



Soo Line Railroad Company  
records.

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6/29/82

TMB, DMC, RWS, ~~DD~~

Accelerated Tax Credits - heavier in early years?  
Accelerated cost recovery system.

SOO LINE RAILROAD COMPANY

EXECUTIVE COMMITTEE

JUNE 29, 1982

RESOLUTION D

WHEREAS, the President has advised the Executive Committee as to the preliminary findings of a study committee which is evaluating the desirability of acquiring the line of the former Chicago, Rock Island and Pacific Railroad ("Rock Island") between the Twin Cities and Kansas City and certain feeder lines of the Rock Island located in Iowa;

RESOLVED, That the President is authorized in the exercise of his discretion and judgment to take and cause to be taken the following steps, if he shall deem them to be necessary and appropriate, with respect to the aforementioned Rock Island lines:

1. Contact William M. Gibbons, the Trustee of the Rock Island, to indicate the Company's interest in the line and to obtain further information on joint facility agreements and property adjacent to the line which would be subject to conveyance to the Company.

2. Contact the Kansas City Southern ("KCS") which operates the yard closest to the entry of the Rock Island line into the Kansas City terminal in order to evaluate the possible use of the KCS yard for terminating the Company's trains and to get a general idea of what terms could be expected for such use.



3. Contact the Missouri-Kansas-Texas Railroad Co. ("MKT") to obtain more information on the nature of the arrangements which the MKT made for its acquisition of lines in Oklahoma and Texas. Since MKT officials have expressed to Company officials their interest in having the Company acquire the Rock Island line north of Kansas City, the possibility that the MKT might be helpful to the Company in making terminal arrangements in Kansas City should be explored.

4. Contact the Iowa Department of Transportation to receive further assurance of the nature of the support which the Company could expect from that agency in the event the Company were to make an offer to acquire certain Rock Island lines.

5. Contact the elevator cooperatives to determine their interest in participating in the acquisition of branch lines.

6. Contact North American Car Company regarding its indication of desire to participate in the acquisition of certain Rock Island lines in order to provide a home for some of its covered hopper cars.

7. Identify and contact investors who might have an interest in participating in the acquisition of the feeder lines.

RESOLVED FURTHER, That upon completion of the aforementioned steps, the President shall report his findings to the Executive Committee.



JDD

SOO LINE RAILROAD COMPANY

EXECUTIVE COMMITTEE

June 29, 1982

Report to Executive Committee  
on Acquisition of Rock Island Lines.

Background

On October 26, 1981, Mr. William M. Gibbons, trustee of the Rock Island, invited the Soo to consider making a proposal to acquire the Twin City to Kansas City line of the Rock Island.

In order to make an evaluation of traffic potential, we obtained from the Rock Island its record of movements for the year 1978 which was the last year the Rock Island operated the line. We identified those classes of traffic that we could expect to retain on the line and in addition reviewed traffic handled by the Soo Line and turned over to other railroads in the Twin Cities which might be susceptible of handling over the Rock Island trackage. We then developed the level of operations to support the volume and the costs which would be involved in handling the traffic. No particular emphasis was placed on expediting the completion of this study. Recently, however, there have been significant developments which have led us to devote more attention to the matter.

### Changing Relationship

The proposal of the Grand Trunk Corporation to acquire the Milwaukee represents a substantial change in traffic relationships in the Midwest. Prior to acquiring the Milwaukee, arrangements have been made for the operation of run through trains from Winnipeg to Kansas City over Milwaukee trackage between Twin Cities and Kansas City. This will substantially reduce the volume handled by the North Western over the Rock Island trackage which it leases. New run through service will provide a substantial reduction in running time on Canadian originated traffic headed toward the U.S. Southwest and will make it difficult for the Soo to compete on a time basis for this traffic.

The North Western apparently negotiated conditions in the Union Pacific-Missouri Pacific case for obtaining trackage rights between Omaha and Kansas City. Through the use of these trackage rights, we believe the North Western to be in a position to discontinue leasing the Rock Island line between Des Moines and Kansas City and to avoid any need for the substantial maintenance effort required on the Chicago Great Western lines between those points. With the loss of the Canadian National originated traffic, it is questionable whether the North Western will retain the interest it has had in the past of acquiring ownership over the Rock Island tracks between the Twin Cities and Kansas City.

The merger of the Burlington Northern and the Frisco has changed competitive relationships among railroads in the Southwestern part of the country. The Burlington Northern has been quite aggressive in cutting rates to induce the flow of traffic over its lines and in the process has established itself as a competitor of several southwestern roads with which it had friendly relationships. Several southwestern roads reaching the Kansas City terminal with traffic destined to the Twin Cities and points beyond would probably be more inclined to cooperate in routing over a railroad which is seen as less of a competitor.

The acquisition of the Minneapolis, Northfield & Southern by the Soo has enabled the Soo to consider operating from Shoreham to Northfield over the MN&S tracks rather than requiring it to purchase the Rock Island line from Inver Grove to Northfield in order to operate trains to Kansas City. As a result, terminal costs in the Twin Cities would be substantially reduced, running time reduced somewhat, and the number of miles of track to be acquired reduced with some reduction in the purchase price.

#### Prior Efforts of Trustee to Dispose

The trustee has regarded the Kansas City to Twin Cities line as one of the principal assets of the bankruptcy estate. Vice President Mondale proposed the development of a "super railroad" which various railroads would operate in order to provide direct linkage between the Twin Cities and the Southwest.



The Chicago & North Western leased from the Trustee 840 miles of Rock Island track including the Inver Grove to Kansas City trackage for a monthly rental of \$480,982 to establish a prior claim to the line and to restrain other railroads from bidding for it. It is our understanding that the North Western has in the past made proposals to acquire the line and other Rock Island trackage with offers in the range of \$50 million and most recently for \$65 million, including \$7 million to be put up by shippers. We have no detail as to the terms of payment which the North Western proposed, nor do we have clear identification of the exact trackage covered.

The Kansas City Southern made an initial offer of \$15 million which was apparently raised to \$40 million at a subsequent time. There was initial counter-offer by the Rock Island trustee of \$260 million.

It is possible that the North Western will make another offer. This offer may well be limited to portions of trackage rather than for the complete line.

#### Prospects for Soo

Over the past several years there has been an increased volume of traffic handled by the Soo into the Southwestern region of the United States. Examples of this traffic include sunflower seeds moving into Mexico, oil well drilling pipe manufactured at Algoma Steel destined for the Texas drilling operations, sulphur traffic from Canada moving into the territory previously served by the sulphur

dome production along the Gulf Coast and lumber from the Canadian Pacific Coast area for the active construction industry in Texas and along the Gulf Coast of the U.S.

There have been movements of specialty petroleum based chemicals from the Texas gulf region into the Canadian refining and chemical operations in the Calgary and Edmonton areas.

Extensive printing and publishing operations at Des Moines and Kansas City are users of very substantial amounts of paper much of which is of Canadian origin or originates at paper mills on the Soo.

As intermodal operations expand on the Soo Line, it would be useful to have the short route between Minneapolis and Kansas City to participate in this traffic and to make more efficient utilization of our intermodal facilities in the Twin Cities terminal.

