

America's Short Lines



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ON THE COVER: Tacoma Rail's Hill Job is almost to the top of Tacoma Hill heading southbound on Jan. 29, 2022. Operations on this portion of the railroad ended in mid-2023. Nate Shedd

ABOVE: Dakota & Iowa train MSCDR-11 crosses the Big Sioux River on the border between South Dakota and Iowa in June 2021. Matt Krause

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On June 22, 2018, a westbound Rapid City, Pierre & Eastern freight slowly makes its way west near Wasta, S.D., towards Rapid City, over uneven jointed rail. The crew has the front door propped open for ventilation on this hot and humid day in early summer. Tom Danneman





The morning Chicago South Shore & South Bend Railroad local is eastbound near Fail Road at Smith, en route to switch near Terre Coupee, Ind., just west of South Bend, on Oct. 6, 2020. The South Shore is one of the six Anacostia Rail Holdings shortline operations. Thomas Figura



Short lines are the farmers of the railroad world. The green thumbs among them grow a bumper crop of carload business every year. Others eke out a hardscrabble existence, getting by with what little traffic rolls over their tracks.

Whatever their situation, short lines have all the opportunities and challenges that come from being small businesses, says Peter Gilbertson, CEO of shortline holding company Anacostia Rail Holdings. Anacostia operates six railroads, including New York & Atlantic, Pacific Harbor Line, and Chicago South Shore & South Bend.

The opportunity is the ability to provide responsive service due to a short line's customer focus and operational flexibility. "The essence of it is the entrepreneurial mindset," says Gilbertson, who coauthored the go-to book *Starting a Short Line*.

The challenges are many: An overreliance on one or just a few customers, relatively high costs, a limited ability to raise rates, the headaches that accompany dealing with Class I railroads, and finding and keeping qualified employees.

"The key to it is retaining and growing business," Gilbertson says.

When the short line boom began with the Staggers Act of 1980, which made it easier for Class I railroads to spin off unwanted or marginal lines, short lines enjoyed a cost advantage. That's not necessarily the case now.

Class I railroads have become more efficient and short line labor costs have risen. Short lines pay more for things like fuel and ties because they lack the scale of the large systems. And few, if any, short lines sport operating ratios as low as the Class I systems.

Yet short lines have proven that freight wants to move on rail and that carload business can grow. But you wonder: How do the smallest short lines — which operate once or twice a week over just a handful of miles of track — make a buck?

Shortline Flavors

First, it helps to understand how short lines get paid. Broadly speaking, they typically fall into one of two business arrangements with their Class I connections: Handling rail-

roads or Interline Settlement System carriers.

Handling carriers receive a fee for each car they move. The car handling fee is set by the Class I interchange partner and may include fee escalators pegged to inflation. Handling carriers can't raise rates on their own. The fee per car can vary widely, and range from \$100 to \$1,000 depending on the commodity and distance a short line hauls the car. A common ballpark is in the \$200 to \$500 range.

The incentive for handling carriers is to provide good service that can translate into more carloads. "The way you succeed is you grow volume," says Stefan Loeb, formerly chief commercial officer at Watco, which operates 45 short lines. (Loeb has since moved on to Norfolk Southern as vice president of first and final-mile markets.)

Handling carriers don't appear on the shippers' invoice, and the geographic stations on their tracks technically belong to the connecting Class I. That means a shipment moving from Canadian National in Winnipeg, for example, to Wausau, Wis., on Watco short

Lease units HLCX 4212, a GP40-2, and FURX 5514, a GP38-2, lead westbound train 101 on Watco's Decatur & Eastern Illinois Railroad at Garrett, Ill., in October 2018. The railroad operates former CSX lines in Illinois and Indiana. Steve Smedley

line Fox Valley & Lake Superior is listed as an all-CN move.

Interline Settlement System, or ISS, railroads set the rate for their portion of an interline move. They are involved in rate-making decisions and are listed as the originating or terminating carrier. In many cases they are able to capture the same above-inflation rate increases that Class I railroads have enjoyed since they obtained pricing power 15 years ago.

