



Soo Line Railroad Company
records.

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Soo Line Railroad Company



Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

July 30, 1982

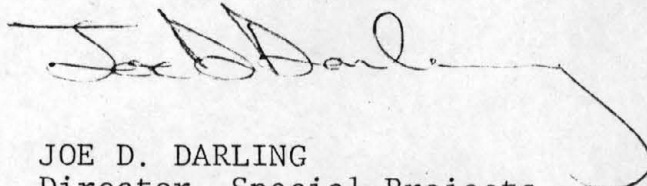
Mr. Darwin Luedtke
West Bend Elevator Company
West Bend, Iowa 50597

Dear Mr. Luedtke:

Per our phone conversation, representatives of the Soo Line will arrange to meet with shippers in the Iowa Falls Gateway area on Wednesday, August 18, 1982, at 1:30 p.m., at the offices of the West Bend Elevator Company.

I anticipate a substantive meeting and look forward to visiting West Bend.

Sincerely,



JOE D. DARLING
Director, Special Projects

JDD/jmz

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

July 30, 1982

TO: T. M. Beckley
D. M. Cavanaugh ✓
R. H. Smith
D. J. Boyer

FROM: J. D. Darling *JDD*

RE: Rock Island Study

Attached is a copy of an article comparing rail and barge rates furnished to me by the Iowa DOT. I have several other more extensive references, largely furnished by the Iowa DOT, that contain additional insight into rail/barge competition and the barge industry in general.

My feeling, from these references, from comments made at the meetings that we have attended, and from conversations with others, including C. J. Stoffer, General Freight Agent, Iowa Northern Railroad Company, which is operating the Rock Island line from Manly to Cedar Rapids, is that while we would not be operating in a competitive vacuum, almost all the time, the current multiple car all rail rates are competitive with the combination truck/barge rates, particularly when additional handling expense and port differentials are considered. The references do not reflect the current MILW rail/barge rates, which apparently are substantially lower than either truck/barge, or all rail rates.

A list of additional references is attached.

JDD/jmz

Att. (2)

A COMPARISON OF RAIL AND BARGE GRAIN RATES

By C. Phillip Baumel, John J. Miller, Thomas P. Drinka and Craig O'Riley

Iowa State University
Ames, Iowa

Grain hauled by barges is exempt from rate regulations under the Interstate Commerce Commission Act. Therefore, barge operations are free to adjust their rates according to the day-to-day demand for barges. While there is an unofficial published barge tariff for grain, actual rates are negotiated between shippers and barge companies. Barge rates usually are quoted as a percentage of the published tariff.

In early 1975, when exports were low, barge rates declined to 60% of tariff. But during the harvest season of 1975, barge rates climbed to as much as 300% of tariff. Therefore, to compare rail and barge rates, it is necessary to know both the barge rates and the percents of tariff charged by barge companies.

Published barge rates from selected Iowa locations to the Port of New Orleans are shown in Table 1. One medium sized and one large sized grain shipper on the upper middle Mississippi River provided the percentages of tariff they paid over a 24-month period from January, 1973, to December, 1974. Executives of these firms indicated that the percentage of tariff charged during this period is representative of the percents of tariff expected during periods of medium to heavy export levels (see negotiated tariff, Table 2).

Larger grain firms frequently negotiate annual contracts for a fixed number of barges per month. These contracts are usually at 100% of tariff. One medium size barge firm that almost exclusively hauls grain and fertilizer indicated that 25% of its grain movements are under contract. The negotiated, contract, and weighted average percents of barge tariffs are shown in Table 2.

In addition to the barge rates, there's another "hidden" cost in making truck- or rail-barge shipments to Gulf ports. That hidden cost, though it should be obvious, is often overlooked. The cost is the extra handling and shrinkage that occurs in transferring grain from the rail car or truck to the barge. Iowa State University studies indicate that this cost amounts to about 4 cents per bushel for corn and 6 cents per bushel for soybeans. The cost of the extra handling is about 2.7 cents per bushel. The cost of the physical shrinkage which occurs during the extra handling is about 1.3 cents per bushel for corn and about 3.3 cents per bushel for soybeans. Consequently, the 4 or 6 cents per bushel must be added to the barge rate to get a figure comparable with a single-mode shipment to the Gulf by rail. In addition, the cost of trucking or railing the grain to river terminals must also be added to the barge rate.

Areas of Advantage

To determine the area served competitively by water transportation, the costs of shipping grain from Iowa by 50-car rail shipments directly to the Gulf were compared with truck-barge shipments. The areas of competitive advantage for the 50-car rate and truck-barge are shown in Figure 1.

With a barge rate of 130% of tariff, the area east of Cedar Rapids can truck to Clinton on the Mississippi River and ship by barge at costs lower than the 50-car train rates to the Gulf. Cedar Rapids is about 85 miles west of Clinton. If barge rates are available at 100% of published tariff, it becomes feasible to truck grain from as far west as Mason City to the river for barge shipments; this point is about 114 miles west of the river. If barges are available at less than 100%, it becomes feasible to truck grain even further to the Mississippi River.

But new unit train railroad rates for grain direct from Iowa to Gulf ports will provide greater competition for truck- or rail-barge shipments. Today, new rail rates are in the making for 75-car and 118-car

shipments to Gulf ports. At the time of this writing (August) these rates are not yet available, but carriers advise that new 75- and 118-car rates will soon be made available to Iowa. The proposed 75-car rate is 58.0 cents per hundredweight and would require 10 consecutive shipments. The proposed 118-car rate is 55.0 cents per hundredweight and would require 25 consecutive trips. (Editor's Note: The 118-car rates became effective on Sept. 1, 1976.)

