Maurice B. Quirin

"Katy is not a museum"

How "a small, strategically located railroad" plans to survive

DON L. HOFSOMMER

IT THE Missouri-Kansas-Texas Railroad (MKT or Katy) has what some observers might call a colorful history. In fact, the color in its corporate ledgers too often has been red. Over the years, Katy has been the victim of plundering owners, absent or inadequate management, and—as recently as the 1960's—the embarassment of cars derailing while standing still. Yet Katy is a survivor. Today the railroad is well-managed, lean, tough, and—happy to say—at least marginally profitable.

TRAINS has always been fascinated by the MKT. In the April 1949 issue, Editor Willard V. Anderson focused on its well-groomed property, snappy passenger trains, handsome steam locomotives, and bucolic Northwestern District. Anderson noted that the road was (already) profiting from the relocation of industry from the Northeast to Katy's service area—implying an assurance of prosperity and job security for its 5100 employees.

Within a decade, however, the situation was otherwise. Katy had shed its steam locomotives and most of its passenger service, to be sure, yet had fallen on hard times anyway. Its property had deteriorated; its profitability had vanished; and its reputation had suffered accordingly. Nevertheless, in "Is There a Cure for What Ails Katy?" in August 1960 TRAINS, Editor David P. Morgan was generous. He found the road to be "lean, taut . . . (and) surprisingly quick on its feet."

But the company's fortunes did not improve. In 1965, a desperate board of directors summoned John W. Barriger to treat what Morgan—in "Can Mr. B. Save Miss Katy?" in August 1966 TRAINS—labeled "the sickest railroad west of the Mississippi." Editor Morgan wished the best for Barriger and his patient but was openly skeptical. Moreover, Morgan wondered: "Does it really matter, in territory as crisscrossed with rails as Katy's, what happens to the road?"

Barriger did stem the downward trend, though, and by the time he yielded the reins of management to Reginald N. Whitman in 1970, Katy had passed through the first stages of recovery. This process was nevertheless painful, requiring severe reductions in the very frame of the railroad. Barriger had shed the last passenger trains, a pair of Kansas City-San Antonio runs, on June 30, 1965. Under Barriger and Whitman, Katy's line abandonments have been numerous, including its 105-mile subsidiary Beaver, Meade & Englewood in the Oklahoma panhandle and most of the line that led to it, 225 miles of the Northwestern District [see "Finest Dirt-Track Railroad on the Great Plains," May 1974 TRAINS]. Two tiny segments survive as short lines, the Northwestern Oklahoma at Woodward, and, on a branch out of Altus, Okla., the Hollis & Eastern, now cut back from Hollis to Duke. But the big 1972-1973 retrenchment, at 330 miles, was the largest branch-line abandonment the Interstate Commerce Commission had permitted to that time.

The last remnant of the Northwestern District operated by Katy, from Wichita Falls to Burkburnett, Tex., generates good business. North to Altus, Okla., the line is embargoed, but sale to Oklahoma is contemplated. The State would fund rehabilitation, and Katy would run it under contract.

IN 1971, Whitman reported a modest profit. It was symbolically and psychologically important, but the road faced a long, tedious, and uphill pull. The confidence of its customers had to be retained or, more often, regained. The car fleet and equipment obligations had to be trimmed. The main line and profit-bearing branches had to be physically rebuilt.

The Whitman team was up to the challenge. A strong operating man, Whitman advocated trim and reliable train schedules, but this was contingent upon better track. Tie condition was deplorable; in many cases, 2000 new ties per mile were required (1 mile usually means 3200 total ties). Whitman funneled every available dollar into the rehabilitation program, eventually borrowing 19 million dollars from the United States Railway Association and 22.5 million dollars from the Federal Railroad Administration. These were not "soft loans"; they were merely guaranteed by the Federal Government, and Katy proudly reminds that it already has paid back a significant portion of both.

Whitman's rehabilitation program for the 1970's focused on ballast, ties, and right-of-way drainage; for the 1980's, it will be on rail, yards, and bridges. The tie program is 80 per cent done—320,000 new ones were inserted in 1980 and 500,000 in 1981. Katy boasts 250 miles of welded rail, and more is on tap. There are about 200 miles of mainline slow orders, but that figure is certain to decline. The Kansas City-Houston spine is scheduled to reach Class 4 status (maximum freight speed, 60 mph) in 1983, and management pledges to maintain it at that level. The few remaining branches will be brought up to Class 2 or 3 (freight maximums of 25 and 40 mph, respectively) or abandoned.

