

Northern Kentucky Views Presents:

Part 3

The Making of the Kentucky Central Railroad

by

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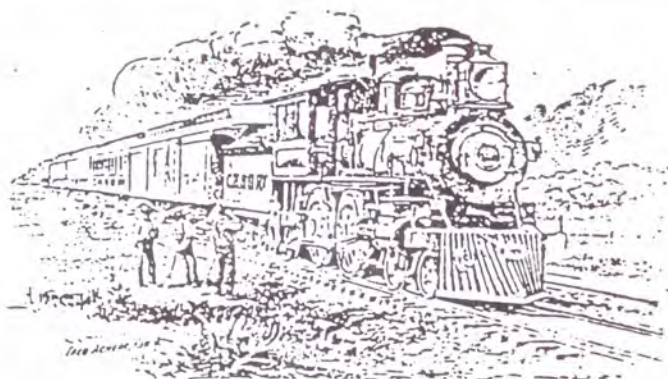
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The following is the last in a series by Dr. Joseph F. Gastright.

The Making of the Kentucky Central...

The suit brought by James Winslow to foreclose on the Covington and Lexington Railroad was argued in Fayette County in February 1859. Initially the suit asked that the court appoint a receiver to manage the railroad and pay the interest to the second and third mortgage holders. This solution had support from many of the stock and bondholders since confidence in the trustees had been badly eroded by their decision to allow the interest to lapse. The receiver would manage the road under the control of the court in order to determine the road's ability to pay the interest. If the interest were brought up-to-date, the stockholders would then regain control of the management by electing a new board of trustees.

The suit was quickly amended to call for the sale of the railroad to pay off its outstanding debts. Robert B. Bowler was outspoken in his opposition to the appointment of a receiver. Bowler stated publicly that he had no faith in the management of receivers. Given a choice he would support the sale of the road. Of course publicly, he still maintained that neither solution was necessary and that the trustees would be able to get the interest paid within a year.

The trustees and stockholders had expected the suit to proceed slowly. With a \$4,000,000 property at stake, the courts of Kentucky were supposed to display a full measure of legal reserve. To everyone's astonishment, the court ruled in August 1859 that the railroad would be sold on October 5th to settle the claims of the bondholders. At least four groups attended the sale and made bids on the railroad. The Harrison County group represented by Senator Joseph Shawhan entered the bidding with a bid of almost 1.9 million. A Covington group organized by William Ernst, the president of the city council, was the high bidder. Hoage and Wilson of New York, who represented the Lexington and Paris branch, then entered the bidding. These three parties continued to bid until the thirtieth bid when William H. Gedge of Covington entered with a bid of \$2,016,000. The Harrison County group and the New York group dropped out at this point and a bid was entered by banker

David A. Sayre of Lexington. On the sixty-ninth bid, Ernst made his last bid which was topped by a new entrant, David Bell of Lexington. Bell and Ernst traded bids until the one hundred thirty-third bid when the property was knocked down to Gedge for \$2,125,000.

The successful bidder did not have to fork over the entire total of the bid to gain title to the railroad. The purchaser was in effect buying not only the assets of the railroad but also the debts of the railroad, up to the amount of the top bid. The company had \$2,533,621.43 in outstanding bonds and unpaid interest on its books. The real purchaser, Robert B. Bowler, was actually only obligated to pay the back interest, keep up with interest on the debt up to his bid and manage the road so as to maintain the capital investment. The income bonds and third mortgage bonds not covered by the sale were worthless. The stock in the original company held by Covington, Pendleton County, Cincinnati and by individuals was worthless as the company no longer existed. Bowler had secured the road for somewhere between \$50,000 and \$70,000 in cash. By doing so, he promised to continue paying the interest on the securities covered by the sale. Bowler was of course in addition to chairing the trustees, the largest individual holder of the railroad bonds.

An appeal to the sale order was filed which asked that the sale be voided since it was contrary to law, inequitable, and rewarded Bowler for his conflict of interest. The appeal also argued that the railroad was worth far more than the sale price. The appeal was denied and the confused stockholders met at Odd Fellows Hall in Covington on December 15, 1859.