Figure 1 shows the rate relationships between truck-barge and the 118-car train. In eastern Iowa, the breakeven lines for the 118-car rate at 100% and 130% of barge tariff are about 30 miles east of the 50-car line.

On the western edge of the state, the area of competitive advantage is smaller, due to the higher barge rates on the Missouri River, as compared to Mississippi River rates. Lower weight limits and fewer barges per tow due to the shallow draft and general river conditions account for the higher barge rates on the Missouri.

At 100% of published barge tariff, grain can be trucked from an area about 50 to 60 miles from Council Bluffs and from an area about 30 miles around Sioux City for barge shipments at rates comparable to the 50-car rates to the Gulf. However, truck-barge combinations are competitive with the 118-car rail shipments to the Gulf in an area of only 15 to 30 miles from Council Bluffs, and not at all from Sioux City.

Mini-Train Movements

In recent years, some railroad companies have offered special rail rates for moving grain in mini-trains and in 5- and 50-car shipments from inland points to river terminals for barge shipments to New Orleans. The mini-train consists of 25 cars and dedicated locomotive power. One to five shippers must agree to use the train continuously for one month. The average turnaround time for the mini-train from central and western Iowa is three days. Thus, the train will pick up a minimum of five cars at a maximum of five locations every three days over a 30-day period.

The average turnaround time on a 5-car shipment to river terminals is 10 days. Most shippers are reluctant to use shipper-leased rail cars in 5-car shipments because the relatively long turnaround times and the small number of loaded miles do not earn enough mileage allowance to pay the monthly lease.

TABLE 1. Barge Rates for Grain from Mississippi and Missouri River Locations in Iowa to New Orleans in Dollars per Ton

| Shipping Locations | Barge Rate to New Orleans |
|---|---------------------------|
| McGregor, Clayton, and Duquaque | \$6.00 |
| Clinton, Davenport, and Muscatine | 5.32 |
| Meekers Landing, Burlington, and Montrose | 5.08 |
| Sioux City | 9.25 |
| Council Bluffs | 7.96 |

Source: Waterways Freight Bureau.

TABLE 2. Typical Negotiated, Contract and Weighted Average Percent of Barge Tariffs on the Upper Middle Mississippi River from January 1973 to December 1974

| Quarter | Percent of Tariff | | |
|------------------|-------------------|----------|------------------|
| | Negotiated | Contract | Weighted Average |
| January-March | — | — | — |
| April-June | 125 | 100 | 118.75 |
| July-September | 100 | 100 | 100.00 |
| October-December | 140 | 100 | 130.00 |

—, no significant movements during the winter period
Source: Grain firms operating facilities on the Mississippi River

EDITOR'S NOTE: This is the fourth and final article in a series dealing with grain transportation changes in the Corn Belt. Previous articles dealt with grain subterminals, upgrading branch lines and the impact of rail abandonment on grain elevators.

Figure 2 shows large competitive areas where 5-car rail-barge shipments are competitive with 50-car, 75-car and 118-car train rates under 100% of barge tariff. With barge rates at 100% of tariff, it would be feasible to send 5-car shipments of grain to the Mississippi River from as far west as Manning and nearly to Spencer on the Milwaukee. These points are about 200 to 270 miles west of the river. However, this large competitive area would exist only during times of low export shipments when export volume is rather light, and barge rates are available at or less than published tariff. During peak shipping periods, barge rates would move higher and congestion would increase mini-train turnaround times on the rail to river shipments.

The proposed 75-car rate to the Gulf moves the breakeven point for 5-car rail-barge shipments 70 miles east to just west of Mason City on the northern line and 76 miles east to just west of Des Moines on the southern line with barges available at 100% of tariff.

The shrinkage in the competitive area for 50-cars direct and 5-car rail-barge is even more pronounced when 5-car rail shipments to the river are compared to the proposed 118-car rail rates to the Gulf. At 100% of tariff, the 118-car rate moves the breakeven point nearly 150 miles eastward. The breakeven points with the 118-car rate would be east of New Hampton and east of Tama. Figure 3 shows the breakeven points with barge rates at 119% of tariff. At 119% of tariff, the 50-car breakeven points move 90 to 120 miles nearer to the river, and the 75-car breakeven points also move 90 to 120 miles nearer to the river.

Figure 4 shows the areas of competitive advantage for rail-barge at 100% of tariff on two Milwaukee main lines between the 50-car rate to the river and 50-, 75-car, and 100-car rates direct to the Gulf. The breakeven points between 50-car rail-barge with the 50-car rate to the Gulf would be just west of Spencer and Manilla on the Milwaukee. The breakeven point moves about 50 miles eastward when the 50-car rail-barge is compared with a 75-car rate direct to the Gulf and about 100 miles eastward when compared with the 118-car rate. However, only elevators with 50-car facilities could take advantage of 50-car rail-barge shipments.

Stronger Rail Competition

Other changes may tend to shrink the area where barge combination shipments can compete with direct rail shipments. Western Trunk Line Application 21-10345 (dated June 28, 1976) applies for an adjustment to the entire rail grain rate structure to reflect the "present truck or truck-barge competitive situation." This application, if approved, would increase almost all rail rates to river terminals and direct to Gulf ports. Exceptions would be the proposed 75-car and 118-car rates and the 50-car rate to river terminals from selected origins. Increases of up to 7.5 cents per hundredweight have been proposed on 5-car shipments from some locations to river terminals. Increases of up to 7.0 cents per hundredweight have been proposed for 50-car direct shipments from some locations to Gulf ports. The gen-

FIGURE 1. Solid lines indicate approximate regions of competitive advantage between truck-barge and 50-car shipments of grain from Iowa to New Orleans at 100 and 130% of barge tariff and Ex-Parte 313 rail rate levels and estimated trucking costs. Dotted lines show competitive area of truck-barge compared to proposed 118-car rate.