If forced to choose between spending for track rehabilitation or new motive power, Whitman chooses the former.

Lee Langum

Lee Langum

IMAGE of Katy as a "museum," as might be perceived in the 1976 view of Vinita, Okla. (opposite page), is refuted by more contemporary scenes (above): TOFC on well-manicured trackage at Rockwall, Tex., and a loaded unit grain train powered by MKT and UP diesels against the backdrop of Fort Worth's skyline.

"There's no use buying locomotives capable of traveling 90 mph and putting them on track limited to 10 mph," he says. That does not mean management has neglected its motive power; the railroad recently added 18 new SD40-2 road units and 4 MP15AC switchers—all additional, not replacement, power. Katy owns 203 locomotives (see page 25) and, as of June 1, 1982, leased 13 more (7 GP38-2's and 3 GP9's from Conrail, plus 3 SD40-2's from Morrison-Knudsen). All power is maintained in "good shape."

Harold L. Gastler, who became the Katy's president in 1979 (Whitman retains the position of chairman), hopes to reduce the MKT car fleet to those types carrying bulk cargo, plus specialty equipment. He feels that in the near future, general freight and merchandise on rails will move exclusively in trailers or containers. Katy owns or leases 7200 cars including 450 delivered in 1980 and 1981.

Katy experienced a dramatic surge in operating revenues during 1980—to $219,530,000, a 31.5 per cent increase over 1979. The trend continued in 1981 when the road had operating revenues of $268,251,000. Pretax net income for 1980 was 4.1 million dollars; for 1981, it was 10.9 million.

This is reflected in carloadings (up 9.9 per cent in 1980 and 3.1 per cent in 1981) and in ton-miles (8.3 billion in 1980 and 8.4 billion in 1981).

MKT historically has been a "terminating road," with a severe imbalance of loads moving south. This problem was arrested only briefly during the 1940's when trainloads of oil moved northward. Southbound tonnage currently exceeds northbound by a ratio of 6 to 1 and represents a serious challenge to management.

In the not too distant past, Katy was dependent on heavy, seasonal movements of wheat. Results: profits in good crop years, deficits in bad. Katy's present traffic mix is much more broadly based, thus less susceptible to nature's whims. Problems do remain, however. A frightening 61 per cent of MKT's carloads are received from connecting railroads, and interline movements are a staggering 84.8 per cent.

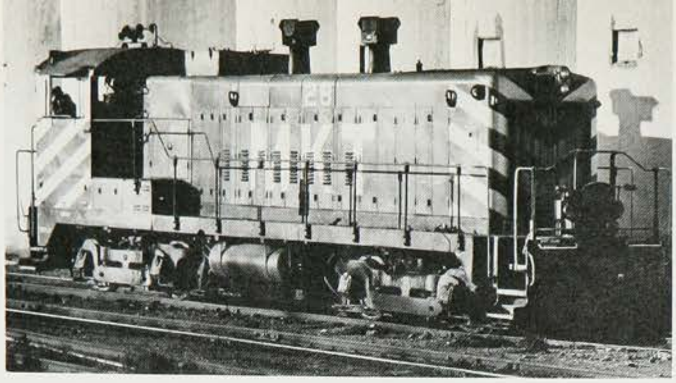
KATY'S approach to traffic solicitation is styled by President Gastler, a man whose experience spans operations and traffic. "The shipper comes first," he says. "He is not interested in *our* trains; he is interested in *his* cars." By the same token, Gastler is unwilling to move cars or trailers simply to gain volume. With few exceptions (*e.g.*, northbound competitive business solicited "to cover gas money"), he insists that traffic yields a clear profit. This has led to what he calls the "desolicitation" of certain unremunerative traffic, including most transcontinental business, "which often yields inadequate [rate] divisions because of Katy's geography."

