THE DOWNSIZING OF THE ILLINOIS CENTRAL RAILROAD: CORE, REGIONALS AND SHORTLINES

Michael L. Thaller
Department of Geography
Kent State University - Stark Campus
Canton, Ohio 44720

Today's Illinois Central Railroad shows how downsizing can lead to financial success. This study examines the spatial consequences of that process. The emergence of a 2700-mile core from a 9000-mile system focused the carrier solely on a north-south main line while all else was considered surplus. Five packages comprised of secondary lines were sold to emerge as regional railroads, some of the first in the United States. These sizeable spinoff lines experienced varying levels of success and in one case, failure. They showed the need for careful planning and adequate capitalization on the part of their investors. Some of the Illinois Central's unwanted segments became strategic parts of new carriers or Class I railroads while many other segments became local shortlines. A high degree of uncertainty seems characteristic of the downsizings resulting spatial patterns but the future role of regional railroads clearly seems secure.

THE PROBLEM AND STRATEGY

The contemporary Illinois Central Railroad shows how downsizing led to financial success and the spatial consequences of the process. As the only Class I railroad to achieve revenue adequacy in 1994, this railroad's present healthy condition would have been difficult to predict just two decades ago (Traffic World 1995, p. 49). In 1972 the historic Illinois Central Railroad merged with its competitor, the Gulf, Mobile & Ohio Railroad. The merger provided, in the Interstate Commerce Commission's words 'A vast opportunity for reducing expenses by elimination of existing duplicate facilities, functions and jobs' (Blaszak 1992, p.32). This merger was supposed to boost the new Illinois Central Gulf Railroad's income to acceptable levels. It did not, because of protective labour conditions, resistance to abandonments, deferred maintenance, and weak management.

In 1976 IC Industries, the owner of the railroad, stated that it would like to sell the railroad. The Southern Railroad was interested but backed out when it observed the poor condition of the property. It became apparent that in an environment of east-west railroads, there was little interest in the north-south Illinois Central.

Rail deregulation altered conditions by allowing the Illinois Central to implement an innovative strategy. Before the deregulating Staggers Act (1980), sales of portions of railroads were discouraged by federal policy that mandated uninterrupted payment of wages to displaced workers. After passage of the act, when sales of portions of railroads were made to new entrants to the railroad business--this protection ended. With railroad cutbacks in the 1980's, a pool of employees willing to accept lower pay in order to keep railroad jobs they knew, was created.

The Illinois Central Gulf's strategy involved pruning the system on an unprecedented scale into a viable north-south 'core' by selling off marginally profitable lines for cash that was badly needed. This line sales program was a major success for the company which disposed of 3,650 miles of a 9,464-mile railroad between 1985 and 1992, bringing in over $450 million, money used to retire debt