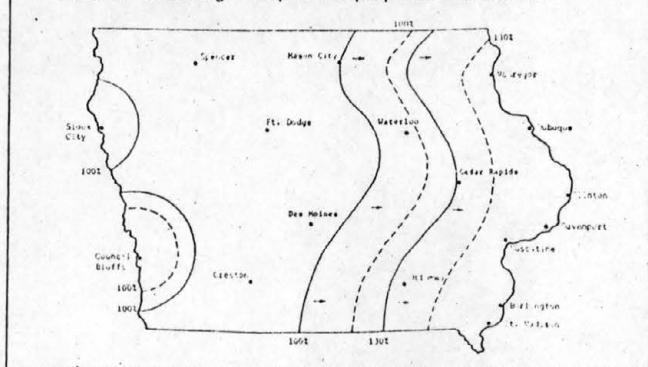


FIGURE 2. Approximate regions of competitive advantage between 5-car rail-barge and 50-car, 75-car and 118-car rail shipments from Iowa to New Orleans at 100% of barge tariff.

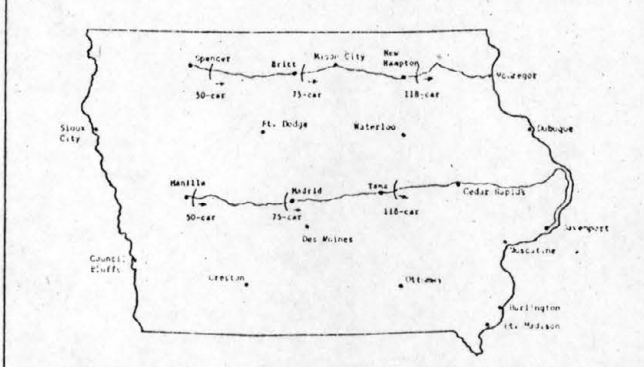


FIGURE 3. Approximate regions of competitive advantage between 5-car rail-barge and 50-car, 75-car and 118-car rail shipments from Iowa to New Orleans at 119% of barge tariff.

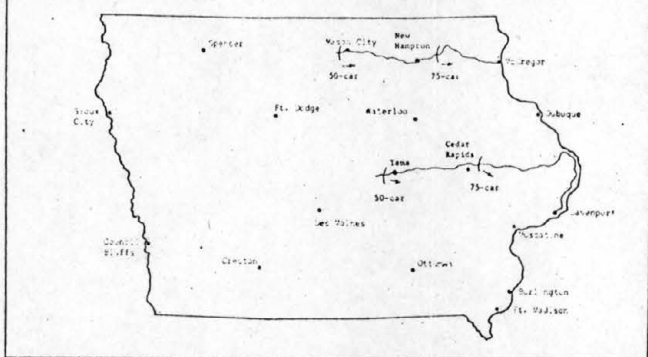
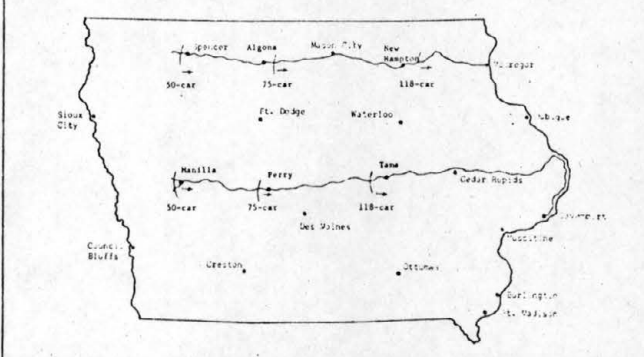


FIGURE 4. Approximate regions of competitive advantage between 50-car rail-barge and 50-car, 75-car and 118-car rail shipments from Iowa to New Orleans at 100% of barge tariff.



eral impact of these rate increases, if approved, would be to make rail-barge competitive in a smaller area than that shown in Figures 3 or 4.

In August, the Milwaukee Road docketed a proposed combination rail-barge rate on its Iowa lines. This experimental combination rate, if approved, would compete with both the 118-car rates and the proposed 75-car rates to the Gulf during March, April, May and June. It would compete with the 75-car rates during the summer and fall. Thus, the combination rail-barge rates, if approved, would

maintain barge competition for grain in central and western Iowa. Eastern Iowa would be unaffected by the proposed combination rates since these rates are higher than the existing 5-car rail-barge rates.

An analysis of grain transportation, completed by Iowa State University earlier this year with 1974 cost figures, indicates that increasing barge costs for water transportation may also tend to shrink the area served by barges. That study showed that barge rates may increase more rapidly in the future than rail costs. The principal reason for this expected in-

crease is the rapidly rising cost of replacement barge equipment.