While Katy frequently eschews participation in transcon opportunities, it actively seeks run-through arrangements and unit-train movements. Run-through routes include: Union Pacific, North Platte-Kansas City-Parsons; Chicago & North Western, Des Moines-Kansas City-Parsons; Milwaukee Road, Ottumwa-Kansas City-Parsons; Southern Pacific, Ennis, Tex.-Denison-Parsons. Unit trains of grain are delivered to the MKT at Kansas City by C&NW, Milwaukee, and UP. Most are then line-hauled to export elevators at Houston or Galveston. A recent agreement with Espee sees unit trains from the upper Midwest that are consigned to Mexican points moving over the MKT out of Kansas City to an SP connection at Denison. This short-hauls Katy, but it still is mutually advantageous for both roads. Another profitable unit-train operation, amounting to more than 100 cars of rock per day, moves on a 48-hour line-haul turnaround schedule between Georgetown, Tex., and Houston, and San Marcos, Tex., and Houston.

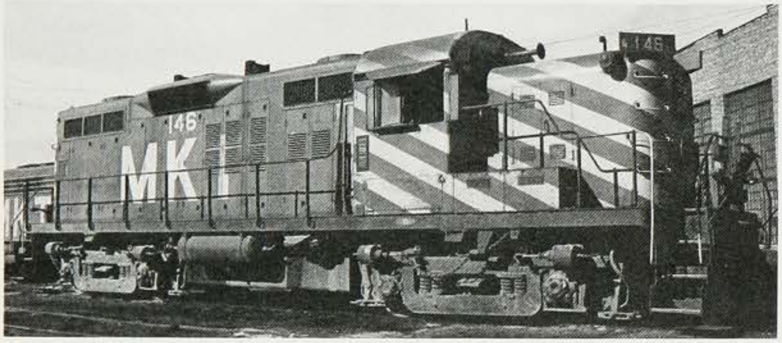
The brightest recent jewel in Katy's traffic is coal. "One of the most significant dates in Katy's history," says Gastler, "was November 25, 1978." On that day the MKT handled the first trainload of coal to the Lower Colorado River Authority's new electric power generating plant at Halsted, near La Grange, Tex. The location of the plant reflected "explicit confidence in Katy's ability to handle traffic," beams Gastler. "It was a sparkplug; other important firms now have located on the MKT as a result." Moreover, the Halsted plant will burn more coal in the future, and Katy will haul it. Schedules call for BN's Fort Worth & Denver to deliver 31 trains of low-sulphur coal each month to Katy at Fort Worth. Katy also wheels 17 trains of coal monthly from BN interchange at Kansas City to the Grand River Dam Authority plant at Pryor, Okla., and BN originates a unit train of Oklahoma coal on the former Frisco which it hands to the MKT once a week at Fort Scott, Kans., for a power plant at La Due, Mo., near Clinton.

Katy track does host the Amtrak *Eagle* for 39 miles between Temple and Taylor, and the road did receive track-rehabilitation money when the route of the then *Inter-American* was altered, but the MKT is not a direct Amtrak participant and is not subject to on-time incentive payments. MoPac crews handle the trains on the MKT.

THE controversial issue of railroad companies and the holding companies




AMONG Katy's locomotive types worthy of remark are these examples (clockwise from top left): DS44-1000 28, one of eight surviving 1947 Baldwins, all re-engined at Electro-Motive Division in 1959; MP15AC 58, one of 10 second-generation EMD switchers and one of four of the newest group, acquired in 1980; U23B 350, one of a trio of the sole GE representatives on Katy's roster, acquired in 1973; RS3M 146, one of a half-dozen surviving Alcos (all EMD-re-engined).



Four photos, Lee Langum.

that many of them spawned may not yet be resolved, but there is no doubt that the Missouri-Kansas-Texas Railroad has benefitted from its association with Katy Industries. Formed in 1968 when the road's fortunes were bleak in the extreme, Katy Industries owns 1,908,467 of the 1,951,976 MKT shares.

Katy Industries is a truly diversified firm, for its other holdings are in five industries: Industrial machinery, equipment and products (*e.g.*, production machinery for the sugar, shoemaking, chemical, food packaging, meat deboning, and woodworking industries); Consumer products (shrimp, cheese, watches and jewelry, finished grain leathers, swimming pool supplies, sanitary maintenance supply, radio stations); Electrical equipment and products; Oil field and other services (wood product preservation); and Insurance and financial services.