President John T. Levis read the final report of the now dissolved trustees and urged its adoption. Mortimer Murray Benton and John W. Finnel of Covington spoke for the adoption of the report. Peter Zinn, a stockholder and the attorney representing the Cincinnati City Council, stated that it was hard to ask men to approve a report which stated that their property had been sold and sacrificed. Mr. Eggleston, President of the Cincinnati Council, attempted to speak but was cut off by Benton who denied that Cincinnati was a stockholder and objected to Eggleston's speaking. Benton went on to say that the proud Metropolis of the West had turned a cold shoulder on the road from the outset and that their merchants had benefitted from the road without doing anything to help sustain it. Finnel spoke up for the Board, stating that two or three members had been ruined by their actions in favor of the road. Indeed, he stated, President John S. Morgan had laid down his life for it.

Eggleston stated that he had a right to speak and that Finnel's sad stories should be saved for the old farmers along the railroad who would applaud them no more than he would. He stated that Cincinnati had loaned the line \$100,000 and now was being castigated for not supplying more. In the end, the report was not accepted but referred to a committee consisting of Peter Zinn of Cincinnati, Dr. Stevenson of Covington, General L. Desha of Harrison County, William C. Lyle of Bourbon, Richard Stowers of Pendleton and Judge C.D. Carr of Fayette.

The old board had argued that there was no need to elect a new one since the road was dissolved. The stockholders ignored the advice and proceeded to elect a full board which consisted of A.L. Greer and E.T. Clarkson of Covington, and G.H. Perrin and James Shawhan of Harrison County, in addition to the members of the committee investigating the president's report. After the appeal was denied, the new board members approached Robert B. Bowler with a proposal to buy the railroad back from him. Bowler was perfectly willing to return the road for \$500,000 in cash which would have given him well over \$400,000 in profit on the deal. Needless to say, the offer was refused. Several attorneys offered to file suit on behalf of the City of Covington but found that a majority of the Council opposed the move despite the city's losses on its stock. William Ernst and ex-mayors M.M. Benton and Bushrod Foley were particularly against the suit.

On January 1, 1861, Bowler made an agreement with John T. Levis, Richard Stowers, William H. Gedge and James C. Gedge setting up a joint stock company under the name of the Kentucky Central Railroad Company. Under the agreement, Bowler would hold 9,200 shares in the new company and the other investors would hold 200 shares apiece, at a nominal value of \$100 a share. On that date, the Covington and Lexington Railroad disappeared forever and began the first of several incarnations as the Kentucky Central.

Bowler eventually bought out his minor partners in the joint stock company and on January 30, 1863, consummated a new deal establishing a joint stock company under the same name with an expanded list of partners. This time, the partners paid Bowler \$2,000,000 for the road. Two hundred sixty-three thousand dollars was delivered in cash from the new partners, with the remainder in stock from the newly organized company. Quincy A. Keith, William Ernst and John W. Stevenson, all of Covington, were the major new investors who joined the Gedges and Richard Stowers in the partnership. William Ernst, the ex-politician and treasurer of the Northern Bank, and John W. Stevenson, attorney and politician, were major forces in the community. Under their management, the road turned a profit every year despite paying off the creditors and interest-bearing securities.

Indeed, the railroad had turned a profit every year since its sale despite the impact of the war on its operation. Several bridges were burnt in 1862 and 1863, and Morgan's raiders had burnt the depot and a string of cars at Cynthiana. The war also brought business as the Union forces used the line to supply its troops in the Central and Eastern part of the State. Farmers in the Bluegrass region were able to sell their products at great profit in the inflation-ridden climate supported by Union purchases in the Cincinnati and Covington markets. The many improvements described as necessary in the \$800,000 Circular were never made. The old board, which still existed on paper during this period, watched the profits roll in and quietly began an investigation of the circumstances surrounding the sale. Several people came forward to state that Bowler had consistently talked the bonds down during his term on the board. He had falsely reported to his Cincinnati investors that he was selling his bonds at a sacrifice because they would be worthless. He even brought Thomas D. Carneal, one of Covington's original proprietors, to town from Frankfort and represented him as the purchaser of his bonds. Carneal played the part well and it appears clear that he was involved with Bowler in his scheme to drive the securities down. Bowler sometimes offered to buy at a higher rate if the seller was willing to make a statement that he had sold them cheap in order to influence the next seller.