With the acquisition of the Rock Island line between Kansas City and Northfield, the Soo and Canadian Pacific would have a route advantage of several hundred miles from points in Western Canada to Kansas City and points reached through that gateway. The mileage differential is great enough to enable Soo and Canadian Pacific to assume leadership on pricing matters which would give our companies a competitive advantage over other lines.

#### Iowa Department of Transportation Interest

The Iowa Department of Transportation has recently demonstrated an interest in having the Soo acquire the Rock

Island lines in Iowa. The concern of the state agency is over the providing service to elevators located on the Iowa Falls gateway branches of the Rock Island. The Iowa DOT senses that the North Western is losing interest in continuing to operate these lines and that the North Western is trying to pull grain from these stations to its own lines and to handle this to Kansas City via the Omaha-Kansas City trackage rights. There appears to be considerable animosity among shippers in Iowa toward the North Western.

The Iowa DOT has indicated that substantial funding is available for the rehabilitation and possible acquisition of the feeder lines. There is also said to be \$15 million in FRA funds available, although that is not clear in the current federal budgetary situation. The Iowa funds themselves are somewhat suspect in that their availability depends on a tax on diesel fuel used in the State of Iowa which is being challenged in court by all of the railroads currently serving the state.

There has been strong shipper support for railroad rehabilitation in the State of Iowa and substantial funds have been advanced by shippers subject to repayment out of revenues for shipments originating on the rehabilitated lines.

In addition, the Iowa DOT indicates that there have been some private investors interested in participating in the financing of the acquisition of feeder lines for the tax benefit which might be realized. We have yet to evaluate the



level of interest of these possible outside sources of financing.

#### Financial Prospects for Soo

On the basis of the 1978 records, we have projected at 1982 rate levels, revenues of \$34.7 million on traffic handled on the main line between the Twin Cities and Kansas City. The revenues on traffic originating on the feeder lines at 1982 rate levels would be \$19.6 million, for a total of \$54.3 million on the operation of the line. In order to obtain a range of revenue and income projections, we then made calculations on the assumption that the volume would be 80%, 100%, and 120% of the projected figure.

The results of operation and rate of return on investment will be controlled by the amount required to acquire the lines. For the purpose of a preliminary study, I requested our Accounting Department to use \$90,000 per mile as the cost of acquiring the trackage. It is not my intention to use this as the amount that we would initially bid for the property but simply to evaluate the results if that were the consideration required. We have assumed that the entire purchase price would be paid for by the Soo and that there would be a rate of interest of 14% on the unpaid balance.

While the results which we project would be an operating income of \$11.2 million at the 100% study volume, \$5.8 million at the 80% level, and \$16.5 million at 120%, the net income would be in the range of \$2 to \$5 million per

year at the 100% level. This would represent a rate of return on equity capital of around 25%. We believe, however, that we should be able to structure a financing program which would limit Soo participation dramatically and result in substantially greater increases in net income as a result of the acquisition of the lines.

#### General Approach

We believe that the Rock Island lines between the Twin Cities and Kansas City should be considered in two separate packages.

The first package consists of the main line from Northfield to Kansas City. In order to avoid problems with Soo mortgages and to maintain a separate corporate identity in the event the operations prove unsuccessful, we would suggest the organization of a separate corporation to operate the main line between Northfield and Kansas City. The corporation would purchase approximately 400 miles of track from the Rock Island and would be substituted for the Rock Island under its trackage rights arrangements with the Milwaukee and North Western.

In order to limit the cash outflow, we believe that the purchase price should be paid over a period of years in installments. Because of the uncertainty of the level of traffic which is likely to result from the Soo operation of this trackage, it is possible that the purchase price might be subject to adjustment to reflect the traffic volume actually realized over a period of 4 to 5 years.

An effort would be made to obtain a below market interest rate on the unpaid installments.

With respect to the feeder lines, a separate corporation or corporations for each branch line would be established. Efforts would be made to obtain Federal financing of these lines. To the extent we are unable to obtain Federal financing, we would look for loans from the shippers and from the State to fund a portion of the purchase price and would seek to involve tax oriented private investors in the balance. We would attempt to develop a formula for the repayment of the shipper loans and the tax oriented investors' investment in the property out of revenues derived from products originating on the branch lines. The state loans, I understand, would have an indefinite maturity and would not present a repayment problem for the foreseeable future.

#### Steps to be taken

Following the presentation to the Executive Committee, I would propose taking the following steps with respect to the acquisition of the Rock Island lines between the Twin Cities and Kansas City.

1. Submit the material which we have developed to the Canadian Pacific for its review and any possible comments.

2. Contact William M. Gibbons, the trustee, to indicate the Soo interest in the line and to obtain further information on joint facility agreements and property



adjacent to the line which would be subject to conveyance to the Soo.

3. Contact the Kansas City Southern which operates the yard closest to the entry of the Rock Island line into the Kansas City terminal. We would want to evaluate the possible use of its yard for terminating our trains. We should have a general idea of the terms we could expect before we make any proposal to the trustee.

4. Contact the MKT Railroad to obtain more specific information on the nature of the arrangements which it made for the acquisition of lines in Oklahoma and Texas. The Katy officials have expressed to us their interest in having the Soo acquiring the line north of Kansas City. It is not clear whether they would be helpful to us in making terminal arrangements in that city.

5. Contact the Iowa Department of Transportation to receive further assurance of the nature of the support which we could expect from that agency in the event we made an offer to acquire certain lines.

6. Contact the elevator cooperatives to determine their interest in participating in the acquisition of the branch lines.

7. Contact North American Car which has indicated a desire to participate in the acquisition of the lines in order to provide a home for some of its covered hopper cars.

8. Identify and contact investors who might have

an interest in participating in the acquisition of the feeder lines.

9. Formulate an offer which would be submitted to the trustee for the acquisition of lines.

10. Submit the proposed form of offer to the Soo board prior to its submission to the trustee.

11. Conduct further negotiations with the trustee and report back to the Soo board.



IOWA REHAB \$10.519 million 1976-1979. \$17.4M  
TO \$19.436M REMAINING

WBP M.L. FAIR-GOOD 30-40 MPH, 262,000 LBS,  
90-132 MOSTLY 112 LB. TIES, SURFACING, ANCHORS.