In addition, the ISU studies of grain transportation suggest that the railroads have not done all they can to reduce transportation costs. They have moved in that direction in recent years — the 118-car rail rates are evidence of that. But the railroads have not yet dedicated power units to continuous trains moving to the Gulf with year-round grain shipments. Such a move could reduce rail grain transportation costs even further. #

RAIL/BARGE REFERENCES

1. Des Moines to Keokuk Rail/Barge Study (September 1977)
2. River Transportation in Iowa (May 1978)
3. 1981 Iowa River Report (October 1981)
4. Agricultural Transportation: Will It Measure Up?
Speeches from a Conference Sponsored by Upper Midwest
Council (November 16, 1981)
5. Transportation Plan '79, Iowa DOT (January 1979)
6. Evidence in Support of Protest of Iowa DOT, BN Control and
Merger SLSF (March 27, 1979)

7/29/82

TMB, DMC, JDD, DDB, HSN, PMM, RLM, BO

8-12 million per year elevators, for in excess of any 500 country elevators

Spine Line

Sources

Down Payment - Deferred \$10-\$15M

Progress Payments

\$5M

Earned Price - Volume -

out five years -

escalated to upper limit

Total - net salvage value
required

Money

FRA \$15M maintenance

ITC

FRA?

Deferred Income Tax

July 29, 1982

SOO LINE RAILROAD

JUL 30 1982

EXEC. VICE PRESIDENT

TO: R. H. Smith
FROM: J. D. Darling *JDD*
RE: Rock Island Study

Attached is a copy of the signatures to the last branch line assistance contract. This list does not include all of the shippers on the branch lines, but does include all of the members of the Iowa Falls Gateway Shippers Association.

Cargill has elevators at Rake, Swea City, Clarion, and also at Royal on the isolated Rock Island line not included in our study.

Note that Buffalo Center, Hayfield, Thompson, and Woden are not currently receiving rail service. Thompson and Buffalo Center are north of Forest Center on the line from Dows. Hayfield and Woden are on the Titonka Branch, which emanates from the Forest City line. The elevators at these locations had contributed to the rehabilitation projects, although the CNW is not currently furnishing rail service. There may be pressure from the Shippers Association and the State to acquire and re-open this additional trackage.

Note also that Pocahontas, Palmer, and Laurens are on the isolated Rock Island line not included in our study.

Also furnished are a 1979 Iowa Grain and Feed Directory and a 1981-82 Directory of Iowa Manufacturers.

JDD/jmz

cc: T. M. Beckley
D. M. Cavanaugh ✓
D. J. Boyer

be included in the determination of the maximum ten (10) years provided for in this Contract set forth in all of Article IX.

3. Department and Association shall not have or acquire any right, title or interest in said Branch Line or any materials therein by virtue of the providing of funds for the performance of this Contract.

IOWA DEPARTMENT OF TRANSPORTATION
RAILROAD DIVISION

By Lester A. Halland
Director

WILLIAM M. GIBBONS, Trustee of the
Property of the CHICAGO, ROCK ISLAND
AND PACIFIC RAILROAD COMPANY, Debtor

By W. M. Gibbons

FARMERS COOP ELEVATOR COMPANY
of Swea City, Iowa

By Charles C. Scott

FARMERS COOP ELEVATOR COMPANY of
Rake, Iowa

By Ralph Matheson

CARGILL, INC., Cargill Bldg.
Minneapolis, Minnesota

By John J. Miller

FARMERS COOP ELEVATOR
of Buffalo Center, Iowa

By Vernon Fiederlich

FARMERS COOP ELEVATOR
of Armstrong, Iowa

By Geo. Miller

GRAVES GRAIN COMPANY
of Gruver, Iowa

By Paul H. Graves

ARTS-WAY MANUFACTURING COMPANY
of Armstrong, Iowa

By Ferry Wise

FORMANEK ELEVATOR COMPANY
of Hayfield, Iowa

By Richard J. Formanek

KLEMME COOP GRAIN COMPANY
of Klemme, Iowa

By Richard A. Klemme

FARMERS COOP ELEVATOR COMPANY
of Pocahontas, Iowa

By Leif L. Schall

WINNEBAGO INDUSTRIES
of Forest City, Iowa

By Donald R. Brown

FARMERS COOPERATIVE COMPANY
of Palmer, Iowa

By W. S. Gentry

FARMERS COOP ELEVATOR ASSOCIATION
of Forest City, Iowa

By Sam Hovey, Mgr

FARMERS COOP ELEVATOR
of Thompson, Iowa

By Darwin Sittig

FARMERS COOP ELEVATOR SOCIETY
of Garner, Iowa

By E. J. Hecox

FARMERS COOP ELEVATOR
of Woden, Iowa

By Roydon Lusk

FARMERS COOPERATIVE COMPANY
of Dows, Iowa

By W. L. Fry

FARMERS EXCHANGE
of Lake Park, Iowa

By Harold E. Nelson

FARMERS COOP ELEVATOR
of Livermore, Iowa

By Wayne A. Krommberg

COOPERATIVE ELEVATOR ASSOCIATION
of Ocheyedan, Iowa

By Vernon J. Kistrock mgr

FARMERS COOPERATIVE ELEVATOR
of Ottosen, Iowa

By C. J. Smith

FARMERS COOP ELEVATOR & LUMBER CO
of Laurens, Iowa

By Ed. Hecox

FARMERS ELEVATOR
of Bode, Iowa

By J. E. Christianson

TERMINAL COOP
of Graettinger, Iowa

By Donald Holmberg

HARDY COOP ELEVATOR
of Hardy, Iowa

By Leah Richter

HARRIS GRAIN COMPANY
of Harris, Iowa

By Harold Lusk

SUPERIOR COOP ELEVATOR
of Superior, Iowa

By Frank E. Hecox

WEST BEND ELEVATOR COMPANY
of West Bend, Iowa

By Fred McKim Gen. Mgr

WEST BEND PROCESSING COMPANY
of West Bend, Iowa

By George C. Sheldon Mgr

A COMPARISON OF RAIL AND BARGE GRAIN RATES

By C. Phillip Baumel, John J. Miller, Thomas P. Drinka and Craig O'Riley

Iowa State University
Ames, Iowa

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Source: Waterways Freight Bureau.