In July 1865, Bowler died. With his passing, the old stock and bondholders began to talk suit. So formidable was Bowler in life that he dissuaded even the most aggrieved of the investors from opposing him. He had spent an active life in Cincinnati business with his stores on Pearl Street. He made a fortune and set up a palatial estate in Clifton which

after its purchase by Cincinnati, became Mt. Storm Park. For a time, he served as Mayor of the town of Clifton. He was a member in the firm of Carney, Swift and Company, a leading Cincinnati dealer in stocks and bonds and his reputation as an investor was legendary. Bowler's personal fortune gave him great leverage with companies in need of funds. The innocents in Kentucky respected his managerial talent and men like Morton, Levis and the Gedges went to their graves believing that he had done the best for the old road. Careful inquiry after his death, however, showed that he had never spent a dime in protecting the company from bankruptcy.

Before Bowler's death, the Board of Directors of the defunct company had approached several lawyers to take up a suit on their behalf to recover control of the railroad. All of the lawyers agreed to the suit provided that the stockholders raise cash in advance to prepare for what was seen as a very complicated case. The stockholders, not surprisingly, were reluctant to throw good money after bad. Only Peter Zinn, himself a small stockholder, agreed to file the suit on a contingency basis. He offered to file the suit for 40 percent of the full value of the stocks, bonds or other claims recovered by the suit. He also agreed to waive 10 percent of his claim for each half-percent of the claim paid for in advance. Despite his generous cash terms, pitifully few of the stockholders agreed to pay.

The suit to recover the road proceeded as slowly as the suit to sell it was supposed to. The Kenton County Circuit Judge, Joseph Doniphan, granted many delays as both sides prepared their cases. After the war, there was a flurry of railroad construction in and around Northern Kentucky. The old Louisville and Frankfort Railroad began a line from LaGrange in Oldham County east of Louisville toward Cincinnati in 1867. The line connected with the Kentucky Central in Milldale (now Latonia in Covington), a small crossroads just South of Covington, in 1869. This line was reincorporated in that year as the Louisville, Cincinnati and Lexington Railroad. In popular parlance, it was called the Louisville Short Line since the only other route to Louisville involved the long way around through Paris, Lexington and Frankfort. After a short but nasty feud between Newport and Covington, the Short Line was extended through Newport, and in 1872, it became the first Kentucky line to bridge the Ohio and enter Cincinnati on the Central Bridge which still exists.

While the Kentucky Central languished in Court, Cincinnati and Louisville were engaged in a fierce rivalry for the Southern market. The advantages of a direct rail line to the South were becoming very apparent in Cincinnati. Talk of building a railroad to Chattanooga usually included extending the Kentucky Central south from Lexington. Peter Zinn was a vocal exponent of the plan which probably would have succeeded if the suit could have been resolved in time. Albert Fink, President of the rival Louisville and Nashville Railroad, made note of the competitors that he considered threatened the line in 1868. The Kentucky Central was right on the top of his short list.

As the suit proceeded toward argument, each side added attorneys. Peter Zinn enlisted John F. Fisk, and the firms of Harlan and Harlan, and Matthews and Matthews on the side of the Covington and Lexington Railroad. Charles Fisk, Harvey Meyers, M.M. Benton and J.W. Stevenson were on the team defending the Kentucky Central. Before the suit went to trial in 1870, a number of the defendants and witnesses died. B.W. Foley and Thomas D. Carneal were noted in the record as deceased along with William H. Gedge who passed away on March 24, 1870.