Katy Industries quickly took a hard look at its railroad. The question was simple: Should it be rebuilt or not? Whitman convinced Wallace E. Carroll, chairman of the Katy Industries board, to accept the challenge. Carroll "thinks long term," says Gastler. "He is a builder." Apparently. The parent company agreed to back the railroad "on a 100 per cent basis," recalls Whitman, "and further agreed to pay back to the railroad any tax benefits earned by" Katy Industries "as the result of the railroad's red ink" (while the FRA loans were outstanding). And the parent give Whitman a loose rein. Despite its financial control, Katy Industries allows Whitman to "run the railroad."

Gastler and Whitman share similar managerial styles and orientations. Both start with the assumption that the MKT is "a good property" and "about the right size." Both believe that "if a company puts service first . . . net profit will follow in the normal course of events." Both insist on the need to provide innovative, personalized, and "custom" service for shippers. Both reject the notion of "rigid preconceptions about the 'proper' way to run a railroad." Both embrace a philosophy of creative interaction between Katy officials and customers—"joint-venture thinking," they call it.

Their managerial philosophy focuses on "the employees who depend upon the railroad for a livelihood." Gastler, who directs the day-to-day operations, prefers to promote from within but will bring in outsiders to provide leavening. He looks for persons who will persevere, who are highly motivated, who may or may not hold college degrees. Gastler demands categoric loyalty to the company from his spartan cadre of "exempt" employees (those not covered by labor agreements). By state, Katy's work force breaks down like this: Texas, 1829; Kansas, 625; Missouri, 198; Oklahoma, 186; off-line, 57. Total: 2895—of which 169, or 5.8 per cent, are management.

Gastler is approachable. His door literally stands open during working hours and, as subordinates observe, "you can get an answer from him." Management committees are few, and so are committee meetings. "We try to let these people run their own departments and carry out policies without day-to-day guidance," says Whitman.

The MKT budget is understandably tight. Yet top management eagerly authorizes significant expenditures if convinced of long-range advantages. The general office building in Dallas is a case in point. It was completely remodeled; now the railroad uses only two floors and draws a handsome rent from the other six. (The building was recently cited by the Texas Society of Architects because of the excellent quality of restoration.) The same is true of equipment acquisition and plant development. New and efficient piggyback facilities have been completed at Dallas and Tulsa, and splendid new automobile unloading operations are in use at Tulsa and San Antonio. These, Whitman says, reflect Katy's willingness to make large investments if economically justified.

BECAUSE of its relatively small size (2175 miles in 1980), and because of the obvious need to innovate in order to survive in the era of the mega-merger, Katy has earned an enviable reputation for aggressive sales. The road has entered into numerous and broadly based contract arrangements covering rates and service for traffic as diverse as lumber, crushed stone, grain, corn products, autos, and TOFC (trailer-on-flat-car, or "piggyback").

Katy's management recently astonished the railroad industry when it announced that the road had autho-

A slimmer Miss Katy

Katy's stable of horses

Road Nos.	Qty.	Model	H.P.	Builder, year		Notes
1-6	4	SW1200	1200	EMD	1957	(1)
7-11	5	NW2M	1200	EMD	1947	(2)
12-21	9	SW9	1200	EMD	1952	(3)
22-31	8	DS44-1000M	1000	BLW	1947	(4)
34	1	S12M	1200	BLH	1951	(5)
43-44	2	SW1200	1200	EMD	1962	(6)
50-55	6	SW1500	1500	EMD	1967-1969	
56-59	4	MP15AC	1500	EMD	1980	
91-123	33	GP7	1500	EMD	1950-1952	(7)
142-143, 146, 152-154	6	RS3M	1500	Alco	1950-1951	(8)
170-230	60	GP40	3000	EMD	1966-1968	(9)
300-303	4	GP38	2000	EMD	1969	
304-321	18	GP38-2	2000	EMD	1972-1976	
350-352	3	U23B	2250	GE	1973	
401B	1	F3AM	1750	EMD	1947	(10)
500-501	2	Slug	----	MKT	1976,1981	(11)
600-636	37	SD40-2	3000	EMD	1978-1981	

Notes:

