

Today on the M&NJ

October 2008

by Peter Brill

The M&NJ's abandonment of 7.50 +/- miles between milepost 6.50 +/- in Slate Hill and milepost 14.00 +/- in Unionville received the blessing of the Surface Transportation Board on June 19, 2008. The Board determined that "the proposed abandonment, if implemented as conditioned will not significantly affect either the quality of the human environment or the conservation of energy resources." It ordered "Upon reconsideration, the notice served and published in the Federal Register on May 20, 2008, exempting the abandonment of the line described above, is subject to the condition that M&NJ shall consult with NGS and notify NGS at least 90 days prior to beginning salvage activities that will disturb or destroy any geodetic station markers." NGS is the National Geodetic Survey.

Chartwell has put the M&NJ up for sale and has retained Strategic Rail Finance to handle the effort. According to their website (www.strategicrail.com) SRF "is a financial services and advisory firm committed to expanding the freight railroad industry and increasing North America's utilization of freight rail transportation." They are based in Philadelphia. The man spearheading the sales effort, Will Maus, is actually with OnTrackAmerica which according to their website (ontrackamerica.org) "builds upon the work of Strategic Rail Finance, a for-profit entity with an altruistic, community orientation. In creating OnTrackAmerica, we chose nonprofit status to absolutely clarify the common-good commitment of this project." No price had been established when I talked to Will in early September and he was still engaged in researching the M&NJ to come up with a "vision" of how it might be continued in operation by a new purchaser. Chartwell continues to make a separate effort to sell its fleet of 60 flat cars which are stored on the M&NJ.

Chartwell's annual report for the year ending June 30, 2008 was filed on September 17th. The company's roster of subsidiaries is in the process of being reduced now that it has given up its waste hauling activities. Chartwell still retains Belville Mining which holds land and mineral rights for natural resources in Ohio, Greater Ohio Resources which is engaged in mining and land development in Ohio and the M&NJ which is involved in operating the short line and developing land. Chartwell's Ohio subsidiaries hold about 9,320 acres of land in southern Ohio with coal, limestone and clay deposits. However, there are no mining activities. As of June 30th, Chartwell described the M&NJ as having one customer and stated "We are continuing marketing activities and developing strategic relationships to increase our customer base and revenue." (This is

before they put the M&NJ up for sale.) As of June 30th, Chartwell had four full time employees. Tom Winant, Chartwell's Vice President of Sales and General Manager of the M&NJ, was terminated on January 31, 2008.

On July 17, 2008, Lucy Rasmussen filed a lawsuit in the Supreme Court of Orange County against Chartwell for non-payment of the \$500,000 note payable due the previous February 15th. The note has continued to accumulate interest. Chartwell stated they have attempted and will continue to attempt to negotiate a reasonable settlement, including an extension to the note.

On July 22, 2008, Chartwell entered into a termination and release agreement with Railway & Industrial Services whereby both parties agreed to terminate a purchase and sale agreement of July 10, 2005 in exchange for a payment of \$155,200 and transfer of certain engineering drawings and specifications to Chartwell. The agreement referred to was for the purchase of 95 "retrofitted" flat cars for \$4,085,000. On April 2nd of this year, eight of the unmodified cars were sold. As of June 20th of this year, Chartwell had paid for and taken delivery of just sixty of the cars. On July 24th, the deposit on the twenty-seven remaining cars was sold to a third party.

SOME SUMMARY FINANCIAL FIGURES (000 omitted) FROM CHARTWELL'S ANNUAL STATEMENT

Inception To Date

	Y/E 6/30/08	Y/E 6/30/07	3/3/05
to 6/30/08			
Revenue 9,900	2,543	7,306	
Cost of Revenue 9,221	2,397	6,824	
Gross Profit 482 679	146		
Loss from Operations (11,367)	(4,761)	(3,446)	

Net Loss (13,324)	(5,053)	(4,000)
Total Assets	9,507	15,983
Cash & Cash Equivalents	182	704

SELECTED ASSETS (000 omitted)

	Y/E 6/30/08	Y/E 6/30/07
Buildings	138	138
RR Structures & Improvements	532	1,348
Leasehold Improvements	0	147
Office Furniture & Equipment	13	90
Computer Hardware & Software	58	91
RR Locomotives & Cars	1,555	2,762
RR Equipment	0	312
Waste Disposal Equipment	0	517
Accumulated Depreciation & Amortization	(171)	(227)
T O T A L	2,125	5,178

Brookfield Resource Management's proposed auto and metal recycling plant at Dolsontown Road in New Hampton received variances from Wawayanda's Zoning Board of Appeals on May 16th. However, five residents owning property

neighboring the proposed facility filed suit arguing the Zoning Board of Appeals overstepped its bounds by disregarding the state's environmental review process and that Wawayanda's building inspector should have made the decisions. The opponents of the project also contended it will really be a junk yard and junk yards are banned in Wawayanda. The June 30th article stated the court case was July 25th. On August 28th, it was reported that the Wawayanda Planning Board decided the project must receive a full environmental review as it will be a large industrial facility next to a creek and a rail trail. The environmental review will encompass the potential impact on traffic, noise, water, health, air quality, energy use, plants, animals and aesthetics.