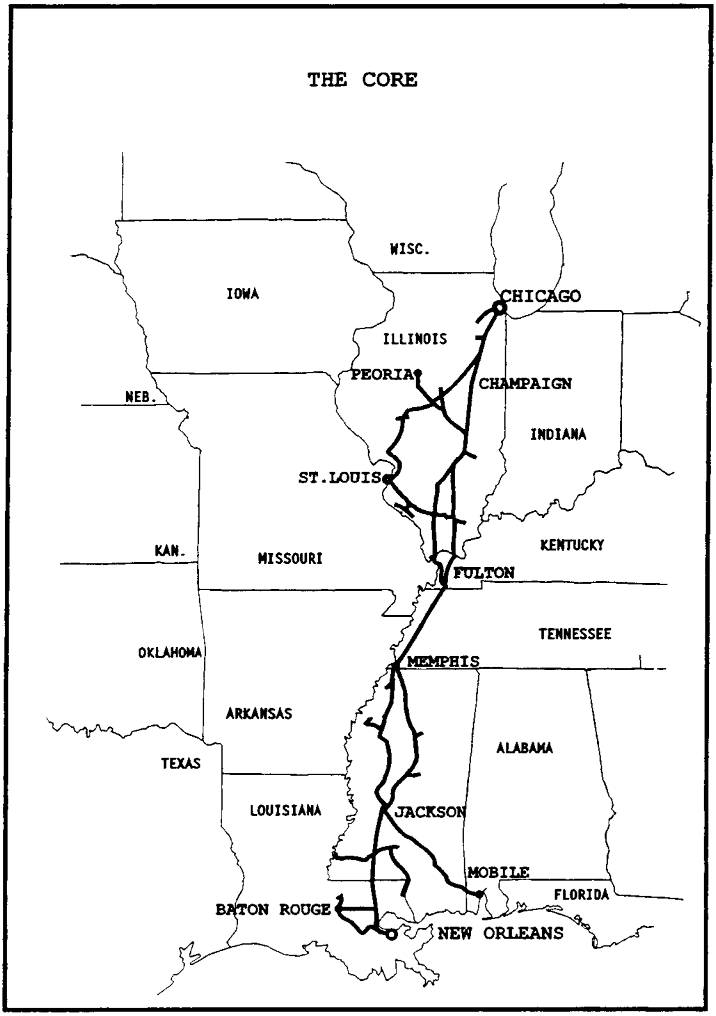

Figure 1: The Core

and upgrade the new core system's track (Blaszak 1992, p.33).

THE CORE

Today, the Illinois Central is the efficient and upgraded system that it wanted to become (Figure 1). It is a 2,700-mile system reaching all important gateways between Chicago, St. Louis, Memphis, Mobile and New Orleans. The core was sold by IC Industries in 1988 by a stock spinoff and emerged as the Illinois Central Railroad again in 1989 (Moodys 1994, p. 36). The improved Chicago-New Orleans mainline, capable of high speeds and density is the real asset. The surplus ties, rail and equipment taken up in converting from double to single track are to be stored for future use. In 1994 the carrier reported a $98 million net income and an efficient operating ratio of costs versus income (Standard and Poors 1995, p. 5).

THE SPINOFFS

The lines sold fall into two categories: (1) regional railroads of moderate size and (2) shortlines, of local interest. A regional railroad can be defined as 'a line-haul railroad with gross revenues of between $40 and $200 million' by the Association of American Railroads, whereas a shortline is 'a railroad with less than 100 miles of track and less than $40 million in revenues' (Lewis 1991, p. 311)

Figure 2 shows the core and the spinoff lines. In 1985 the first spin-off occurred as the 681-mile Iowa Division between Chicago and Omaha was sold to an innovative operator for $75 million and renamed the Chicago Central & Pacific Railroad (Lewis 1991, p. 60). Serving rich Iowa agricultural territory, this line increased service and sought intermodal traffic, but costs increased rapidly with added train-miles and in 1987 the company was reorganized. Today it conservatively operates only a few scheduled trains between Chicago and Omaha-Sioux City but in addition runs many locals and unit grain trains to large loading terminals on the

Mississippi River. With more than 110,000 loads annually it is now a leaner operation and a financial success (Figure 2, 1).

In 1986 the coal-hauling lines between Paducah, Kentucky and Louisville were sold to CG&T Industries for $70 million and became the Paducah and Louisville Railway (Lewis 1991,98). Traffic for this line is primarily Western Kentucky coal which is delivered with Wyoming coal at river terminals. This spinoff included the Illinois Central's large and well-equipped Paducah locomotive shops, used today to rebuild used locomotives for shortline use. This regional railroad handled over 150,000 carloads and had revenues of more than $50 million in recent years and feeds substantial traffic to the Illinois Central core (Figure 2, 3).