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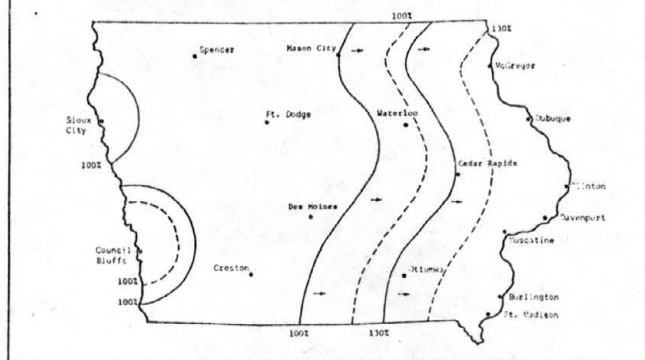


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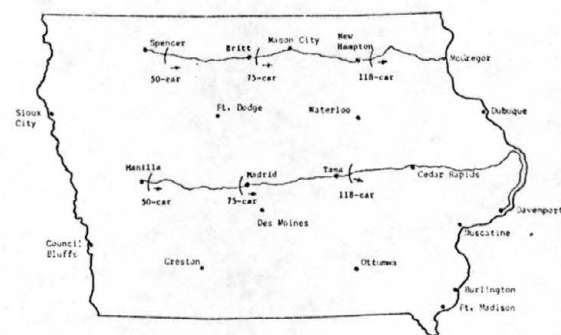


FIGURE 3. Approximate regions of competitive advantage between 5-car rail-barge and 50-car, 75-car and 118-car rail shipments from Iowa to New Orleans at 119% of barge tariff.

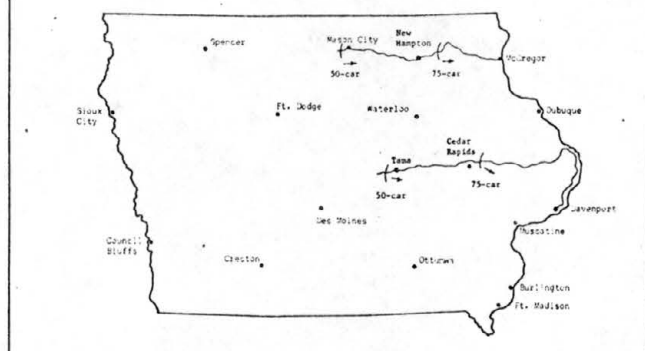


FIGURE 4. Approximate regions of competitive advantage between 5-car rail-barge and 50-car, 75-car and 118-car rail shipments from Iowa to New Orleans at 100% of barge tariff.



eral impact of these rate increases, if approved, would be to make rail-barge competitive in a smaller area than that shown in Figures 3 or 4.

In August, the Milwaukee Road docketed a proposed combination rail-barge rate on its Iowa lines. This experimental combination rate, if approved, would compete with both the 118-car rates and the proposed 75-car rates to the Gulf during March, April, May and June. It would compete with the 75-car rates during the summer and fall. Thus, the combination rail-barge rates, if approved, would

maintain barge competition for grain in central and western Iowa. Eastern Iowa would be unaffected by the proposed combination rates since these rates are higher than the existing 5-car rail-barge rates.

An analysis of grain transportation, completed by Iowa State University earlier this year with 1974 cost figures, indicates that increasing barge costs for water transportation may also tend to shrink the area served by barges. That study showed that barge rates may increase more rapidly in the future than rail costs. The principal reason for this expected in-

crease is the rapidly rising cost of replacement barge equipment.

In addition, the ISU studies of grain transportation suggest that the railroads have not done all they can to reduce transportation costs. They have moved in that direction in recent years — the 118-car rail rates are evidence of that. But the railroads have not yet dedicated power units to continuous trains moving to the Gulf with year-round grain shipments. Such a move could reduce rail grain transportation costs even further. #

Estimated R/S Sell Price

Gateway acquisition

\$28 - 35 million

Spine line

\$60 - 100 million

88 135

Rehabilitation

Gateway

\$15 - 25 million

Spine line

\$20 - 40 million

35 - 65

Total Costs P&R

123 - 190

New Track Construction

\$175,000.00 To 250,000.00

Per track mile.



motor lodge

75
22
150
1650

Handley

921 SIXTH AVENUE
DES MOINES, IA 50309

1. List of shippers
2. Morrison Knutson Study - Harvey Simms
3. Rehab costs
4. Rehab performance on
 - a. Gateway
 - b. Spine \$2.3 class III Sept
5. Volumes - include Palmer to Royal
6. Rotation of LBFoster to Bruckline Assistance Program
7. Next step with IFGSA
8. Next step with LBFoster