All units B-B wheel arrangement except SD40-2's, C-C.
Alcos and Baldwins re-engined by EMD have EMD long hoods.
Katy's last F units (F3A 70A, F7A 72C, F9B 75E, F9B 75F, FP7 78C) retired 11/81, salvaged for parts, to be scrapped.
(1) 4 wrecked 4/67, traded in to EMD on 50; 5 wrecked 2/80, scrapped 1981
(2) Rebuilt by EMD, 1959-1961.
(3) 13 wrecked 4/67, traded in to EMD on 51, 15, 17, 20, 21 rebuilt in-kind by EMD, 1959-1961.
(4) All re-engined by EMD, 1959; 25 sold to Texas Crushed Stone (Georgetown Railroad), 1981; 29 sold to Precision National Corporation, 1974.
(5) Re-engined by EMD, 1959.
(6) Rebuilt from S12's 43-44, utilizing the Baldwin trucks.
(7) All GP7's undergoing classified repairs in Katy overhaul program, during which noses are chopped; 22 done to date: 91-92, 95-96, 98-105, 108, 110, 113, 115-119, 121, 123; in shop: 111-112.
(8) Re-engined by EMD, 1959.
(9) 222 wrecked 2/79, Columbus, Kans., converted to road slug 501.
(10) Rebuilt (with blanked cab) from F3A 66C in 1975, used as B unit.
(11) 500 yard slug, ex-F7A 74A, parent 99; 501 road slug, ex-GP40 222, parents 226, 227.
Roster effective 6/1/82; source: MKT.—D.H./J.D.I.

Can Katy live among megamergers?

WHITMAN

GASTLER

KATY'S MANAGEMENT is enthusiastic about certain aspects of the Staggers Act (railroad deregulation). In particular, Katy applauds the fact that the law pledges "the United States Government to ensure . . . effective competition among rail carriers . . . to prohibit predatory pricing and practices . . . (and) to avoid undue concentrations of power." Moreover, the law allows the carriers considerable marketing flexibility and provides new options in pricing.

Although they are pleased with the "letter of the law," Messrs. Whitman and Gastler of Katy are much less pleased with the realities that are unfolding under the law. They point out that there have been massive cancellations of multi-railroad through routes and joint rates which deny shippers their historic right to competitive rail routes. This, the Katy officials say, is both pro-monopoly and anticompetitive; will lead to the Balkanization of the rail industry; will inhibit the free flow of commerce; will spell doom for our nation's integrated, common-carrier system of railroads, and will effectively kill most small and medium-sized nonaligned companies.

Competition, Gastler dryly observes, is not fostered by "crippling your competitor and closing market areas." He adds, "to beggar one's neighbor is not to increase the wealth of the realm." Competition is crucial in Katy's scheme of things. "All that maintains service is competition," says the MKT president. "Competition in the rail industry, once destroyed, cannot easily be restored."

Whitman and Gastler are uniform in their belief that the current round of mergers, the "megamergers," are counterproductive and contrary to the preamble of the Staggers Act. Katy's management contends that the big mergers will eliminate competition by creating market control. Massive mergers will, of course, end competition among the merging partners and will close additional competitive opportunities for other carriers which had participated in joint-line service with one or more of the merging companies. Megamergers will, says Gastler, result in disincentives for service. This will have negative impact on shippers and, ultimately, the public.

Katy's top management is not categorically opposed to mergers. Both Whitman and Gastler realize that the major systems of today, including the MKT, are in reality combinations of smaller lines brought together through the historic merger tradition. Yet, observes Gastler, "if mergers were the complete solution to the industry's problems, it would be in fine shape today." He notes there have been dozens of mergers in the past three decades and that many of these made sense, especially if economies of scale were the desired result. On the other hand, he affirms that merger is not always necessary. "Economies of density can be made by joint facility agreements." (Katy enjoys 414 miles of trackage rights, leases another 132 miles, and has granted other carriers 235 miles of rights over its lines.)

When Reginald Whitman asserts that "mergers which force neighboring lines into insolvency are not in the public interest," he is naturally thinking most immediately of Katy. Because of the BN-Frisco merger, Espee's acquisition of the RI Tucumcari line, and the formation of CSX, the MKT already has been affected—by loss of 13.6 million dollars' worth of traffic (in 1979 dollars).