NO RAIL \$4.869M

B.L. GOOD EXCEPT 46.4 MILES RELAY \$3.365M

BRIDGES FAIR TO GOOD, NORMAL MAINTENANCE

BUILDINGS FAIR, ROUTINE MAINTENANCE

HIGHWAY GRADE CROSSINGS FAIR, INCORPORATE

REHAB WITH TIE AND SURFACING WORK

### TRANSPORTATION

4 SUPERVISORS (ASST Supt, TM(2), ATM)

DISPATCHERS DESK (4.2)

20.4 AGENT/OPERATOR/CLERKS

CREW DISTRICTS

MPLS - IOWA FALLS 192.1 MI

IOWA FALLS - TRENTON 197.2 MI

TRENTON - KC 89.0 MI

ML W/F

MANLY - ALBERT LEA

MANLY - MASON CITY

OTHERWISE THRU AND EXTRA TRAINS AS NEEDED

ML YARD ENGINES

IOWA FALLS - 2

DES MOINES - 2 (INCL INDIANOLA BRANCH)

TRENTON - 1

LOCOMOTIVES (ALSO 13 CARS)

31 UNITS - PURCHASE NEW 2 EACH YEAR WITH NO  
TRADE, ADEQUATE IN RELATION TO CURRENT \$500  
FIVE YEAR PLAN AND MNS ACQUISITION

CARS

1000 FREIGHT CARS, 100 TRAILERS

200 PER YEAR STARTING IN SIXTH YEAR NEW

623 JUMBO HOPPER ANTICIPATED, BASED ON  
30% SHIPPER LEASED CARS

300 PRIVATE CARS IN IOWA FALLS GATEWAY  
SHIPPER ASSOC. POOL ALONE.



June 28, 1982

TO: Thomas M. Beckley  
FROM: Ray H. Smith  
RE: Critique of Revenue Projection -  
Acquisition of Rock Island Trackage

I. Data Sources

A. 1978 RI revenue tapes covering traffic origination, terminating and moving over the main line and tributary branches were obtained from the Rock Island Trustee. 1978 was used since it was the last full year of operations. This data was then stratified and arrayed to facilitate analysis of traffic susceptible to Soo participation or control. Revenues were identified and projected accordingly.

B. 1978 Soo revenue tapes were obtained and were subjected to a similar stratification to accommodate the use of sampling techniques in analyzing strata with large populations. Specific strata were developed covering Soo, CP, CN and "all other" flows. Traffic plainly susceptible to Soo control between Kansas City and Minneapolis was identified, revenues were calculated and were updated to 1982 levels.

C. The consolidation of carloads and revenues derived from the two sources of data results in the identification for Soo movement over the main line between Minneapolis and Kansas City.

	<u>Carloads</u>	<u>Revenues</u> (millions)
Northbound	14,700	\$ 9.1
Southbound	<u>35,600</u>	<u>\$ 25.6</u>
	50,300	\$ 34.7

D. Des Moines and Iowa Falls Branch Lines.

A similar analysis was made of RI tapes and Soo tapes to identify traffic irresistably susceptible to movement via the main line and/or to control by CP/Soo.

Because Des Moines branches are being operated apparently successfully by Iowa Railroad Co. and by CNW and because associated operating costs are not compatible with shorthaul revenues, those branches were dropped from further consideration.

The analysis of Iowa Falls branch lines produced the following results:

<u>Carloads</u>	<u>Revenues</u>
17,682	\$11,000,000

Memo R.H. Smith to T.M. Beckley  
Re: Acquisition of RI Trackage

## II. Traffic Characteristics

A. As noted above, the flow is predominantly southbound. That imbalance reflects Soo originations of papers, lumber, scrap, roofing granules, dairy products, grains and grain products, which moved to RI or to RI competitor at the Twin Cities for markets on the RI main line and its branches or to connections at Kansas City.

B. Traffic patterns from Soo's territory are heavily complemented by streams of business off CP for termination on the Rock Island or for southwestern markets tributary to the Kansas City gateway. The study disclosed major on-line terminations of CP's fertilizers; potash, urea, phosphates and anhydrous ammonia. The RI was also the terminating road for a significant volume of CP newsprint and lumber.

C. CP traffic identified as readily susceptible to a Soo haul to Kansas City connections is characterized by lumber, chemicals, paper, woodpulp, sulfur and fertilizers.

CN originations initially included in the traffic projection were subsequently written out or down to reflect the impact of the GT-Milwaukee Road arrangement.

D. Northbound, the study identified flows from RI stations for Soo termination. Soybean meal, flour, corn and cement are typical commodities. From friendly connection at Kansas City, we project for Soo termination California canned goods; Texas, Louisiana, Arkansas and Oklahoma pulpboard and papers.

For termination on CP, there is a wide spectrum of commodities. Bauxite, oil drilling muds and sands, agricultural implements, rice, chemicals, petroleum products, etc.

## III. Traffic Study Criteria

The projection reflects a strongly conservative bias. I would characterize the projection as "hard core." There is no uncertainty, no flabbiness, no "blue sky." Its fulfillment is nothing more than the consequence of Soo ownership and operation. The conservative approach excluded any speculative participation. Even opportunities offering better than a 50-50 chance of exploitation were excluded. The prospective attitudes of Kansas City connections were evaluated and traffic projections are based on those likely attitudes ranging from friendly to passive to hostile. Because of the conservative bias, the study deliberately discards obvious opportunities, some of which will be fulfilled. The traffic projection is the bottom line, the worst case, and I regard its achievement as a sort of "falling out of bed" objective.



Memo R.H. Smith to T.M. Beckley  
Re: Acquisition of RI Trackage

#### IV. Reliability of 1978 Data as Index to Future.

1978 was generally a good year for U.S. Railroads. The year was marked by a vigorous economy and for most railroads, including the Soo, a return to traffic volumes which had been badly battered by the 1975 recession. 1978 was not a good year for Rock Island. Already three years in bankruptcy and only 18 months from being taken over by the ICC and its directed service designees, the Rock was unable to respond to competitive pressures. Its service was scarred by unreliable power, a deteriorating roadbed, inadequate equipment supply, all leading to a lack of shipper confidence and therefore declining traffic volumes.

On balance, 1978 for traffic study purposes, is a representative year. The Rock Island did not participate in the general increase in rail freight activity that marked that year and its traffic levels for the study year do not reflect the current potential and not at all the relative vigor it enjoyed in the 1960's.

In reviewing the RI and Soo revenue tapes for 1978, it is immediately evident that some segments of that business have disappeared, probably forever. But since 1978, new streams of business have emerged to balance out the losses. I am convinced that a study of Soo traffic for 1982, with consideration of the recessed economy, would show the same volume susceptible to Soo dominance between Kansas City and Minneapolis as 1978. Similarly, if we had access to current data from those railroads operating the Rock Island and its branches, I believe we would find even more vigor than portrayed by RI's 1978 revenue tapes.



425/8

3.1 M - 1982 FY

3,000,000 - 3,500,000 - 1983 FY  
20-44M

Bill

Dan Franklin

Federal carries over

Roll over memorandum account

Same basis as shipper

railroad keeps interest

may be railroad contribution

Peggy Beer

Credits to account

future project

second time grant, state contribution

1/1/82 \$1,000,000 on 3 contracts

M. Sills 6/25/82

Meeting

So. African Trade Group

Deputy Administrator FRA

James C. Ramsey

Assoc. Dir Policy  
FRA

Tuesday, June 29, 1982

No government involvement

\$15,000,000 - rehab, 99% sure

Repaid - component parts, rail, rolling  
stock

CNW

Balance of payments, cash out of country  
lend money, equity kicked at end



6/25/02 9:30 AM

Ed Dodge, Harry Biedun

CN-DWP - \$3,000,000

CP (Eastern Canada) + \$3,000,000

Winnipeg, Vancouver?



Minneapolis - June 25, 1982

TO: D. M. Cavanaugh  
FROM: W. B. Peterson *mro*  
RE: ROCK ISLAND BRIDGE INSPECTION REPORT  
D. I. KJELLMAN

There are no major structural problems with any of the bridges inspected. All large bridges in good condition; normal maintenance required.