Few of the stockholders felt that the suit had any chance of success. The shadow Board of the old Covington and Lexington had been continued on paper simply to pursue the suit. As the years went by, it became harder and harder for the Board to find replacements for members who died or resigned. Peter Zinn was forced to re-enter the Board in May

1870 in order to maintain a quorum. Three gentlemen refused the Fayette position and it was left vacant. The director for Bourbon County never attended and he was replaced by John Bedford. The director for Pendleton resigned and he was replaced by an "outsider." Joseph Shawhan, Senator Ed T. Clarkson and John Bedford all died before the suit came to trial. Only A.L. Greer, Dr. George H. Perrin and Peter Zinn remained from the original Board elected in December 1859.

The suit was argued in late 1870 on the same issues that were raised to void the sale in 1859. The plaintiffs argued that the sale was not necessary, and that Bowler had used his position as a trustee for his own benefit and against the stockholders he represented. The defendants responded that the suit had been filed in the wrong court since Fayette Circuit Court still had jurisdiction. They also argued that the statute of limitations had expired before the suit was filed. The charges against the Board and Bowler were of course denied. Finally, in 1871, the Court ruled against the Covington and Lexington Railroad and an appeal was immediately taken on the ruling.

Public sentiment after the sale had strongly opposed the move as virtual thievery and the politicians of the time vowed that the new railroad would never receive a charter from the State. The lack of a charter was beneficial to the stockholders attempting to regain control since the road was still operating on the old Covington Lexington Charter granted in 1849. The new owners would have trouble selling the road without a clear charter. After the failure of the suit, the powerful forces representing the new board were able to approach the legislature for a charter which was granted on February 22, 1871.

The new charter gave all the rights, privileges and franchises of the old Covington Lexington Railroad to the newly created Kentucky Central Railroad Association. With the creation of the new company, the last inducement for some sort of negotiated settlement between the old board and the new one disappeared. The time for a settlement was growing late since powerful forces in Cincinnati were already working hard to charter a new railroad through Kentucky that would make the Kentucky Central a crooked, shortline competitor in the Bluegrass market.

In November 1871, the old issues were elaborately argued in the Court of Appeals. The court pondered the issues for eighteen months and the change of the railroad to be a part of the new Cincinnati Southern line went by the boards. On February 13, 1872, the Kentucky Senate voted by 20 to 19 to give a charter to the Cincinnati-financed road. The tie-breaking vote was cast in the Senate by John G. Carlisle of Covington, the Lieutenant Governor.

In April 1873, a virtual earthquake shook the Kentucky Central Railroad Association. The Court of Appeals unanimously ruled in favor of the Covington and Lexington Railroad Company. The new company was stunned by the turn of events and applied for a rehearing of the ruling. The winners filed a petition asking for modification of the ruling so that a receiver could be appointed to arrange the transfer of control back to the original stockholders. With virtually no financial support, Peter Zinn had forced the issue forward for over seven years. Suddenly out of the woodwork, hundreds of stockholders and old claimants against the Covington and Lexington came forward to fight for a piece of the action. Zinn and the old trustees were harshly criticized for what were considered to be exorbitant legal costs rising out of the recovery. In Zinn's words, "everyone was now a leader and knew all about the case and how to carry the suit to a final success." Of course, the new ranks of advisors and leaders were no more interested in helping with the ongoing legal costs than they had been before the decision. Over eighty suits were filed against Zinn and the old board as they continued to press their case against the new board which still denied their existence. Zinn stated that it, "became a serious question as to which enemy was the most dangerous, the enemy in front or flank."

After a year's wait, the Court of Appeals returned another decision which was much more beneficial to the defendants. Faced with the new decision, the old board was advised to compromise and negotiate the best solution with the defendants. The board negotiators reached a settlement that was supported by a bare majority of the board. The City of Covington so violently opposed the terms, that the position was abandoned. The City then took the lead in further negotiations that stretched through the last half of 1874. Covington negotiated a settlement which was highly favorable to itself and the other governmental stockholders (Cincinnati and Pendleton County) but which provided less for the individual claimants and attorneys. After reaching a solution beneficial to itself, the Covington Council was unable to agree within itself, and could not pass on the compromise. Five months dragged by while the Council debated the issue and the old board finally decided to act without Covington. By the time the Covington Plan was passed, by one vote, it was objectionable to a decided majority of the Board of Trustees. In April 1875, the board voted on a settlement that infuriated Covington but finally resolved the issue. To appease Covington, a clause was included stipulating that Covington would be the permanent northern terminus of the road with a new depot.