There are exceptions to these two broad categories, particularly for short lines that were around before 1980. Some short lines have both types of agreements in place. To further muddy the waters, other short lines operate under a third arrangement, called Junction Settlement, that may provide a set fee per car like a handling railroad or give them some rate-setting power like an ISS railroad.



It's not difficult to figure out the former owner of Central Indiana & Western SD40-2 No. 3534, eastbound at Ford Street in Lapel, Ind., on Aug. 19, 2022. The 9-mile railroad, a former Conrail branch, has one full-time employee. Bruce Stahl

Shortline operators take different business strategies depending on whether a railroad is an ISS railroad or a handling carrier. With an ISS railroad, the path to higher revenue can be rate increases, volume growth, or a combination of the two.

With a handling carrier railroad, it's purely a volume game.

"We do not prefer one over the other. We just have different models, strategies, etc., both in how we acquire and how we manage them long-term," Loeb says. "But as a whole, we are quite successful with either model."

The American Short Line and Regional Railroad Association does not keep tabs on how many railroads are handling or ISS carriers. Of CSX Transportation's shortline partners, 70 are ISS railroads, 78 are handling or switching carriers, and 94 are junction settlement railroads.

Small Railroads, Big Jobs

The Central Indiana & Western, which owns and operates a 9-mile former Conrail branch in Anderson, Ind., epitomizes the mom-and-pop short line. President Wiley Brown is the third generation of his family to run the railroad, which the Browns acquired in 1986.

Wiley Brown is not just the president. As the railroad's only full-time employee, he's also CI&W's locomotive engineer,

conductor, and track inspector. Plus, he's working on earning his mechanical certification. He's got plenty of company in the Jack-Of-All-Trades Department: Roughly half of all short lines have fewer than eight people on the payroll, according to ASLRRRA data. And that means shortline railroaders are bound to juggle multiple roles.

CI&W is a handling carrier for CSX, its only interchange partner. The railroad operates one day per week to deliver cars from interchange at Anderson to its biggest customer, an O-I Glass plant at the other end of the line in Lapel, Ind. The plant generates nearly all of the railroad's 1,400 annual carloads, which include inbound loads of sand, soda ash, and recycled glass. "Without them it would be pretty hard to get by," Brown says.

A plastics plant uses a transload facility CI&W opened in 2020 to help diversify its traffic base. "It's not every day you'll find a big customer to come build on your line," Brown says. "But if you can offer a service where you can go out to customers within a 50-mile radius

... it really opens opportunities for a small railroad like us."

To bring in some extra cash, CI&W also offers car storage.

The railroad turns a profit every year. "We certainly don't make a killing on it, but it's enough to justify staying in operation," he says.

The railroad provides him and two part-time employees with a decent salary after all the bills are paid, Brown says. "We take pride in our operation and keep everything as well-maintained as reasonably possible on the budget we have," he says.

It's a similar story on the Davenport Industrial Railroad, launched in 2020. The DIR operates 3 miles of track leased

from a Davenport, Iowa, city economic development agency. At startup, the DIR had a lone customer: a Sterilite plastics plant at the end of the line. The plastics plant, which cranks out a huge volume of totes and other containers, underwent a major expansion in 2021.

DIR's one-unit locomotive fleet, an SW9 painted in an attractive green-and-yellow livery, typically runs once a week, which syncs with Canadian Pacific's weekly interchange. DIR General Manager Steve Berish is the line's only full-time employee. The other seven or so employees are part-timers who work now and then, some simply to keep earning Railroad Retirement credits.

Berish sometimes works as a conductor on operating days and wears multiple hats the rest of the week. He handles the railroad's business side, from its website and billing to contacting customers and maintaining the track. "Every day is different. I enjoy the heck out of what I do," says Berish, whose company, Resourceful Rail, is part of the line's ownership group.

To diversify its traffic base beyond inbound loads of plastic resin, DIR opened a transload center at the other end of the line. It can hold 20 freight cars and features a 20,000-square-foot warehouse where freight can be transferred between trains and trucks. "Having a large customer is



Steve Berish is the general manager, conductor, and part of the ownership group for the Davenport Industrial Railroad in Iowa, handling everything from the website to hi-rail maintenance.



wonderful, but to reach customers who are off line can only be done through a transload center,” says John Howell, president of NIWX Corp., the holding company for shortline and locomotive leasing that is among DIRs owners. “Every short line needs to do something like that. It’s hard to make a living just on carloads. You can. But the transload opportunity expands your horizon.”