MRO:pn

June 24, 1982

TO: T. M. Beckley  
FROM: W. C. Serkland  
RE: Application of Employee Protective Conditions to  
the Acquisition of Rock Island Trackage

The imposition of any employee protective conditions as a condition to the acquisition of trackage of the Rock Island would be as a result of the order of the bankruptcy court under section 17(b) of the Milwaukee Railroad Restructuring Act which provides as follows:

"(b)(1) Notwithstanding any other provision of law, in any case pending under section 77 of the Bankruptcy Act on the date of enactment of this Act, the court may authorize the sale or transfer of a line of railroad to be used in continued rail operations, subject to the approval of the Commission under paragraph (2) of this subsection, if the application with respect to such sale or transfer is filed with the Commission on or after November 1, 1979. In authorizing any such sale or transfer, the court shall provide a fair arrangement at least as protective of the interests of employees as that required under section 11347 of title 49, United States Code.

"(2) The court described in paragraph (1) may not authorize a sale or transfer pursuant to such paragraph unless an appropriate application with respect to such sale or transfer is initiated with the Commission and, within such time as the court may fix, not exceeding 180 days, the Commission, with or without a hearing, as the Commission may determine, and with or without modification or condition, approves such application, or does not act on such application. Any action or order of the Commission approving, modifying, conditioning, or disapproving such application is subject to review by the court only under sections 706(2)(A), 706(2)(B), 706(2)(C), and 706(2)(D) of title 5 of the United States Code.

"(3) Pending review of an application by the Commission pursuant to paragraph (2) of this subsection, the court described in paragraph (1) may, on a preliminary basis, authorize the sale or transfer proposed in such application. The court may permit the purchasing carrier to operate interim service

over the lines to be purchased, and in operating such service it shall use employees of the carrier subject to the bankruptcy proceeding to the extent such purchasing carrier deems necessary for the operation of such service."

Section 113.47 of Title 49 USC provides as follows:

"§ 11347. Employee protective arrangements in transactions involving rail carriers

"When a rail carrier is involved in a transaction for which approval is sought under sections 11344 and 11345 or section 11346 of this title, the Interstate Commerce Commission shall require the carrier to provide a fair arrangement at least as protective of the interest of employees who are affected by the transaction as the terms imposed under this section before February 5, 1976, and the terms established under section 565 of title 45. Notwithstanding this subtitle, the arrangement may be made by the rail carrier and the authorized representative of its employees. The arrangement and the order approving the transaction must require that the employees of the affected rail carrier will not be in a worse position related to their employment as a result of the transaction during the 4 years following the effective date of the final action of the Commission (or if an employee was employed for a lesser period of time by the carrier before the action became effective, for that lesser period)."

In a December 23, 1980 order evaluating applications for the acquisition of Rock Island trackage, the Commission refused to impose any labor protective conditions, holding that such conditions, if applicable, must be imposed by the bankruptcy court. It therefore appears fairly clear that the labor protective conditions to which the Soo may be subjected as a result of its acquisition of any Rock Island line will be those imposed by the bankruptcy court. It would seem that this should be beneficial to the Soo Line since the trustee will realize that expensive labor protective conditions will simply reduce the value of the property being transferred, and should support less restrictive conditions in any proceeding before the bankruptcy court. It has also been noted that the bankruptcy court has not been particularly receptive to broad labor protective conditions, in fact enjoining application of certain provisions of the Rock Island Transition and Employee Assistance Act which would have subjected the estate of the bankrupt to up to \$75 million of labor protective conditions. Although I have not been able to locate in our files the bankruptcy court's order authorizing the acquisition of the Tucumcari line by the Southern Pacific,



references in the file indicate that no labor protective conditions were imposed. A conservative and somewhat realistic approach would seem to be to anticipate the imposition of New York Dock conditions protecting employees of the Soo Line and the Rock Island affected by the purchase. These conditions should not in any way adversely affect the Soo, since it is not anticipated that there will be a reduction in Soo employment from the acquisition, and any reduction in Rock Island employment has already taken place due to factors other than this acquisition.

The only risk of employee protective conditions which would be costly to the Soo would be the imposition of New York Dock type conditions covering employees of the Chicago and North Western Transportation Company. The Railway Labor Executives Association has fairly consistently over past years taken the position that the provisions of section 11347 require the application of labor protective conditions to employees of carriers affected by a merger or acquisition, even though those carriers are not direct participants in the merger or acquisition. This contention has received its primary impetus from the case of Soo Line Railroad Company v. United States, 280 F.Supp. 907 (D.C. Minn. 1968). This was the Chicago and North Western and Great Western merger case and one of the prime reasons for the district court's reversal of the ICC order authorizing the merger was the failure of the Commission to impose labor protective conditions on the applicant for Soo Line employees adversely affected by the merger. It appears that for several years after this case the Commission adopted the district court's interpretation of the law, despite one other district court case directly contrary to that result. See Florida East Coast Railway v. United States, 259 F.Supp. 993 (M.D. Florida 1966). For instance, in St. Louis Southwestern Railway Purchase--Alton and Southern Railroad, 342 ICC 498 (1972), the Commission stated that they had the authority to impose protective conditions at the applicants' expense, for employees of a railroad affected by the purchase, although not directly a party thereto. It should be noted, however, that in this case the Commission did not feel that the evidence presented warranted the imposition of such conditions. It does appear that the position of the Commission with regard to interpretation of section 11347 has changed. In the Burlington Northern-Frisco merger the Commission apparently specifically held that it did not have authority under section 11347 to apply merger protective conditions to employees of carriers not a party to the merger. This finding was upheld by the Fifth Circuit Court of Appeals, and a petition for certiorari by the Railway Labor Executives Association to the U.S. Supreme Court on this issue, was denied.

The imposition of labor protective conditions on the Soo Line for employees of the North Western would seem par-

ticularly inappropriate in an acquisition transaction. The acquisition should not have a net negative impact on total railroad employment, and in fact I would expect that there might be some net increase from the acquisition. It would therefore seem that the Soo Line would have both equitable and legal arguments to resist the imposition of such conditions and I would expect that claims of the organizations to the contrary could be successfully defended.

It is possible that the bankruptcy court might also attempt to impose a requirement on the Soo Line that it hire furloughed Rock Island employees to man positions required on the trackage to be acquired. Even in the absence of such a direct requirement, the Rock Island Railroad Transition and Employee Assistance Act requires a preference in employment for furloughed Rock Island employees, unless they are found to be less qualified than other applicants, or the vacancy is subject to an affirmative action plan. This preference, however, would not apply to the extent that the Soo Line would be recalling its own employees now on furlough. A similar hiring preference exists for furloughed Milwaukee Road workers.

