



Project chugs along with senator's help

John Thune has given steam to railroad plans of an ex-lobbying client.

By Joel Havemann, Times Staff Writer
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Washington — When John Thune, a congressman from South Dakota, narrowly lost a bid for the Senate in 2002, his career followed a familiar pattern: He became a Washington lobbyist.

He soon gained as a client a little-known Midwestern railroad. The Dakota, Minnesota & Eastern Railroad Corp. may have been small, but its ambitions were not. It was seeking more than \$2 billion in federal loan guarantees to help finance a major renovation of its entire rail network and an expansion into the coal fields of Wyoming's Powder River Basin.

DM&E paid Thune about \$220,000 in 2003 and 2004 for his lobbying, but the loan guarantee request languished at the Federal Railroad Administration. Without the government's backing, the company said, its upgrade would not be possible.

Today, Thune is a U.S. senator. And after the South Dakota Republican helped attach a provision to last year's huge transportation bill, prospects for DM&E's \$2.3 billion in loan guarantees are looking brighter.

The federal government now is in a position to approve one of the largest loan guarantees in its history, apparently the biggest since its 1980 bailout of Chrysler Corp. The transportation bill did not mention DM&E, but by raising the government's loan guarantee authority tenfold, to \$35 billion, it made the railroad's request more likely to succeed.

Whatever the outcome of the DM&E aid request, the fact that a lawmaker who is a former lobbyist helped it along speaks volumes about how business sometimes gets done in Washington, where members of Congress frequently attach pet projects to broader legislation.

The DM&E project has broad support in the Upper Midwest from farmers and miners who say they need the expanded rail capacity to move their coal, corn and ethanol to market. Supporters say it would create thousands of jobs in the region.

The project "advances a lot of federal policies that are important in different ways — energy, agriculture and transportation," said DM&E President and Chief Executive Kevin Schieffer.

Thune takes pride in helping the venture along. "The project could transform South Dakota's economy for generations," he said in a news release after the transportation bill became law.

But the railroad expansion is not without critics, foremost among them the world-famous Mayo Clinic in Rochester, Minn., which does not want more freight trains rumbling past its hospital complex.

Some opponents also charge that such a large federal loan guarantee for one company is a classic example of pork-barrel spending, and that Thune's recent connection to DM&E makes it unseemly.

"The DM&E subsidy and its backing by a former lobbyist turned senator represents many of the things that are wrong with Washington today," said Walter Mondale, the former vice president and a former U.S. senator from Minnesota. Mondale, now a lawyer in Minneapolis, used to be a trustee of the Mayo Clinic and opposes the rail project.

Mondale sees the potential DM&E loan guarantee as a giant earmark — a funding provision, usually of a few million dollars, that a lawmaker inserts into a spending bill for the benefit of his or her constituents. The transportation bill had more than 6,000 earmarks, including the storied "bridge to nowhere" intended to connect the Alaskan mainland to an island with 50 inhabitants.

"I consider the DM&E earmark to be even more egregious," Mondale said.

Matthew K. Rose, chairman and president of Burlington Northern Santa Fe Corp., whose BNSF Railway competes in the same region as DM&E, has called the loan guarantee "bad public policy."

"If the government allows non-market-based loans of this magnitude for certain carriers," he told a conference this month, "that will have a negative effect on railroads' ability and willingness to invest private capital."

The aid package is not an actual loan and would cost the U.S. nothing if the railroad paid its lenders back. Only if DM&E were to default on its loans would taxpayers have to foot the bill.

Still, the request has run afoul of budget watchdog groups.

The National Taxpayers Union, in a report this month, noted that DM&E already had the biggest federal rail rehabilitation loan guarantee (\$233 million), and said the coal fields of the Powder River Basin were already served by two bigger railroads, the BNSF and the Union Pacific.

More fundamentally, it said, "floating a taxpayer-backed credit line to a private company is simply wrong." Tom Schatz, president of Citizens Against Government Waste, said the sequence of events surrounding DM&E's request and the increasing of the government's loan guarantee authority raised the question of whether "Thune is still working for the railroad."

Thune declined to comment for this article, but his staff rejected any suggestion of impropriety. Spokesman Kyle Downey called it "a desperate attempt to smear the senator."

"The senator has spent his entire professional career in this area. He has a level of expertise going back two decades," Downey said. Thune is a former South Dakota state railroad commissioner.

In any case, Thune's staff says, he was a bit player in writing the loan authority increase into the transportation bill.

But a news release issued by Thune's office last year quoted Sen. Trent Lott (R-Miss.), a key author of the highway bill, as saying, "Sen. Thune's leadership and hard work were essential to making the [loan guarantee] provision a reality."

The accounting firm BearingPoint said in a report in May that even if DM&E were to secure the loans, the company's cash flow would fall short of the

amount needed for debt repayment for at least two decades.

"The company appears to be a poor credit risk," BearingPoint said.

"We have serious concerns about the ability of DM&E to repay such a loan" — an outcome that would leave Washington holding the bag.

DM&E has dismissed the BearingPoint audit as based on incomplete information.

BearingPoint acknowledged that its analysis was imprecise because DM&E, as a privately held company, withheld financial data that publicly traded companies would have to divulge.

The railroad company aims to replace 580 miles of old track and lay an additional 280 miles of new track with the \$2.3 billion it could borrow with its loan guarantee. It intends to spend \$4 billion in private funds modernizing its fleet of freight cars.

The proposal might have been clear sailing if DM&E's tracks did not run within blocks of the Mayo Clinic, which has organized a lobby called the Rochester Coalition to fight the railroad over safety concerns.

"In any category you want to look at — collisions, derailments, worker accidents — they are the least safe railroad in the country," said Rochester Coalition consultant Lawrence Mann, a Washington lawyer specializing in railroad safety.

In 2004, a DM&E train derailed when it hit an improperly aligned switch in Balaton, Minn., spilling 15,000 gallons of flammable alcohol and forcing the evacuation of 100 residents.

"If the Balaton accident had occurred in Rochester, it would have been catastrophic," said Mayo spokesman Chris Gade.

If Mayo is so concerned about safety, DM&E said, it ought to welcome the rehabilitation of track that dates back 80 years in some spots.

"From a safety standpoint," said CEO Schieffer, "it would be irresponsible not to be for this."

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