Howell is in the midst of starting another short line — and at just 1.41 miles, this one is half the length of the Davenport operation. The West Erie Railroad aims to revive former Bessemer & Lake Erie trackage that was last served by Norfolk Southern in 2014. The weed-covered track, which can serve four customers with spurs, connects with NS’s former Nickel Plate Road main line and was once part of the Bessemer’s route to Erie.

Howell is convinced the railroad will be viable. Except that he’s caught in a chicken-and-egg situation. Shippers won’t commit until the West Erie is officially a railroad, and NS won’t ink a commercial deal until Howell brings the railroad a customer. NIWX purchased the branch in August 2022 and as of February 2023 was still waiting for the railroad to hatch.

The quandary illustrates one of the qualities all shortline operators must have: Patience.

It’s on Howell’s checklist of things you need to know before starting a short line. His list for Short Line 101:

- Learning as much as you can about shortline railroading from the ballast up, including regulations, understanding how to lead and manage a small business and everything that goes with it, from financing to insurance.
- Patience in searching for shortline opportunities as well as dealing with your Class I connection.
- Shortline railroading is a team sport, with each business partner contributing expertise for various aspects of the business.
- Build a financial plan for getting started, including adequate startup capital.
- If you’re married or in a long-term relationship, bring your spouse and partner into your dream early on.

High Hopes

Sometimes freight can’t pay all the bills, as Kevin McKinney learned when he and two partners launched the Kalamazoo, Lake Shore & Chicago Railway on 15 miles of former Pere Marquette trackage purchased from CSX Transportation in 1986.

The line, from Paw Paw to Hartford, Mich., had been an

abandonment candidate and hadn’t seen a train in more than two years. One by one, former customers said they wouldn’t resume shipping by rail. All the business the fledgling railroad could drum up was about 300 carloads per year, far short of the 1,500 McKinney and his partners were banking on.

“We knew we weren’t going to make a lot of money on freight. So we immediately got an excursion service going with a couple coaches,” McKinney recalls. The railroad also launched dinner train service that, in a couple of different iterations, was a hit.

In its final version, the dinner trains used former

This SW9 is the lone locomotive for the Davenport Industrial, a 2.8-mile railroad that developed a transload business to build traffic beyond its original customer, a large plastics plant. Track is leased from the city’s economic development agency.

Two photos, Eric Rasmussen

Southern Pacific equipment — including a pair of dome-diners — that were on short-term lease. As the lease was winding down, Union Pacific was looking to expand its business car fleet. “We couldn’t compete against UP, so away they went,” McKinney says.

That spelled the end of McKinney & Co.’s revival of the railroad. “We didn’t make a lot



The West Michigan Railroad succeeded the Kalamazoo, Lake Shore & Chicago, which tried to make a go of a combined freight and tourist-rail operation. SW1200 No. 1512 is in Hartford, Mich., in 2020. Bob Blake



owner of a lumber and feed business in Ringoes, N.J., where BR&W had its headquarters. He invested in BR&W and later became its president. The elder Burenga saw the railroad expand into freight service with its purchase of the Flemington Branch from Pennsy successor Penn Central in March 1970. This was remarkably good timing; Penn Central's bankruptcy three months later might have delayed the sale interminably. However, a new challenge soon developed. Declining traffic threatened the historic "Bel-Del" line north along the Delaware River from Trenton, N.J., on which Penn Central served the BR&W interchange at Lambertville. Planning for the new northeastern rail system, which became Conrail, wrote the Bel-Del epitaph.