17th or 18th of August

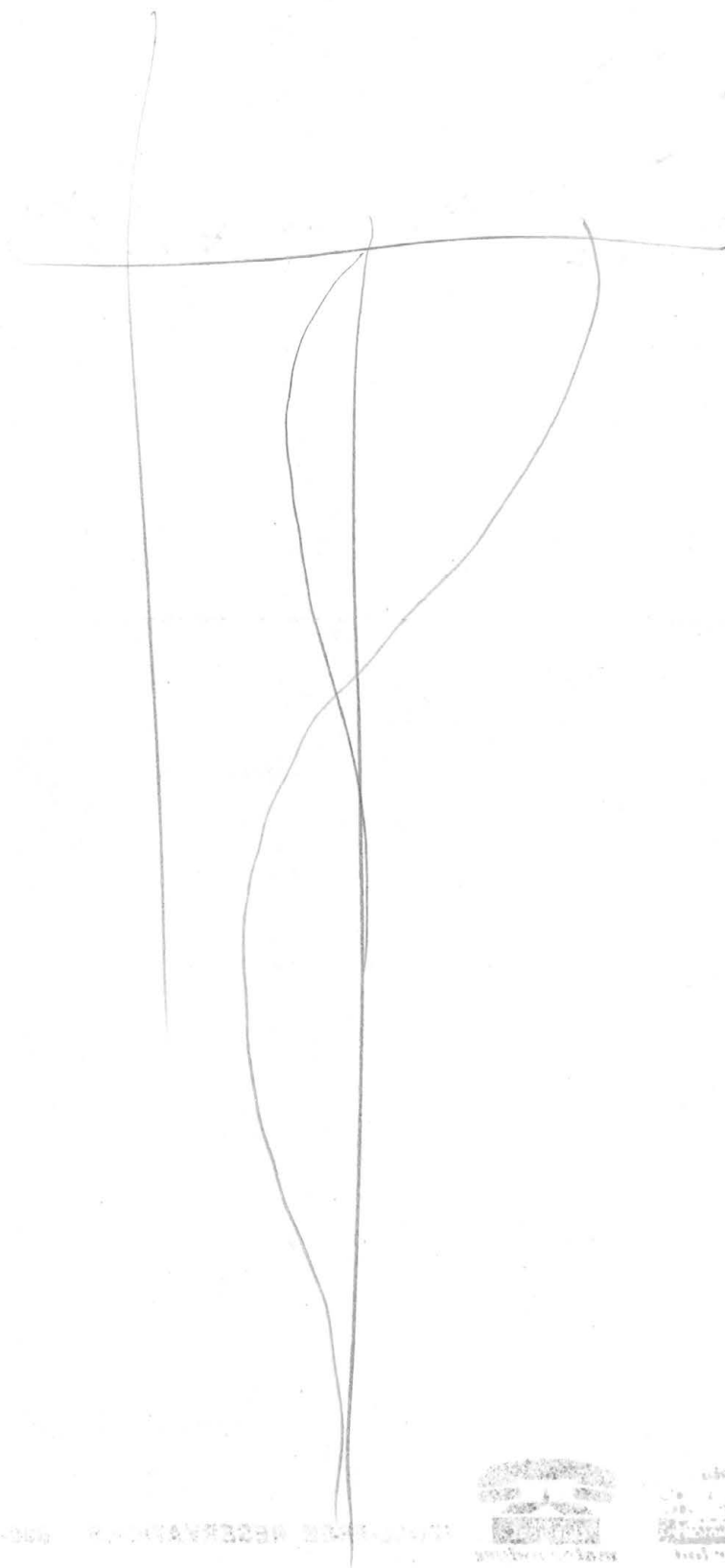
Darwin Luthke
West Bend Elev.
887-7211

Dean Sarna
Superior Corp
712-858-4491

Volume commitments



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Bill Deramus IV
Assistant to
President

M.F.

Mike McClain
Senior Vice President
Marketing and
Traffic

Soo Line Railroad Company

TO: Joe DarlingFROM: PHCDATE: 7/27

Mike Kreuger, ex of Cargill,
gave me the name of
a Cargill person in
Des Moines who has
good grasp of Iowa Falls
Gateway volumes, etc.

He is John Miller. Use
Kreuger's name if you
call him.

TOWA DEPARTMENT OF TRANSPORTATION

TRANSMITTAL SLIP

DATE:

7/27

TO OFFICE:

ATTENTION:

FROM:

OFFICE:

SUBJECT:

ACTION

- | | |
|---|--|
| <input type="checkbox"/> NOTE AND FILE | <input type="checkbox"/> PREPARE REPLY FOR MY SIGNATURE |
| <input type="checkbox"/> NOTE AND RETURN TO ME | <input type="checkbox"/> TAKE APPROPRIATE ACTION |
| <input type="checkbox"/> RETURN WITH MORE DETAILS | <input type="checkbox"/> PER YOUR REQUEST |
| <input type="checkbox"/> NOTE AND SEE ME ABOUT THIS | <input type="checkbox"/> SIGNATURE |
| <input type="checkbox"/> PLEASE ANSWER | <input checked="" type="checkbox"/> FOR YOUR INFORMATION |
| <input type="checkbox"/> FOR YOUR APPROVAL | <input type="checkbox"/> INVESTIGATE AND REPORT |
| <input type="checkbox"/> PER OUR CONVERSATION | |

COMMENTS:

This is the package
from our meeting on 7/26
in Mason City.
Harvey



Soo Line Railroad Company



GENERAL OFFICE-Soo Line Building, Box 530, Minneapolis, MN 55440.
Phone (612) 332-1261



Sheraton Motel

Mason City, Iowa

Meeting with two representatives of L. B. Foster Company at Noon. This meeting arranged by Iowa DOT.

Attending:

(A) Iowa Dot:

Douglas L. Walkup, Finance Authority Manager

(B) L. B. Foster Company

H. Roy Gordon, National Vice President, S.F. Ca.

Joe ? , Rail Manager, Chicago, Ill.

(C) Soo representatives - (6).

(B) H. R. Gordon, Spokesman for L. B. Foster briefly

described his companies chief activity as a supplier of RR track materials, both new and used.