WCS/sjp

cc: D. M. Cavanaugh

# SIDLEY & AUSTIN

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

ONE FIRST NATIONAL PLAZA

CHICAGO, ILLINOIS 60603

TELEPHONE 312: 853-7000

TELEX 25-4364

2049 CENTURY PARK EAST  
LOS ANGELES, CALIFORNIA 90067  
TELEPHONE 213: 553-8100  
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1722 EYE STREET, N.W.  
WASHINGTON, D. C. 20006  
TELEPHONE 202: 429-4000  
TELEX 89-463

9 HOLLAND PARK  
LONDON, W11 3TH, ENGLAND  
TELEPHONE 01: 727-0132  
TELEX 21781

P.O. Box 190  
MUSCAT, SULTANATE OF OMAN  
TELEPHONE 722-411  
TELEX 3266

P.O. Box 4619  
DEIRA, DUBAI-U.A.E.  
TELEPHONE 9714-283194  
TELEX 47216

Founded in 1866 as  
Williams & Thompson

June 24, 1982

Mr. Joseph Darling  
Soo Line Railroad Company  
Soo Line Building  
Box 530  
Minneapolis, MN 55440

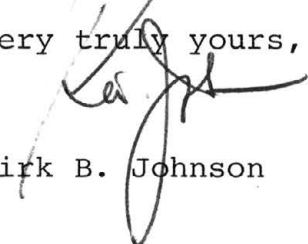
Dear Joe:

Enclosed herewith are certain of the documents that you requested which we have received from the trustee today:

1. The appendix to the petition of the trustee regarding his agreement with Southern Pacific.
2. The exhibit to the trustee's petition regarding the agreement with the Little Rock and Western Railway Corporation.
3. The exhibit to the petition of the trustee regarding his agreement with TeCe Corporation.
4. The application of the Enid Central Railway, Inc. to acquire a portion of the Rock Island.

As soon as the other documents are available, we will immediately forward them to you.

Very truly yours,

  
Kirk B. Johnson

KBJ/gk

Enc.



6-23-82 8:30a.m. Bond Term  
WCS, HSN, RLM, DMC, CHC, JTH, RWS, JCM, ~~JDA~~

Check carloads

MNS revenue on RTI tape not included.


\$15,000,000

FRA - payments, rate, relab,

June 22, 1982

CONFIDENTIAL

To: C. H. Clay  
R. H. Smith  
R. L. Murlowski  
B. D. Olsen

From: D. M. Cavanaugh 

Re: Rock Island Acquisition  
Executive Committee Board Presentation

Attached is a rough outline from Thomas M. Beckley of a presentation to the Executive Committee on June 29. We will meet in the board room on Wednesday, June 23, at 8:30 a.m., to discuss your participation in completing the outline.

cc: J. D. Darling ✓  
H. J. Ness

Att.

Proposal to Acquire Rock Island Line  
Northfield to Kansas City.

Proposal to Acquire Feeder Rock Island  
Lines Coming Into Iowa Falls

Executive Committee

June 29, 1982



Facilities to be Included

Northfield - Kansas City

Northfield		RI Yard	
Northfield		RI trackage rights over Milw.	Miles _____
		RI track	Miles _____
_____	_____	RI trackage rights over C&NW	Miles _____
_____	Treaton	RI track	Miles _____
Treaton	Kansas City	RI track ownership _____ miles. Joint use by Milw.	
Kansas City		Connecting track?	

List yards and sidings en route.

Feeder line

Describe - length of segments and trackage rights, if any.

Map showing each.

Traffic Potential

Main Line

1978 RI figures & Soo projections

Changes of Traffic	80%	100% Projection	120%
	Cars	Cars	Cars
	Rev.	Rev.	Rev.

Northbound

Southbound

Total

Projected Operating Results

Main line

1982 Cost Levels

	<u>80% Traffic</u>	<u>100% Traffic</u>	<u>120% Traffic</u>
Revenues			
Costs			
Crews			
Cars			
Maintenance			
Track rights			
Clerical			
Overhead			
Taxes			

Make similar projection for feeder line.



## Prior Soo Evaluations of KC Gateway

- I. Soo CGW merger study.  
CGW weak participant in thru traffic.  
RI strong C&NW a factor  
Milw. weak  
Deferred maintenance on CGW KC line.  
St. Joseph only significant traffic generator.  
Made no offer to acquire. Invited offer received none.
- II. C&NW proposal to acquire Milw.  
Review made. Most concern over terminal facilities,  
especially Milw. term.
- III. C&NW acquisition of CGW.  
Studies traffic rights to KC.  
Concentrated on getting Roseport. Other conditions Subordinate.
- IV. RI acquisition of UP.  
Counter offer by SP C&NW.  
Considered seeking rights.
- V. Grain corridor.  
Mondale proposal.  
Led to FRA study.  
Corridor use by several lines.  
Soo not active.

VI. KCS proposal.

Would come to Twin Cities and also to Chicago.

BN joined but dropped out.

KCS had proposed use of Soo Twin Cities facilities but made no effort to follow through. Talked with CP at Montreal.

Would limit investment to \$5 million.

CNW Interest

Prepare map showing RI lines leased by C&NW from trustee in relation to CNW.

Prepare map showing CNW trackage right to KC under UP MOP merger and courses grain and overhead traffic would be diverged from RI line.

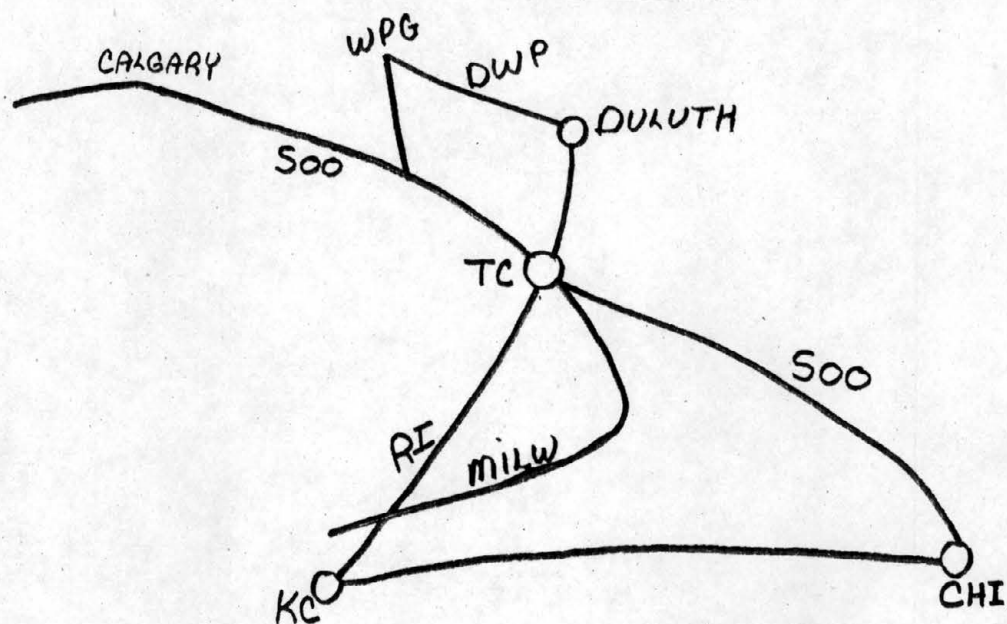
Prepare map showing RI leased line to KC and adjoining C&NW lines preserved in order to retain local service in event RI line discontinued.

Rental payments by C&NW.