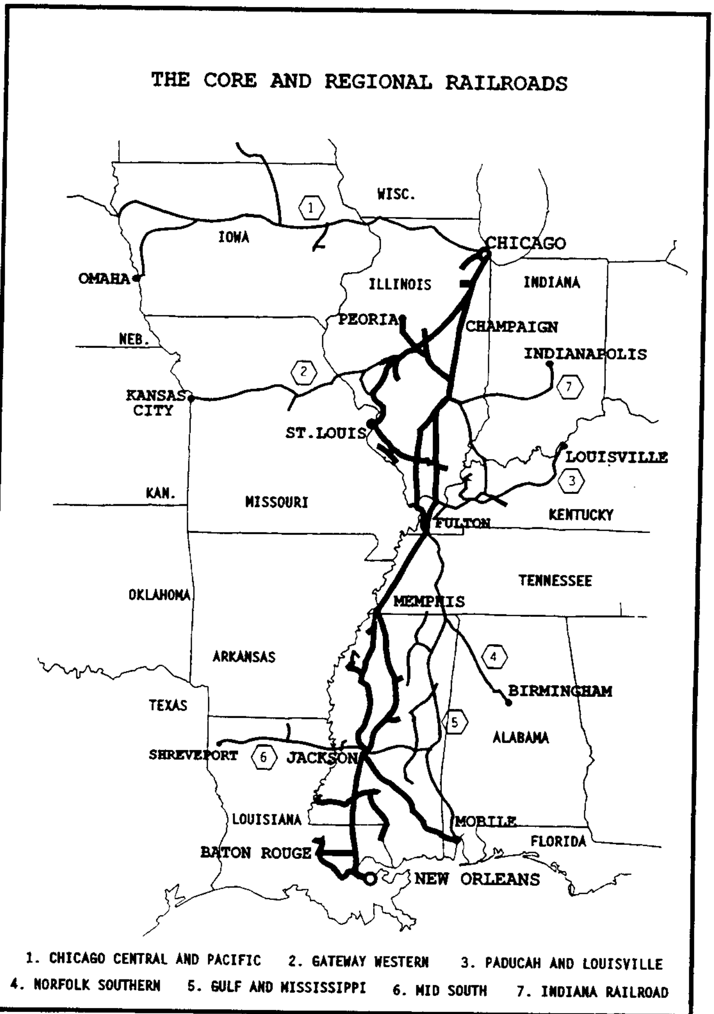

Figure 2: The Core and Regional Railroads

Most of the Illinois Central Gulf's redundant trackage was in Mississippi. Here a growing forest and paper industry provided an excellent traffic base. In July 1985, the L.B. Foster Company's 715-mile Gulf & Mississippi Railroad (Figure 2,5) took over two former Gulf, Mobile and Ohio secondary mainlines running between Corinth, Mississippi and Mobile, Alabama for $22 million (Lewis 1991, p. 244). This price may have been too much for the badly deteriorated, ten-mile-per-hour trackage. The carrier quickly faltered and was only saved from liquidation by being bought by the Mid-South Railroad as it's South Rail subsidiary in 1988. Since then most of the line has been rehabilitated. The Mid-South Rail-road (Figure 2,6) presents an interesting success story, a regional railroad that almost bought its parent back. In 1986 this company acquired the Illinois Central Gulf's Meridian, Mississippi to Shreveport, Louisiana line with branches to Gulfport and a major paper mill for $123 million (Lewis 1991, p. 64). Recently it handled over 150,000 carloads of lucrative chemical and paper traffic annually and forms an east-west through route. Eventually Mid-South's owners, the Prospect Group, made an unsuccessful bid to acquire the core of the Illinois Central Railroad itself. In

1992 the carrier and its Mid-Louisiana and South Rail subsidiaries were sold to the Class I Kansas City Southern Railroad at a substantial profit. For all of its success it proved a difficult line for the Kansas City Southern to integrate into its own operations, but did emerge as that carrier's east-west mainline.