Although they are unalterably opposed to the creation of giant railroad companies, Whitman and Gastler are not sanguine about stopping them. "Megamergers are on the scene," says Gastler, "and more are to come." He is not upset that the MKT has been labeled as one of the "wallflowers at the merger ball" by one member of the rail trade press. What Katy wants is simply the opportunity to compete—a fair chance, as it were, to engage in the competitive arena that should be vouchsafed by the Staggers Act.

Of primary concern to Katy is the proposed Union Pacific + Missouri Pacific + Western Pacific merger, officially the Pacific Rail System and very unofficially the "Mopup." MoPac is Katy's traditional competitor, but in recent years UP has emerged as Katy's sole friendly connection for traffic to and from the Northwest via Kansas City. In 1979 alone, the UP-Katy interchange there amounted to more than 31,000 cars. Loss of this and other affected traffic from a UP-MP merger would cost the MKT at least one-fourth of its annual revenues, threatening the small road's very life, Gastler contends.

Gastler notes that UP has used the argument that it is being encircled and feels it will be seriously weakened in its continued ability to compete. If that is true for Union Pacific, it is true in spades for Katy.

Nevertheless, Gastler believes that Katy can salvage a satisfactory position in a world with a Pacific Rail System. That is, Katy can cope in that world provided it is granted market access through trackage-rights concessions. They are: MP, San Antonio-Laredo; MP, San Antonio-Corpus Christi (with connection to Texas-Mexican); MP, Kansas City, Kans.-South Omaha, and UP, South Omaha-Council Bluffs (with connection to C&NW); MP, Union, Nebr.-Lincoln; UP, Kansas City, Kans.-Topeka, and MP, Sedalia, Mo.-St. Louis, plus TRRA from MP's 23rd Street Yard in St. Louis to Katy's Baden Yard. Granting these requests for trackage rights would give the same benefits of scale and single-line haul that UP so clearly covets, contends Gastler. These concessions would not be seen by Katy as a "subsidy" but rather as an "insurance policy" against predatory practices of Pacific Rail System.

"The Staggers Act was enacted to improve competition," argues Gastler. The ICC now has the opportunity to protect the tradition of competition, as well as to protect short and medium-sized carriers such as Katy, by granting trackage rights and gateway concessions. The Commission, according to Gastler, should be "interested in the public as a whole, and not just those fortunate enough to be located on" component lines of PRS. And what happens if PRS is approved with no concessions for Katy? Life "becomes very difficult," says Gastler. "But we will survive."

In sum, Whitman and Gastler agree, Katy's position affirms historic values of free markets and free competition—the free-enterprise system.

The ICC's Office of Special Counsel apparently agrees with Katy's position, and the Department of Transportation and the Department of Agriculture both have urged the ICC to grant nearly all of Katy's market-access requests. Yet given the new composition of the ICC's board and the flux of the current political climate, all bets are off as to the ultimate settlement of the entire UP merger question.—D.L.H.

rized sophisticated engineering studies designed to determine the feasibility of electrifying 321 miles of main line from Fort Worth to Houston. One might have expected such from a Western giant, say BN or Espee or UP or Santa Fe—but from Katy? Yes, says Whitman, it makes perfect sense to develop a "pilot program" on "a small, strategically located railroad" such as the MKT.

Gastler says the road's interest in electrification is based on several assumptions: (1) Electrification will reduce dependence on OPEC oil; (2) By the year 2000, diesel fuel will be many times as expensive as today; (3) Coal-fired generators will produce

Colleen T. Claybourn.

TRANSITION of Katy color from traditional red to current green is illustrated by this train at Cat Springs, Tex., July 2, 1977.

electricity for railroad motive power at low cost; (4) Katy will haul the coal and buy the electricity from an on-line producer (LCRA at Halsted). The electrification program also assumes a cooperative venture involving the MKT, the Lower Colorado River Authority, and the FRA. If approved, the program would proceed in three stages, targeted for completion April 1, 1986.