# Impact of GT Milw. Proposal

## Western Canadian Traffic



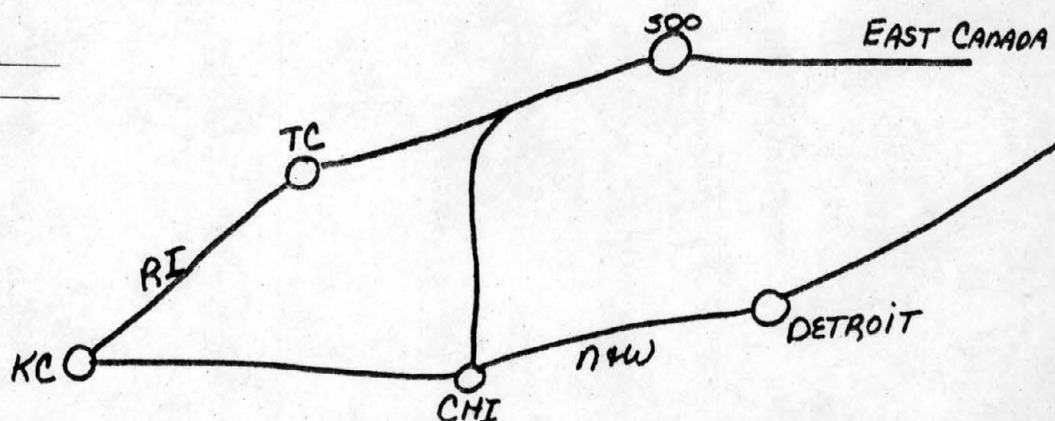
Distances

	CP Soo (Chi) Conv.	CN DWP Milw(Chi)	Milw(Direct)	CP Soo RI
Calgary KC	_____	_____	_____	_____
Edmonton KC	_____	_____	_____	_____
WPG KC	_____	_____	_____	_____

## Eastern Canadian Traffic

Distances

Soo CHI KC \_\_\_\_\_  
Soo TC KC \_\_\_\_\_



Identify points in eastern Canada where RI route to KC equalizes mileage via Chi - N&W - CSX routes.

Traffic Potential for Soo on RI Route

Western Canadian traffic at Texas points.

(CP recently established routes with BN)

Development of petrochemical industries and exchange of raw materials and feedstocks between Western Canada and Texas.

MN&S industries.

Markets for paper and pulp through KC gateway.

Increasing movement of export grain to Mexico and Gulf.  
Replacement of cattle feeding.

DesMoines area.

Mason City.

Frac sand for drilling.

Piggy back and container traffic.

Changing competitive relations for KCS and MKT as result of mergers.

Summarize deals for sale of RI lines

Tucumcari - Kansas City

Sold to SLSW

Cost per mile

Terms

Rehab cost

Nature of track weight of rail

Appurtenant land yards facilities

Alternatives - OK - line to MKT

Chicago Bureau line.

What is state of sale of line to Memphis?

Milwaukee acquisition in

C&NW purchases.

Digest each of these transactions from Trustee's reports filed in Law Department.



Proposals which have been made  
for RI - KC line

Describe general nature of offers made as described by Iowa  
DOT representatives.

C&NW

Speculative group.

Indications by trustee of his expectation.

Summarize FRA Study

Cost of rehab.

Description of track.

Signals.

Need for yard improvements.

Summarize Improvements to Feeder Line

Shipper loan funds.

Track improved.

FRA loans.

Iowa DOT grants.

What needs to be done?

Soo Approach KC Line

Organize separate corporation to avoid after acquired mortgage problems.

(Would be desirable to have holding company structure).

Make offer of \$\_\_\_\_\_ per mile at base.

Down payment of \$\_\_\_\_\_.

Try to march initial annual payments to tax deferments reflecting accelerating depreciation of track structure.

Consider additional consideration based on achieving traffic levels at successively higher figures over 5 year period.

Hold down interest rate.

Contribution from Iowa DOT?

FRA funds?

Limit purchase to owned track between Northfield and KC. Perhaps joint with Milw. GT over line into KC.



Soo Approach Feeder Lines

Seek maximum shipper-tax oriented investor - state support.

Buy in on \_\_\_\_\_¢ per ton on tonnage handled basis.

NA leasing may participate to keep covered hoppers in service.

Farm cooperative apparently disposed to make significant contribution to repair and put up funds.

Non scheduled demand type operations.

Hopefully special labor arrangements.

Should consideration be given to run through KCS or MKT unit from other carriers?

Trackage charges on trains of other roads.

Contract with short line operators?

## Financial Statements

Compile separate statements for 5 years for following entities.

1. Soo Line RR Co.
2. MN&S Ry.
3. Northfield - KC line.
4. Feeder line.
5. Consolidated.

A. Balance Sheet

B. Income tax impact.

C. Income Statement.

D. Cash Flow

E. Capital requirement.

Way

Equipment.

6/1/82 9:00 a.m. Board Room  
TMB, RWS, BMC, WSN, SDD

Essential Rail Plan.

Poudre River Basin(?) IRRC(?) MILW-CNX-RI(?)

230 miles rehab - 1982, \$35M  
1/3 each party no interest loan

\$50M KCN(?) 40M

Trustee \$260M

IADOT Gross salvage \$50M Spine Line - 1980  
\$40M Salvage

Being concern \$75M

Dave Falls Gateway \$15M Salvage  
\$25M Being concern

Net Salvage \$60 } Spine, Gateway, Pella  
Being Concern \$100 }

\$65M, not including Pella, may have been  
rejected. \$7M Shipped

NW filed to get out of Council Bluffs.

20% of BL Assistance can be used on ML.

\$15M for Spine Line SOS preference 2%  
purchase of rehab

Credit in loan guarantee program at Fed Level



\$80,000/mile

RI Trustee - installment payments -  
related to deferred income tax

30% Debt/equity including deferred taxes  
20% rate of return on equity capital after  
taxes


~~1%~~ after tax for limited partnership?

2% 1. Deductibility, immediate  
Pretest 2 long term inflation hedge

8

June 4, 1982

TO: D. M. Cavanaugh  
R. L. Murlowski  
R. H. Smith  
J. T. Hartnett  
H. J. Ness  
J. C. Miller

FROM: J. D. Darling 

RE: Rock Island Study

The next meeting to review the progress of this study will be in the Eighth Floor Board Room at 3:00 p.m. on Monday, June 7, 1982.

JDD: rld

Soo Line Railroad Company



*1 Rock Island*  
Soo Line Building  
Box 530  
Minneapolis, Minnesota 55440  
(612) 332-1261

DENNIS M. CAVANAUGH  
Executive Vice President

June 4, 1982

Mr. C. I. MacGillivray, Director  
Planning and Research Division  
Iowa Department of Transportation  
800 Lincoln Way  
Ames, Iowa 50010

Mr. Les Holland, Director  
Railroad Division  
Iowa Department of Transportation  
800 Lincoln Way  
Ames, Iowa 50010

Dear Sirs:

Confirming the arrangements that have been made to meet with you in our offices on Friday, June 11, 1982.

The meeting is scheduled for 9:00 a.m. in Room 802. If you are available earlier, please come to my office in Room 800.

I look forward to meeting with you again.

Sincerely,

D. M. Cavanaugh  
Executive Vice President

DMC: rld


cc: T. M. Beckley  
R. H. Smith  
J. D. Darling

*Punch*  
*6/11*



June 4, 1982

TO:        D. M. Cavanaugh  
            R. L. Murlowski  
            R. H. Smith  
            J. T. Hartnett  
            H. J. Ness  
            J. C. Miller

FROM:     J. D. Darling 

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JDD: rld

Get Holland 6/3

Visit with Soc if we desired  
Wednesday, Thursday or Friday  
will be another bid within two or three  
weeks.