NJ Transit has awarded a \$310 million contract to Bombardier Transit Corp. for 26 dual-powered engines capable of running as diesels or using catenary, a capability what will make them unique. The July 10th article stated deliveries are scheduled in 2011 and 2012. Some of these engines will operate in Orange and Rockland Counties and are expected to transport commuters through the new Hudson River tunnel to an expanded Penn Station, a multi-year construction project scheduled to begin next year.

The proposed waste-to-ethanol plant suddenly appeared in the news as Pencor-Masada Oxynol renewed its \$3 million offer in advance fees to Middletown in mid-August seeing an opening as the city faces a possible hiring freeze and budget cuts. The Times-Herald Record reported on August 12th that this was a renewal of an offer made originally in 2006. The attorney representing the city said there were "a lot of strings attached" to the original offer and apparently the same conditions still hold. Masada wants some of the money to help homeowners pay for heating their homes and some of the money used to convert city vehicles to flexible fuels such as E85 ethanol which Masada hopes to produce. Masada estimates a two-year construction period but the two sides still have to resolve their arbitration proceeding. The project has been the source of letters to the local newspaper and John Milligan forwarded one such letter to me on August 22. The president of Fulton Chevrolet Cadillac wrote a substantial letter in favor of the project that was published in the THR on August 19th. He was 100% for the project and reiterated all the arguments previously made in its favor. He did however make the interesting point that GM and Ford have been building E-85 vehicles since 1999 and Middletown could phase in such vehicles at no additional expense as current vehicles wear out. E-85 costs at least \$1.00 per gallon less. An article on August 26th indicated that Orange County was considering the installation of an extra fuel pump and storage tank to allow supplying its vehicles with E85, which is 85% or more ethanol and the balance is gasoline. However, it has been pointed out that E85 provides lower mileage per gallon, perhaps as much as 26-27% lower, and this can outweigh the benefits of the lower price of E85. At last report, Orange County was still evaluating the situation.

The THR reported on September 17th that Competitive Power Ventures Holdings will receive up to \$300 million “in additional equity financing” from Warburg Pincus, a private equity firm. CPV has proposed to build an \$800 million, 630-megawatt natural-gas power plant in Wawayanda. This plant is part of the nearly 8,000 megawatts of conventional power plant projects being pursued by CPV in addition to almost 5,000 megawatts of wind-power projects.

It was reported on June 20th that Orange County has reached an agreement with Norfolk Southern to lease 1,800 feet of abandoned right-of-way at \$3,000 annually for as long as 15 years in order to extend the Heritage Trail one mile to River Road in Harriman. Paving the extension could begin in the autumn. The county has \$271,000 in federal grant money for this project and an additional \$1.6 million in federal funds to extend the trail from Goshen to Howells, a 10.5 mile extension from St. James Street in Goshen westward that in conjunction with the Harriman extension would virtually double the 11.5-mile length of the existing trail. Trail proponents hope to one day extend the Heritage Trail further on both ends to link to the Ramapo River Greenway Trail, projected to run from Suffern through Tuxedo to the east side of Harriman, and the D&H Canal Rail Trail at Cuddebackville.

The Poughkeepsie Railroad Bridge pathway project had to be scaled back due to the drastic escalation of raw material prices for commodities such as steel and concrete. The \$27 million project has still increased to \$35.5 million although the width of the walkway has been narrowed from 35 to 25 feet and other cost-cutting measures have been taken. The project is still expected to meet the August 2009 deadline ahead of the Quadricentennial celebration in September. Once completed, the project will be owned by the New York State Office of Parks, Recreation and Historic Preservation. The article of July 8th in the Poughkeepsie Journal stated that Walkway Over the Hudson had raised almost \$20.2 million and anticipated another \$8 million in the 2009-2010 state budget in addition to \$8 million already budgeted in the Parks Dept. capital budget.

Articles in the THR on September 16th and 17th reported on the groundbreaking for a 3.5 mile rail trail between Walden and Wallkill. The ceremony is scheduled for the 19th and construction begins the 22nd. The paved trail will cost \$1.5 million and is being funded by state and federal grants along with a local contribution.

No completion date was given.

Sources include the Surface Transportation Board, The Times Herald-Record and the Poughkeepsie Journal. Thanks to John Milligan for providing information.