Under the compromise, the Kentucky Central Railroad Association conveyed all of their interest in the Covington-to-Paris and Paris-to-Lexington portions of the line along with the rolling stock to the newly chartered Kentucky Central Railroad Company. The latter company then issued \$5,000,000 worth of stock which was distributed to the claimants from both groups to settle all claims. The Bowler Estate released all claims on the third mortgage bonds and income bonds it held which had not been covered in the 1859 sale.

Covington, Cincinnati and Pendleton County were given preferred 6 percent stock in the company equal to the principle of the bonds they held. Over \$500,000 in interest on the bonds over sixteen years was lost forever. The stockholders of the Covington and Lexington Railroad received common stock in the new road at 75¢ on the dollar exclusive of any interest. Peter Zinn and the other attorneys received \$1,000,000 in common stock out of which they agreed to settle the claims of the handful of stockholders who had paid for the legal expenses in advance. This left \$2.4 million in common stock which was distributed to Bowler's heirs and the other stockholders among the defendants. Both sides signed the agreement on May 6, 1875.

By all evidence, the Kentucky Central was well managed during the period of the suit. Profits declined after the war but the road was able to pay its interest and return a profit to the owners. The future, however, was in doubt. The completion of the Cincinnati Southern promised to drain much of the profits as business was split between the parallel lines. The economy was floundering during the mid-seventies and the Louisville Short Line, Northern Kentucky's other through-route, was driven into receivership in 1874. The heavy debts from its rapid construction, the cost of the Newport Central Bridge, and a series of terrible train wrecks put the line under. The Short Line was reorganized in 1877. In July 1881, the Louisville and Nashville purchased the entire capital stock of the line and finally had access to the Cincinnati market over the Newport Bridge.

The fate of the Kentucky Central was ultimately decided by a newcomer. In late January 1873, railroad baron Collis P. Huntington watched the first through train on his Chesapeake and Ohio Railroad arrive at Huntington, West Virginia, from Richmond, Virginia. Huntington dreamed of creating a coast-to-coast railroad through a combination of failed short line railroads and new construction. Through the seventies, he pushed his road West toward Cincinnati via Ashland and Maysville, Kentucky. Steamboat traffic boomed as the Cincinnati-based White Collar line provided service to Huntington and the east coast in cooperation with the Chesapeake and Ohio. C & O

wharf boats were established at major towns along the river to service the new transportation system.

When the C & O line reached Maysville in 1881, the Kentucky Central became a useful cog in the Huntington plans. Huntington purchased the Kentucky Central which became the western terminus of the Chesapeake and Ohio. The route from Maysville to Paris, then back down the Licking Valley was not a permanent solution but it would suffice until the direct line from Maysville to Cincinnati could be completed. Huntington operated the Kentucky Central as an independent company so that it could be sold when it was no longer needed. In the meantime, Huntington tried his best to develop the road to its full potential. Construction was pushed south from Paris to Fort Estill Junction near Richmond, and then on to a point just north of Livingston, a total of 69 miles. The road then leased a further 33 miles of track to Rowland, Kentucky, from the L & N. Further agreements with the L & N gave the road a through-connection to the southern market by way of Jellico, Tennessee.

Despite, or perhaps because of Huntington's aggressive expansion, the Kentucky Central fell behind on its debt and was placed under a receiver during the mid-eighties. In May 1887, the road was reorganized as the Kentucky Central Railway Company with Collis P. Huntington still in control. Huntington's nephew, H.E. Huntington, became the vice-president of the new line and took control in Covington. After World War I, Huntington became the president of the C & O long after his uncle's death.