2nd Call

The CNW President met with the RI  
Trustee Monday, May 31 and said the  
CNW would make a 3rd offer in writing  
within 15 days

June 28, 1982

TO: Mr. D. M. Cavanaugh  
FROM: W. B. Peterson *WBP*  
RE: ROCK ISLAND STUDY  
NORTHFIELD TO KANSAS CITY

The following is a brief summary of the condition of roadway track and structures noted on our June 23rd to 25th inspection:

- The main line from Northfield to Kansas City is generally in fair to good condition, with maximum operating speed between 30 MPH and 40 MPH. Maximum allowable weight is 263,000 lb. over the entire line.

The rail weight ranges from 90 lb. to 132 lb. but is primarily 112 lb. jointed track. Ballast type varies considerably from finely crushed limestone to slag and granite.

The principal deficiency is in the condition of the ties. Except for the segments between Albert Lea and Mason City and between Allerton and Trenton, the entire main line route will require tie and surfacing work within the first three years.

Considerable longitudinal rail movement was observed and, except in areas of continuous welded rail, a program of resetting and placement of additional anchors will be necessary to properly secure the rail. This type work would best be incorporated with the tie and surfacing projects.

- Except for a 39 mile segment between West Bend and Estherville, all branch lines have been rehabilitated with ties and slag ballast and are in good condition. Maximum operating speeds are at least 25 MPH except for a 10 MPH restriction between West Bend and Estherville and on the 11.3 mile Indianola Branch. Maximum allowable weight is 263,000 lbs. except from Garner to Forest City, where weight is restricted to 221,000 lbs. due to 7.4 miles of poor 70 lb. rail.



- There are no significantly large terminal facilities located on the entire route and, in general, the side and yard tracks appear to be in fair condition.
- In general, the bridges on the main line and branch lines appear to be in fair to good condition and of adequate design to handle present-day railroad loadings.
- Buildings are in fair condition requiring routine maintenance.
- The condition of highway grade crossings ranged from fair to poor. A program of crossing rehabilitation will be necessary and can initially be incorporated with tie and surfacing work.

Requirements for track rehabilitation are as follows:

Main Line

1.	Comus to Curtis (Albert Lea) Tie and Surfacing - 2nd Year 55.3 miles @ 500 ties per mile	\$ 808,400
2.	Mason City to Iowa Falls Tie and Surfacing - 3rd Year 45.2 miles @ 500 ties per mile	660,700
3.	Iowa Falls to Des Moines Tie and Surfacing - 1st Year 37 miles (50%) @ 500 ties per mile	540,900
4.	Des Moines Rehabilitate Track - 1st Year 2.5 miles ties and ballast	155,900
5.	Des Moines to Allerton Tie and Surfacing - 1st Year 73.6 miles @ 800 ties per mile	1,572,000
6.	Trenton to Polo Tie and Surfacing - 1st Year 46.5 miles @ 500 ties per mile	679,700
7.	Polo to Lawson Jct. (Double Track) Tie and Surfacing - 1st Year 11.2 route miles @ 500 ties per mile	327,400
8.	Lawson Jct. to Moseby Jct. Tie and Surfacing 8.5 miles @ 500 ties per mile	<u>124,300</u>
	Total Main Line	\$4,869,300

Branch Lines

1. Dows to Forest City

Relay 7.4 miles of 70 lb. rail  
between Miller, MP 149.9, and  
Forest City, MP 157.3, with  
secondhand 90 lb. rail - 1st year

Total Net Cost \$ 287,900

2. Dows to Estherville

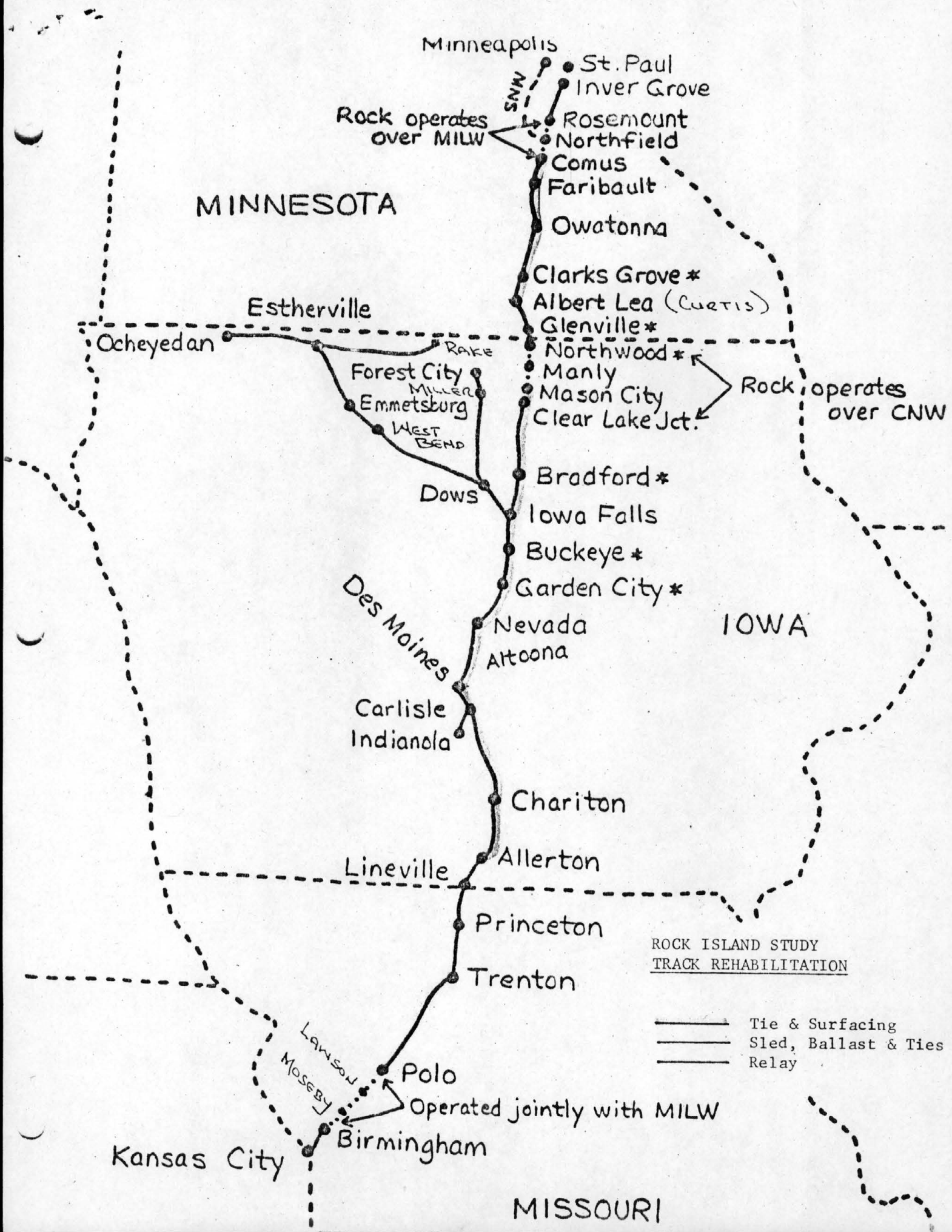
Rehabilitate 39.2 miles between  
West Bend, MP 168.0, and Estherville,  
MP 207.2, to include:

- |  |                  |
|--|------------------|
| a. Sled and ballast including<br>600 ties per mile - 2nd year  | 1,728,200        |
| b. Relay with secondhand 90 lb.<br>rail - 2nd five-year period | <u>1,348,800</u> |

Total Branch Line \$3,364,900

WBP:pn

cc: H. J. Ness



ROCK ISLAND STUDY  
TRACK REHABILITATION

- Tie & Surfacing
- - - Sled, Ballast & Ties
- Relay



JUN 21 1982

EXEC. VICE PRESIDENT

June 17, 1982

TO: The File  
FROM: J. D. Darling *JDD*  
RE: Rock Island Study

At 9:00 a.m., on Friday, June 11, 1982, a meeting was held with representatives of the State of Iowa Department of Transportation in the Soo Line Board Room.