The story of the ill-fated Chicago, Missouri & Western Railroad (Gateway Western on Figure 2,2) shows that some acquisitions failed badly. In 1987 the Illinois Central Gulf sold its ex-Gulf, Mobile & Ohio Chicago-St. Louis passenger line and Kansas City line to the new carrier. These were deteriorated lines that were susceptible to traffic division by the Illinois Central itself. The badly under capitalized new owners let the line deteriorate further, until Amtrak threatened to reroute its trains, resulting in Illinois State funding for an upgrade of the St. Louis Line. Eventually this bankrupt carrier was successfully liquidated.

The disposal of the Chicago-Missouri & Western saw the carrier divided into two parts.

Present Railroad	Date of Sale	Mileage
Chicago Central & Pacific	1985	681
Gulf & Mississippi Southrail	1985	715
Paducah & Louisville	1986	332
Mid South	1986	399
Chicago, Missouri & Western/	1987	408
Gateway Western	1990	408
Norfolk Southern Fulton Line	1988	208
Indiana Railroad	1986	250
Metra Electric	1987	41
Gloster Southern	1988	34
West Tennessee	1984	43
SPCSL	1990	250
Illinois Central Gulf mileage before downsizing		9,464
Illinois Central Gulf mileage after downsizing		2,700
Mileage sold or abandoned after 1976		6,764

Table 1 - Major Illinois Central Spinoff Lines

The Chicago-St. Louis line was acquired by SPCSL, a Southern Pacific subsidiary, and was substantially upgraded, to become a part of that carrier's Chicago-Texas route. A secondary mainline for its owner, it has been designated as a future high-speed line, although Amtrak's problems introduce a degree of uncertainty to these plans.

The carrier's Kansas City-St. Louis-Springfield line became the Gateway Western Railroad in 1990 (Figure 2,2), bought by the Wertheim, Schroeder and Company investment firm for $24 million (Lewis 1991, p. 105). Traffic on this line includes overhead traffic between Kansas City and East St. Louis handled for the Santa Fe Railroad, giving that large carrier a gateway east of the Mississippi River in the St. Louis terminal area. Today, after being rebuilt at substantial government expense after the floods of 1993, this carrier is dependent on overhead traffic that could easily be diverted by the Santa Fe-Burlington Northern merger.

Some of the Illinois Central Gulf's unwanted mileage did become strategic for new owners. In 1988, the Norfolk Southern Railroad bought the 208-mile Fulton, Kentucky to Haleyville, Alabama line to create, with additional trackage rights, a St. Louis-Southeastern shortcut that saves many miles for its through traffic (Figure 2,4), although recently its service has been cut. In 1987, Chicago's Metra railroad commuter bought the Illinois Central Gulf's 41-mile electric commuter service, serving Chicago's southern suburbs.

Not all of the spinoffs became regional railroads. Many segments became shortlines, typical of such downsizings. Spatially, most of these lines are simply short feeders or terminating branches that serve local industries. These lines are often controlled by an industry they serve, or by a local transit authority, and are often run by professional shortline operators. Some examples include the 43-mile West Tennessee Railroad and the multi-segmented Gloster Southern Railroad in Louisiana and Mississippi.

CONCLUSION

What can be learned from the Illinois Central Gulf's pioneering experience with network downsizing? By carefully planning and packaging it's line sales the carrier did very well indeed. Many miles of unwanted lines are still operating today and with minimal abandonment, the public seems well served. On the other hand, poorly planned and undercapitalized acquisitions often caused financial losses for their investors. As the Mid-South experience shows, some excellent lines were cast off simply because they did not fit into the strategic plan of their owners. What specific line segment is important to one railroad may not be for another. Lastly, uncertainty is clearly a factor in the emerging patterns. While major rail restructuring has already occurred for several major North American railroad systems, some interesting future candidates may include Conrail (for the third time), the Canadian National Railways and even Mexico's railways. What spatial patterns will emerge? Perhaps the experience of the Illinois Central Gulf will influence other outcomes (Table 1).

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Acknowledgement

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