BR&W turned to the South Branch once again, even though much of its track was out of service by then. It was another line that Conrail planners discarded. Negotiations with CNJ produced the acquisition of trackage from Flemington to Three Bridges, N.J. Three Bridges was chosen because the South Branch so closely paralleled Conrail's former Lehigh Valley main line there that only 900 feet of new track would make an interchange connection. Decisively, the sale closed on April 1, 1976, the day the new Conrail began operations. Bel-Del abandonment began the same day and BR&W added 3 miles of the Bel-Del extending



Flemington's preserved, ornate CNJ station at Main Street still stands, indicating the 19th-century prosperity that attracted the South Branch. BR&W SW1200 No. 1202 leads No. TB-1 into the crossing on a warm Aug. 6, 2021.

through Lambertville. Conrail continued serving Lambertville until the Three Bridges interchange opened in early 1977.

Undaunted, Kean Burenga began his railroad career in 1980 as a ticket agent at Ringoes. He did, however, act on his parents' advice and earned a college diploma. He joined the railroad full-time in 1988 as

general manager, when BR&W passenger and freight business was flourishing.

One Bel-Del remnant kept by Conrail stretched south from Phillipsburg to Milford, N.J., to serve the Curtis Specialty Papers mill there. Opportunity knocked and BR&W purchased the line in 1995, making the Black River a system. Naming it the

where interchange is made with the BNSF for inbound cars to be set out along the line. Collected outbound cars are forwarded to the interchange for the BNSF.

Royal Line

Operating 20 miles of former Milwaukee Road west of Othello, Wash., the Royal Line (RYAL) provides switching services for the Port of Royal Slope in Royal City, Wash. In 1966, the Milwaukee Land Co. built an industrial park and organized a new spur from its main line just over 6 miles on a looping grade up to Royal City. The branch, including a long 2.5% grade, starts at the old site of Smyrna and extends north to Royal City.

The Royal Line interchanges with the Columbia Basin Railroad at Othello, which, in turn interchanges RYAL inbound and outbound traffic with BNSF at Connell, Wash.

The region around Royal City is primarily agricultural. Thanks to its long growing season, it produces a multitude of crops.

With a much smaller footprint for industries, the line's major operation starts and stops at Royal City. This is where the railroad stables a pair of SD45-2s because of the steep gradient on the final pull into Royal City.

Operation sees inbound cars of fertilizer to a few distributors in Royal City and an occasional outbound load of milling wheat. Traffic is currently dormant following a four-month closure on the connecting Columbia Basin/BNSF line in Othello in 2022.

The Port of Royal Slope and the Western Royal Line are looking into the possible development of a rail-served industrial park that could bring additional freight traffic to Royal City.

Kennewick Terminal

Serving both BNSF and UP interchanges, the Kennewick Terminal (KET) purchased two short lines from the Port of Kennewick in 2013, consisting of about a mile of track in



Columbia-Walla Walla Railroad MP15DC No.1299, a former Union Pacific locomotive, leads an 11-car freight through the small community of Brownstown, Wash. The former Burlington Northern White Swan Branch is now served by Columbia. Lumber and propane are the most common loads. Reed Skillingstad

downtown Kennewick and a half-mile near Finley. KET currently does not operate its own trains, but maintains the track used by daily BNSF and UP jobs.

Port of Morrow

Several years ago, Lamb Weston, a leading French fry producer for restaurants and food-service companies, saw an increasing need for a more customized rail service at its Boardman, Ore., production facility. In 2007, an agreement was reached with the Port of Morrow Railroad to provide carefully coordinated on-the-

spot service for the large manufacturing plant.

“This type of operation required placement of several different kinds of fryer oil at different unloading stations on the same track,” Didelius says.

In the years since, the railroad has picked up several other customers along the Port's tracks. Switching is typically scheduled daily with direct interchange with Union Pacific.

Planning for growth

Along with their Western Junction, Wash.-based Rainier Rail, owner/brothers Paul and Rob Didelius are seeking to

grow the railroad business and expand their customer base. In some of the regions covered by their railroads, unique solutions may be developed.

This service-focused approach may bring long-lost shippers back to rail, as well as entice new customers and draw future development.

As Class I railroads embrace a conveyor-belt approach to moving freight and tonnage, service-oriented companies like Columbia Rail and its collection of railroads have a strong future in getting the freight of the region moving where it matters most. **I**