In 1888, just as two of his biggest projects were being completed in Covington, the entire structure of the Chesapeake and Ohio came crashing down into receivership. The Covington, Maysville and Big Sandy Railroad was completed to a junction with the Kentucky Central near Seventeenth Street and Madison Avenue in Covington. The railroad entered town over a new bridge across the Licking River at Fifteenth Street and Eastern Avenue and crossed Austinburg for .81 miles on a raised approach. The short section in Kenton County was incorporated as a separate corporation, the Covington Short Route Railway Transfer Company. Farther north, Huntington's final project, the Covington and Cincinnati Elevated Railroad and Transfer and Bridge Company was nearing completion. The C & O Bridge opened on Christmas Day, 1888. The bridge with its 17,000 feet of elevated approaches in Covington and Cincinnati cost about \$5,000,000 to build, including the acquisition of the real estate. Before it was opened, Collis P. Huntington had been ousted as head of the railroad by J.P. Morgan and Company, who had bought out the road from Huntington's partners. Melville Ezra Ingalls of Cincinnati became the new president of the C & O.

Collis P. Huntington, hardly destitute, concentrated on running his other two projects, the Southern Pacific Railroad and the Mexican International. With the completion of the Covington, Maysville and Big Sandy, the mainline of the Kentucky Central was no longer of any use to the C & O. Ingalls let word get around that the road was available and the Louisville and Nashville Railroad purchased the road in December 1890 at 65¢ on the dollar for the available stock. The C & O retained control of the Maysville branch which was not completed until the early 70's. They also guaranteed access to Cincinnati to the L & N over the new bridge.

The Kentucky Central as it was absorbed by its old rival the L & N in 1890 counted 26 locomotives and over 600 cars along 253 miles of track. Almost 900 employees were employed by the line. For a time the old Kentucky Central was operated as a separate division of the L & N. Gradually, its operations were absorbed by the larger line. Today, K.C. Junction at the Covington crossroads of the old C & O with the Kentucky Central remains as one of the last reminders of the old line.

Could the troubled story of the Covington and Lexington Railroad have turned out differently? Perhaps, but the opportunities in 1858 and 1873 were lost. In 1858, the railroad was the oldest and longest through-railroad in the State, but not for long. When the Louisville and Nashville Railroad had trouble raising funds in 1854, construction was stopped for a time and the city responded with additional funds. Smaller Covington put proportionately greater resources into the Covington and Lexington, but was unable to provide enough when the road most needed it. The directors were forced to sell bonds at very poor returns.

Cincinnati, Newport and Lexington stood by and watched the road slip further into debt. Had the response from outside Covington been as strong, the Kentucky Central might have been the first railroad in Kentucky to secure a route to the Southern market. Robert B. Bowler probably had this in mind when he successfully appropriated the railroad from its stockholders in 1859. By then the Civil War was on the horizon and the opportunity for extension of the line was lost.

The second chance came in 1873 as the Cincinnati Southern was chartered to build a road through Kentucky and was under pressure to establish its route. E.A. Ferguson, the guiding spirit of the Cincinnati Southern, admitted that his route would have included the Kentucky Central as its northern portion had Bowler's heirs won the suit that kept the road in limbo from 1866 through 1871. The judgement against the existing owners and the extended negotiations to clear the title killed the chance for the extension. Ferguson was particularly interested in the idea since he did not want to raise the ire of Governor John W. Stevenson, a stockholder in the Kentucky Central. After 1873, it was just a matter of time until one of the larger and wealthier lines acquired the small overmatched Kentucky Central.

The Covington and Lexington Railroad is barely mentioned in the history of the state. Indeed, a careful reading of the principal histories would leave the impression that it was a paper corporation somehow related to the origins of the road from Lexington to Louisville is well documented. Although chartered earlier, this line was barely able to provide through service in 1854, about the same time as the Covington and Lexington commenced operations.

The Covington and Lexington was mislaid by bluegrass historians since it was largely inspired, financed and then lost by entrepreneurs from Covington. Ironically, the few mentions of the Covington and Lexington by local writers usually credits it as a creation of the "wealthy planters" in Lexington.