One innovative venture that proved ill-fated was the Oklahoma, Kansas & Texas Railroad Company—an MKT subsidiary established in 1980 to operate 767 miles of Rock Island main line (Fort Worth-El Reno-Wichita-Herington-Topeka), plus several branches. This too was a cooperative venture, with local shippers supplying 3 million dollars in start-up costs. Katy management viewed the OK&T as a branch that would generate valuable local traffic to move overhead on the parent MKT. It also foresaw the possibility of important interchange traffic at Herington if Denver & Rio Grande Western were to gain Missouri Pacific's Pueblo-Kansas City line as a concession for approval of the Union Pacific-MoPac-Western Pacific merger.

Traffic on the OK&T did mature (61,891 cars were handled in 1981), and MKT's traffic department felt there was potential adequate to justify long-term investment. But red ink mounted ($1,723,000 in the first 9 months of 1981), and Katy management was forced to seek reduced rentals from the Rock Island trustee, while at the same time negotiating a "reasonable basis" for acquisition. Katy accountants painstakingly calculated what MKT could justifiably pay for the property, but the Rock trustee maintained his reputation for recalcitrance and rejected the offer. Katy officials also affirmed their posture, and OK&T operations accordingly ceased on December 31, 1981. Negotiations aimed at resurrecting the OK&T continued with shippers and state agencies, but in June 1982, Gastler was "not optimistic" that they would be successful.

DOES the Katy itself have a future? Gastler takes a predictably dry-eyed approach. He openly points to the road's liabilities as well as its assets.

The most serious problem the MKT faces is the potential loss of its "most important connection, the Union Pacific, through merger with one of Katy's keenest competitors, the Mop." The MKT already has suffered diversion of traffic as the natural consequence of the BN-Frisco merger as well as Espee's acquisition of Rock Island's Tucumcari-Kansas City line. What happens to the rail industry west of the Mississippi River is of crucial importance to the MKT, Gastler reminds, because 84 per cent of Katy's business is interline, "all subject to attack." Merger is a possibility, of course, but Katy's debt structure does not attract a suitor. The road has not been in bankruptcy since 1923, but profitability since 1957 has been elusive. (The road showed a profit only in 1971, although it posted reportable net income in 1979 and 1980 because Katy Industries used the railroad's earlier losses in consolidated tax returns.) Finally, Gastler worries about Katy's ability to survive as an independent without a complete physical rehabilitation; he is particularly distressed by the prospect of going it alone before the rail replacement program is accomplished. All of this depends on traffic levels, and the recession of 1982 bodes ill for heavy-maintenance plans.

Nevertheless, Gastler quickly ticks off numerous Katy assets: a strong spine, Kansas City-Dallas/Fort Worth-San Antonio/Houston; 1551 route-miles of main line and 624 of branch lines; nearly half of the operation in Texas, and a healthy majority in the thriving Sun Belt. Katy's short route to the Gulf, the promise of continued expansion at its major service metropolitan areas, and the potential of heavy increases in Texas intrastate traffic augur well. So too does the promise of more coal business, and the possibility that Texas City (which Katy reaches through the Texas City Terminal Railway, owned in thirds by the MKT, Santa Fe, and MP) might become a major Gulf port able to handle large volumes of bulk cargo such as soda ash, grain, coal, and potash. Katy reaches its Gulf port of Galveston from Houston over the Galveston, Houston & Henderson, owned jointly with MoPac.

Gastler and Whitman also point with pride to Katy's personnel (they're "good people" with high morale) and to the very nature of the company. Because of its small size, they believe the MKT can "do a number of things faster and better than the larger railroads that do not have close contact with the very persons depending on them for service." A healthy business climate throughout the road's service area is a distinct benefit. So too is the company's reputation. Katy's damage-claim incidents are fewer than the national average, and its industrial development department has had success in locating new shippers on-line in recent years. The MKT has established that it takes obligations seriously, that it is a good risk, and that it is a reliable performer.

The MKT is firmly committed to existing as an independent in the era of the megamerger. It sold its tax credits and will use the resulting funds for rehabilitation—a clear statement of faith regarding its future as a railroad company. Katy will not be controlled by its history, good or bad. It looks ahead, not behind. As Reg Whitman says, "Katy is not a museum; it is a going business, very much in tune with the times."

Does Katy have a future? Yes, says Harold Gastler, it has an "optimistic future—but with clouds management must dispel." I