In order to obtain a greater share of the rail material supply market; L. B. Foster is proposing a unique lease program.

Lease Plan

- (1) LBF proposes to amass a maximum \$300 million financial package from their own funds, and other sources such as banks and insurance companies.

- (2) LBF will finance track improvements, acquired from the RR and lease back to RR over a specified period of years at a rate of 8-10% in exchange for ITC and depreciation.
- (3) LBF program can include the acquisition of existing track exclusive of real property as well as the improvement program of the track. Or, it can be only the track rehabilitation program.
- (4) Track components included are rail, ties, OTM and ballast. (depreciable items)
- (5) The entire improvement track program is under the direction of the railroads.
- (6) The improvement program can cover more than one year with price of materials at competitive fair market value.
- (7) LBF is interested in receiving from Soo designated or specific rehabilitation programs on either the Mpls.-KC, ML or IFG branch line for a work-up proposal by LBF.
- (8) LBF advised J. Darling, Director, Special Projects is contact representative on Soo Line.

cc: T. M. Beckley
J. D. Darling

DJB Notes 7-26-82

O & T Iowa Falls Gateway - Spine Lines

Iowa Falls Gateway

| | <u>Cars</u> |
|------------------------|-------------|
| 1976 | 19,600 |
| 1977 | 21,295 |
| 1978 | 24,985 |
| 1979 (through 8/31/79) | 20,415 |
| 1980 | 24,725 |
| 1981 | 21,100 |

Spine Line

| | |
|------|---------------------|
| 1978 | 10,258 ¹ |
| 1980 | 5,600 |
| 1981 | 6,550 |

This figure doesn't include Des Moines traffic of 22,255 cars since it was impossible to tell if they went north-south or east-west.

These figures are not completely accurate but should be close enough for planning purposes.

RAILWAY AGE

1982 Directory of Contract Car Repair Facilities

Shop locations

ALABAMA

Birmingham—Railcar & Locomotive, Inc. (L&N) A, R, W, P, RT, C, retail sale of freight car parts. 205/849-7626, 800/637-5471.

Brewton—Frit Car & Equipment Co., Inc. (L&N) A, R, W, cleaning, blasting, painting. 205/867-7752.

Decatur—Rescar, Inc., A, O, Mobile repairs.

Mobile—Railtec Service (Terminal Railway, Alabama State Docks) A, R, W, C, Wheel replacement. 205/438-9968.

Montgomery—Trinity Industries, Inc. (L&N) A, R, W.

Ozark—Maintenance Operations, Evans Products Co. (SCL) A, R, W, C, T. 205/774-2621.

Pinson Valley—Transamericas Railway Service Co., Inc. (L&N) A, R, W, P, T, Field repairs, locomotive repairs and locomotive crane repairs, consulting & evaluations. 205/841-4805.

Shorter, AL—Evans Products Co., Maintenance Operations (SCL) A, Clean tank cars. 205/727-4532.

ARIZONA

Cochise—PLM Railcar Maintenance Co., Mobile repair service.

Tucson—Pacific Fruit Express Co. (SP) A, R, W. 602/629-2333.

ARKANSAS

East Camden—North American Car Corp. (EACH) A, W, linings. 501/574-0930.

Transitank Car Corp. (EACH) A, R, W, P, T. 501/574-574-0090.

Ed Dorado—Griffing Railway Repair Co. (MP) A, R, W, C. 501/863-3223, 862-5196.

Fordyce—Transitank Car Corp. (SW) A, R, W, T. 501/352-7126.

Key to services

- | | |
|---|--|
| A All normal freight car repairs | P Passenger cars |
| R Rebuilding | T AAR-certified tank car facilities (for facility capability by tank car category and material group, see AAR Specification for Tank Cars, Appendix B, Table B-1) |
| W Wreck repairs | |
| RT Rapid transit cars | |
| C Coaling applications | |

Little Rock—Brenco Bearing Service, Inc. (MP) Remanufacture bearings & component parts. 501/375-3015.

Rail Bearing Service, Inc., Repair & remanufacture "AP" type freight-car roller bearings. 501/945-0414.

Wawak Freight Car Co., (MP) A, R, W, C. 501/372-0524.

Nashville—Graysonia, Nashville & Ashdown RR Co. (GNA, KCS, MP) A. 501/845-1414.

Texarkana—North American Car Corp. (MP) A, R, W, T, linings. 501/773-5641.

CALIFORNIA

Daggett—Lundeen Rail Car Repair Services. (AT&SF) A, W, R, C, T. 714/254-2934.

El Segundo—Union Tank Car Co. (AT&SF, SP) A, T (Tanks). 219/392-6314.

Livermore—Richmond-Lox Equipment Co. (WP) A, R, W. Repair Cryogenic tanks 415/447-6661.

Mira Loma—Calpro Co. (UP) A, R, W, 714/685-0158.

North American Car Corp. (UP) A, R, W, C, linings. 714/685-1503.

Modesto—Evans Products Co., Engineered Products Div. (M&ET) A, Selective repairs to freight-car components. 209/578-5154.

Oroville—Solano Rail Car Co. (WP, SP) A, R, W, P, T. 916/534-0496.

Pico Rivera—Brenco Bearing Service Inc., Remanufacture bearings & component repairs. 213/806-1867.

Richmond—Union Tank Car Co., Mobile repairs.

Sacramento—Acme Reinforced Plastics Co. (SP, WP) Urethane car insulation, fiberglass door & side linings, car door assembly & insulation, also portable urethane insulation application. 415/956-2333.