In attendance for the Soo Line were:

Messrs. T. M. Beckley  
D. M. Cavanaugh  
R. H. Smith  
H. J. Ness  
J. D. Darling

In attendance for the State of Iowa were:

Messrs. Les Holland, Director Railroad Division  
C. I. "Ian" MacGillivray, Director, Planning and  
Research Division  
Harvey E. Sims, Rail Operations Manager, Railroad  
Division  
Douglas L. Walkup, Finance Authority Manager,  
Railroad Division  
Jeff Benson, Chief-Intermodal Planning, Planning  
and Research Division

The meeting was held at the request of the State of Iowa. The purpose of the meeting was to bring the Soo Line up-to-date on rail related activities in Iowa, and to review the role that could be played by the State of Iowa should the Soo Line pursue its interest in the possible acquisition of any Rock Island lines.

Les Holland opened the discussion.

The State of Iowa Branch Line Rehabilitation Program for 1982 amounts to \$35 million on 230 miles of track, shared one-third each by the State of Iowa, shippers, and carriers.

The State of Iowa has been unable to interest the CNW in branch line rehabilitation under this program on the Rock Island Iowa

Falls Gateway lines. The Rock Island Trustee cannot incur any additional indebtedness.

Under the State rehabilitation program, shippers and State funds are in the form of no interest loans. Shippers are paid back first on the basis of cars shipped or received. The State is paid back second, with the cash retained by the carrier in a special account that becomes a grant when paid in full.

The Iowa Falls Gateway branches were the last subject of program rehabilitation in 1980. Shippers contributions have been entirely repaid.

Up to 20 percent of the funding available for the Branch Line Rehabilitation Program may be spent on the "Spine Line." There may also be the possibility of considering the "Spine Line" as branch line.

There is also available credit in the Federal Loan Guarantee Program.

Funding for the Iowa Rail Finance Authority, which would be provided by bonding authority backed by a diesel fuel tax, is being challenged in the courts, with the anticipation that it may be appealed all the way to the U. S. Supreme Court. This funding would be available for acquisition as well as rehabilitation and not restricted to branch lines.

The State of Iowa desires to retain one viable north-south carrier. They feel with or without the Rock Island "Spine Line" the CNW will favor routing traffic via Omaha to Kansas City via MP trackage, and that acquisition of the Rock Island "Spine Line" by the CNW would not insure its long term retention in service at least in part.

Other interests, particularly area shippers adamantly oppose acquisition of the Rock Island "Spine Line" or Iowa Falls Gateway branches by the CNW.

Prompted by awareness of Soo Line interest, the CNW is expected to submit a third bid for acquisition of the Rock Island trackage within the first 15 days of June.

The Iowa Railroad is in operation between Council Bluffs and Bureau, Illinois and on the Altoona to Pella branch.

As the Iowa Railroad is operating this trackage on a short-term lease, this would not preclude our acquisition. On the other hand, it removes concern for any political necessity for acquisition of what otherwise appeared to be marginal lines.

The Iowa Northern Railroad is now operating through from Manly to Cedar Rapids.

Both these short lines are apparently adequately financed at present and being well operated.

The NW has filed a petition for abandonment of its trackage in Iowa into Council Bluffs.

With regard to the value of the Rock Island lines, the initial counter offer by the Trustee for the "Spine Line", the Iowa Falls Gateway branches, and lines radiating from Des Moines to Newton, Pella, Indianola, and Dexter is thought to have been \$260 million.

The KCN offer was \$40 million.

The CNW offers have been in the range of \$50 million.

The most recent CNW offer was \$65 million, including \$7 million to be put up by shippers on the Des Moines area branch lines.

The State of Iowa has estimated the gross salvage value of the "Spine Line" at \$50 million (1980), or \$40 million (1982) and the going concern value at \$75 million. They have estimated the gross salvage value of the Iowa Falls Gateway branches as \$15 million, and the going concern value at \$25 million. The gross salvage of the combined "Spine Line", Iowa Falls Gateway, and Des Moines to Pella would be \$60 million, with the going concern value of \$100 million.

Aside from the defensive interest on the part of the CNW, interest on the part of other major carriers appears limited. The KCS and BN continue to view the property as desirable, but not to the extent of making a current offer. The KCS and MKT may be interested in a contribution toward acquisition, but apparently do not have the wherewithall or do not value the property such as to acquire it themselves.

The Iowa DOT did not suggest the possibility of joint service to local industries, but did stress the possibility of overhead trackage rights to other carriers, including all the way from the Twin Cities to Kansas City. The Soo was not favorable to this concept, particularly with regard to trackage rights over the entire route, in that most of the traffic that would conceivably move over the route is competitive. The Soo expressed a preference for joint rates rather than trackage rights, even on unit grain moves from east-west lines of the MILW or ICG. The impression was conveyed that the MILW has a definite interest in trackage rights of the entire route. The latest plan of reorganization filed by the MILW Trustee contemplates trackage rights on the Rock Island from Comas to Manly and purchase from Manly to Plymouth Jct. on the line to Cedar Rapids. This last segment is currently operated by the Iowa Northern.

The question was raised concerning the ability of the Rock Island Trustee to transfer trackage rights on the CNW between



Northwood and Mason City, Iowa to a successor. The State was convinced that the ICC would direct continuation of these rights if necessary.

The State mentioned that they are in contact with a number of parties, shippers organizations and out-of-state investors, with varying intersets in investing in the Rock Island properties. The State expressed the willingness, and in fact desire, to bring us together with these parties should we wish to pursue acquisition in a manner compatible with their interests. The State did stress that in no case do these current interests desire long term ownership of railroad property. State also expressed a willingness to initiate contact with other carriers such as the KCS or MKT.

After the meeting, Les Holland mentioned to me that they are not currently working with any other carrier even to the extent that they are with the Soo, but that if they do not detect movement on our part within a few weeks, they would feel compelled to look for another potential operator. I did not take this as arm twisting, but rather an expression of concern on their part that if we terminated our interest they would have lost time bringing together a consortium, including a viable operator, to counter any bid made by the CNW.

JDD/jmz

cc: T. M. Beckley  
D. M. Cavanaugh  
R. H. Smith  
H. J. Ness