

Iowa railroads upgrade as shipping demands surge

BY DAN PILLER • DPILLER@DMREG.COM • JUNE 2, 2008

Cedar Rapids, Ia. — People who agree with economists that railroad traffic volumes are a leading economic indicator will welcome the news that the Iowa Interstate Railroad has ordered 12 new locomotives at \$2.2 million apiece.

The locomotives purchase, which will be added to Iowa Interstate's 40-locomotive fleet, comes after the railroad has spent \$22 million to upgrade much of the track on its 373-mile system from Council Bluffs across central Iowa to Bureau, Ill., just west of Chicago.

The upgrade enables Iowa Interstate trains to raise their speeds from 10 mph in some areas to 40 mph.

The railroad has financed much of the purchases and upgrades with low-interest loans from the Federal Railroad Administration.

Shipments up

Iowa Interstate President Dennis Miller said the railroad expects a 30 percent increase in freight shipments in the next two years, primarily from ethanol plants coming on line at Atlantic, Council Bluffs and Menlo.

The ethanol shipments will come on top of Iowa Interstate's service to the ADM plant at Cedar Rapids, which is next door to Iowa Interstate's headquarters on the city's southwest side.

Iowa Interstate also ships for Penford food ingredient products in Cedar Rapids, Merchants Warehouse and Beisser Lumber in Des Moines and numerous grain elevators.

The majority owner of the privately held railroad, Henry Posner of Pittsburgh, said, "We really have confidence in the future of the Iowa economy. Shippers want competitive rail service. There's lots of business there."

Iowa Interstate isn't alone in expansion among Iowa's Class II carriers - railroads with annual revenues between \$40 million and \$325 million revenue threshold. Class I carriers, such as BNSF Railway and Union Pacific, earn more.

Iowa Northern builds

Iowa Northern Railway, which extends from Cedar Rapids northwest to Manly, will participate in the opening of a 100-acre rail terminal at Manly this month that will handle shipments of ethanol and agricultural products.

Iowa Northern is a one-third partner, along with Kiewit Group Cos. and KAG Ethanol Logistics, in the terminal that will have 20 million gallons of storage capacity and the ability to take ethanol from producers to interconnections with major carriers.

"This will help elevators and ethanol producers for both inbound and outbound shipments," Iowa Northern spokesman Scott Bannister said of the Manly terminal.



The Iowa Interstate Railroad has finished a track upgrade to a business, Central Iowa Energy, north of Newton. Maintaining and investing in the tracks and equipment are essential to the success of the railroad, which cuts across Iowa from Davenport to Council Bluffs. PHOTO BY HOLLY MCQUEEN/THE REGISTER

Iowa Northern is spending \$20 million on track upgrades, primarily to handle the huge unit trains moving in and out of grain elevators along its 163-mile system. Bannister said the upgrades, also financed with Federal Railroad Administration loans, will elevate Iowa Northern's system to 30 mph.

Both Iowa Interstate and Iowa Northern operate on tracks once owned by the defunct Rock Island Lines, whose bankruptcy loomed over Iowa's farm economy 30 years ago before it was liquidated in the early 1980s.

Strategic tracks

The railroad was a chronic money loser. But for Iowa, its tracks were strategically placed, extending east-west from Council Bluffs through Des Moines to Davenport and north-south from northern Iowa to Cedar Rapids and through Des Moines to Kansas City.

The Rock Island's liquidation posed a serious issue for Iowa's agriculture and transportation network. While much of its track was abandoned or parceled out to competitors, determined shippers and investors kept alive what became the Iowa Interstate and Northern Iowa railroads.

Posner gained control of Iowa Interstate in 1991 from a consortium of shippers, led by Maytag and Pioneer Hi-Bred, that kept the ex-Rock Island central Iowa functioning during the previous decade. Posner, like Miller, had worked for Rock Island in the mid-1970s, and the two were determined to bring what was left of the old carrier to life.

"All you could see was that it was a distressed property that maybe had a future," said Posner, whose Pittsburgh family has investments in telecommunications, soft-drink bottling and billboards.

"The worst mistake a railroad can make is not investing in its roadbed. The old Rock Island died for lack of capital investment.

"Ten years ago when I started, we should have been investing \$5 million a year in track and equipment but could afford no more than \$2 million."

More revenue

This year, the business surge primarily from increased grain shipments from elevators and ADM will enable Iowa Interstate to spend \$12 million on its system.

"We've only been profitable for the last few years," Posner said.

The railroad doesn't reveal profit figures, but said annual revenues are expected at \$60 million this year, up \$10 million from 2007. Miller said he expects revenues to top \$80 million within four years.

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