.

The SWLR line segment from Whiteface was also inspected. Infrastructure conditions were about equal to those of the Seagraves line segment. The city of Levelland appeared to have considerable rail activity. The same comments made regarding the Seagraves line segment are generally applicable to the Whiteface line segment.

## **5.0 CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 SUMMARY OF STATUS AND VIABILITY OF THE SWLR**

A review of documents related to the 1990 ATSF sale of the "Lubbock Cluster" suggests that the SWLR line had the best potential for financial viability of the approximately 224 miles of ATSF branch lines sold or abandoned by the ATSF. A report, prepared for the South Plains Rural Transportation District, cautioned that "growth of rail traffic on these lines had not been a focus of Santa Fe sales activity." In addition the report identified deferred maintenance on the line in excess of \$2.3 million. The consultant preparing the report suggested that a five-year track rehabilitation program, along with an aggressive program for restoring lost rail customers, would lead to financial viability for the SWLR. With these rehabilitation measures, the report projected gross revenue in 1994 of \$1.5 million and net operating income of approximately \$860,000. This represents a traffic level of approximately 6,030 carloads per year.

In 1991 the SWLR submitted an application to the RRCT for Federal funds to rehabilitate one-fourth of the line. The proposed \$1.2 million project, 50 percent matched by the SWLR, would have taken care of approximately 1/2 of the deferred maintenance inherited from the ATSF. An analysis of the cost of the rehabilitation project versus the benefits to accrue from the project indicated that in the year 1994 the SWLR would have gross revenue of approximately \$2.2 million. The analysis also projected 1994 carloadings at 6,200 with operating expenses at slightly less than \$700,000.

The current 1994 SWLR annual report, on file with the RRCT, reveals that SWLR management has taken aggressive action to improve and expand service on the line. In 1994, for example, 4,759 revenue carloads produced freight revenue of approximately \$2.5 million, an average of \$535.00 per car. However, total operating expenses for the year 1994 were about \$2 million, leaving net revenue at approximately \$500,000. Without the rehabilitation project,

and burdened with a heavy debt load, the SWLR has struggled to maintain the system purchased from the ATSF.

Current carloadings for the first quarter of 1995 indicate a 17 percent increase in revenue traffic. Based upon responses from shippers on the line and projections made by SWLR management, 1995 revenue carloads should exceed 5,570. With an average revenue of \$535 per car, projected 1995 freight revenues alone should be approximately \$2.98 million. Based on these data, information obtained from published sources, and interviews with the owner, manager, transportation professionals having knowledge of the SWLR, federal and state safety inspectors, and current and potential shippers, it is concluded that, at present, the SWLR is a viable business.

The SWLR is faced, however, with several situations and conditions that could adversely impact the longer-term viability of the line. The principal issues are listed below along with an estimation of the time frame within which they will be resolved.

### **5.1.1 Debt**

The SWLR has a significant debt structure. The schedule and form of debt service established with the purchase of the line requires renegotiation, refinancing, or as an alternative, selling the line. The owners of SWLR are currently involved in a suit brought by the financing agent and first lien holder, Finova Capitol Corporation of Phoenix Arizona. On June 28, 1995, Federal District Court in Phoenix approved an order appointing a Receiver for the SWLR who will, at the end of a 90-day hands-off period which ends October 2, 1995, take over as the operator of the railroad. To avoid this outcome, Amerail must, in the intervening period, pay off the portion of the debt still owed Finova. This end could be accomplished by refinancing the loan or through selling the railroad. Resolution of debt issues should be accomplished within a six-month period (end of 1995).



The appointed Receiver, Bettina White of Price Waterhouse in Houston, would as an agent of the Court, operate the railroad and likely look for buyers at the same time. Given the fact that Amerail has been looking for a buyer for several months, the railroad entering Receivership appears to be a relatively high probability outcome.

### **5.1.2 Infrastructure**

The impacts of past deferred maintenance, both under Santa Fe and SWLR ownership, will continue to be an operating challenge for any owner of the railroad. The effects of past maintenance decisions and practices are beginning to be acutely felt in several aspects of the railroad's operations. As an example, train speeds are now at the absolute minimum and expenditures for spot maintenance seem to be rising. There is little doubt that investments in the rehabilitation of the track structure and other facilities must be increased over the next five years. Ordinary maintenance of the line will be less expensive and more effective following an aggressive rehabilitation program. Resolution of rehabilitation and maintenance issues is contingent upon sale or refinancing of the railroad. Regardless of the status of railroad ownership, rehabilitation must be carried out and a sound maintenance program must be in place within a five-year period (by the year 2000).

### **5.1.3 Proposed Burlington Northern-Santa Fe Merger**

The proposed merger of the BN and Santa Fe Railroads has significant implications for the SWLR and its revenue stream. ICC approval of the BN/ATSF merger is regarded by many observers to be a near-certainty. The ICC will also rule on the "responsive conditions" requested by SWLR. The proposed merger is generally an end-to-end merger, meaning that negative impacts on rail competition will be limited to certain geographic areas. The Texas Panhandle, however, is one area where the two companies' operations overlap significantly. Reduced rail competition in Lubbock and other Texas Panhandle communities as a direct result of the merger is a certainty. Also, the SWLR has strong shipper support and advocacy for its position. These

two conditions, taken together, suggest that the ICC may at least take some action favorable to SWLR. The question, therefore, is: "What form will this action take?" At best, the ICC would agree to all of SWLR's conditions and impose them on the combined BN/ATSF system. In this case, SWLR stands to benefit substantially from the merger. At worst, the ICC would accept the argument of BN/ATSF that the haulage rights agreement with SP mitigates anti-competitive concerns. In this case, SWLR would probably suffer some negative impacts. It is hard to predict, however, what position the combined system would adopt towards SWLR on such critical issues as car supply and continuation of certain rate divisions. A likely scenario is that the ICC ruling will grant conditions somewhere between these two extremes; for example, SWLR may be granted haulage rights to access the UP at Sweetwater in lieu of trackage rights. SWLR's petition for trackage rights is considered a long shot, at best. A decision is expected in August 1995.

#### **5.1.4 Ownership**

The analysis performed by TTI suggests that as far as TxDOT is concerned, stable ownership and operation of the SWLR is the key issue. Financial sources and the current owners of the company indicated that Amerail has been and continues actively seeking a buyer. The preference of the current owners, however, seems to be refinancing and continued operation of the SWLR. Given that a receiver has been appointed, no buyer has yet been identified (numerous parties have expressed an interest, however), and the October 2nd deadline is close, it is plausible that a new owner or operator will be in control of the railroad by the end of 1995. It may be that Finova, as the holder of the first lien, ends up as the owner/operator of the line over the short run. Finova has indicated limited enthusiasm for this role.

The significant fact, documented by the TTI survey of shippers, is that the demand for rail service will continue to require operation of the line. Neither the Interstate Commerce Commission, the Railroad Commission of Texas, shippers, nor their elected representatives will approve abandonment of the SWLR until an alternative mode can provide reasonable and

efficient transportation service at reasonable and fair rates. That alternative is not now available and is not likely in the foreseeable future. Since it appears that the railroad has the potential to be a successful operation, there is a high probability that a sale or refinancing option can be worked out. It is reasonable to expect ownership issues to be resolved within a one-year time frame.

## **5.2 LIKELY SCENARIOS AND OPTIONS AVAILABLE TO TXDOT**

Given the foregoing considerations and the fact that the Texas Department of Transportation is moving ahead with its plans to build the U.S. Highway 82 East-West Freeway, it seems a virtual certainty that the Department will build the replacement track for the railroad as well. While the rail relocation project will require changes in system operation, the net result of the relocation should be positive for the railroad. It is significant to note, however, that the relocation costs may nearly triple the value of the railroad.

The following scenarios are thought to be the most likely to occur over the short term (0-2 years). The identification of these scenarios stems directly from information obtained during the two months of study activity.

### **5.2.1 Scenario 1: A Buyer is Found, and the SWLR is Sold**

The current owners of the SWLR are reported to be seeking a buyer. It is also reported that potential buyers have been identified. An asking price of \$6-\$7 million appears to be the variable adversely affecting that sale. If a buyer is located, TxDOT should gain some measure of assurance by the willingness of a third party to invest substantial sums in the railroad. That should, at least in part, speak to the viability of the SWLR and the soundness of TxDOT's decision to relocate the line.

### **5.2.2 Scenario 2: Amerail Refinances the SWLR and Continues Operations**

The owners of the SWLR are also looking for refinancing options. Several refinancing options exist, and the possibility of finding a suitable agent to refinance the railroad are moderately good. The owners of the railroad have expressed that this is their preferred option. Under this condition, TxDOT should be concerned about the longer-term health of the railroad (5-10 years), where maintenance practices, or the relative lack of maintenance, will have a critical impact on system viability.

### **5.2.3 Scenario 3: A Buyer is Not Found, and the SWLR Enters Receivership**

This scenario is similar to Scenario 1 in that the activities of the SWLR continue, except the day-to-day decisions regarding railroad operation and maintenance would be made and implemented by the court-appointed receiver. It is expected under this scenario that the receiver would expend considerable effort to locate potential buyers of the line. If a buyer cannot be identified within a reasonable period of time, the lien holder (Finova) should be increasingly amenable to a negotiated transfer of assets. At this point, TxDOT, in its role as a provider of transportation services for the citizens of Texas, might find purchase of the railroad to be in the public interest.

### **5.2.4 Scenario 4: TxDOT Determines that Buying the SWLR Best Protects Its Investment and the Regional Transportation System**

Given the dollar magnitude of the relocation effort, TxDOT should consider purchasing the railroad in order to secure its investment. TxDOT could acquire the entire SWLR system for an estimated \$6 million and by competitive bid select a qualified operator for the line. The terms of the agreement with the operator could involve a lease/purchase agreement, a rental payment, or other mutually agreeable arrangements. This option has the following advantages:

- With the acquisition of the 100-mile system, the State would have several miles of abutting or joint right-of-way with the SWLR. The expanded ownership could provide for roadway and railway improvements, including widening, drainage, vegetation control, utility easements, installation of fiber optics, roadside safety improvements, or highway-railroad grade crossing safety improvements.

- The relocated right-of-way could return to City of Lubbock ownership or become State-owned property.

Under this option, TxDOT would have control over the terms and conditions of the relocation project. This option would also ensure public ownership of the right-of-way in the event the SWLR required abandonment in the future.



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