San Bernardino—Railwest (SP) A, R, W, P, C. 714/884-6408.

Stockton—Industrial Service Corp. (AT&SF, SP, WP) T, general repairs, cleaning, tank car lining, exterior painting. 209/948-8830.

West Colton—General American Transportation Corp. (SP) A, W, C, T, Cleaning.

Trona—North American Car Corp. (Trona) A

COLORADO

Denver—Transportation Service Centers, Inc. (C&S, BN) A, R, W, C, T, mobile repair units. 303/571-1543.

Pueblo (Avondale)—Rail Car Corp. (AT&SF, MP) A, W, R, C, hopper car cleaning. 303/471-3712.

Pueblo—Quick-Car/Pueblo Co. (AT&SF, MP, CS, D&RGW) A, R, W, railcar preventive maintenance. 303/948-3378.

Sterling—Evans Products Co., Maintenance Operations, (WP), A, R, W. 303/522-5001.

DELAWARE

Bear—Delpro Corp. (Conrail) A, R, W, C. 302/834-5264.

Dagsboro—Cooper Bearings, Inc. (CR) AAR Cert. Air Brake Shop, Roller bearings, both passenger & freight. 302/732-6685.

Wilmington—Mechtron Industries, Inc. (CR) A, R, W, P, RT, fabricate car parts, assembly of cars from kits. 302/652-1105.

Amtrak—P, RT, Complete overhaul.

Trans Car Services Co. (Conrail, B&O) A, R, W, T, exterior coatings, special paintings. 302/658-4381.

Schererville—Star Railroad Equipment (EJ&E) A, R, C, modifications, customized service. 219/322-5090.

Washington—Evans Railcar Div., Evans Products Co. (B&O) A, R, W, C. 812/254-1121.

Whiting—Union Tank Car Co. (BOCT) A, W, C, T. Mobile repairs.

IOWA

Cedar Rapids—Rescar, Inc. (C&NW) A, R, W, O, Mobile repairs.

Council Bluffs—Evans Products Co., Maintenance Operations. (UP) A, R, W. 312/640-7000.

Des Moines—AGRI Industries Leasing Co., (CNW) A, R, W, mobile repair unit. 515/223-7447.

Muscataine—Lithcote Co. (MILW) A, R, W, C, T. 319/264-0100.

Oelwein—Transco, Inc. (CNW) A, R, W, C. 319/293-5291.

Sioux City—PLM Railcar Maintenance Co. (BN, ICG, CNW) A, W, T, light repairs, cleaning, tank car lining, repair and maintenance. 712/233-2696.

Waterloo—North American Car Corp. (ICG) A, R, W. 319/234-9023.

KANSAS

Atchison—Lincoln Grain, Inc., Railcar Repair Div. (MP, BN, AT&SF) A, W, O, Modifications, Mobile repairs, Wheel replacements, Preventive maintenance. 913/367-1621.

Coffeyville—Leavenworth Steel, Inc. (MP) A, R, W, C, fabricate car parts. 913/371-1441.

El Dorado—Union Tank Car Co. (AT&SF) A, T. (Tanks). 219/392-6314.

Junction City—Evans Railcar Div., Evans Products Co. (UP) A, R, W, C. 913/762-4330.

Kansas City—Brenco Bearing Service, Inc., remanufacture bearings & component parts. 913/342-2336.

Darby Corp. (MP) A, R, W, C, T, fabricate car parts. 913/371-1441.

North American Car Corp. (BN) A, R, W. Linings, wheel shop. 913/342-1931.

Neodesha—Berwind Railway Service Co. (MP, SLSF) A, R, W, C, T, linings. 316/325-3001.

Pauline—Topeka Railway Equipment, Inc. (AT&SF) A, R, W, C, custom steel fabrication. 913/862-0226.

KENTUCKY

Calvert City—Rail Service, Inc., A, C, O, T. Complete cleaning facility with approved waste treatment plant, full service tank car facility except welding on containment vessel. 502/395-8326.

Covington—Ortner Freight Car Co. (L&N, Chessie) A, R, W, O. 513/871-2600.

Ekron—Derby Tank Car & Mfg., Inc. (L&N) A, R, W, C, T. (AAR). 502/828-2171.

Louisville—Brenco Bearing Service, Inc. (L&N) remanufacture bearings & component parts. 502/361-3449.

Mobile Tank Car Services, (KIT) covered hoppers and tank car cleaning, tank car safety valve testing, exterior painting, linings, industrial waste disposal. 502/774-8791.

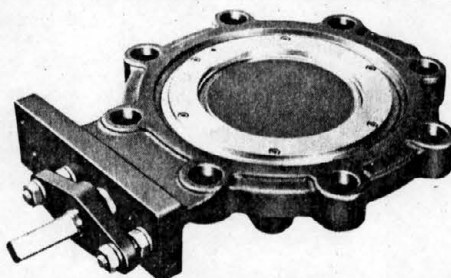
PLM Railcar Maintenance Co., A, Mobile repair services.

United Industries Corp., (L&N) A, R, W. 502/935-7110.

LOUISIANA

Baton Rouge—Union Tank Car Co. (L&A) A, T. (Tanks). 219/392-6314.

Ferriday—Louisiana Railcar, Inc. (MP) A, R, W, C, Exterior sandblasting, Painting, Lining,



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Taft—RESCAR, Inc., A, O, Mobile repairs.

Ville Platte—Lithcote Co. (MP) A, R, W, C, T. 318/383-5507.

Zwolle—Zwolle Rail Car Div. of MBF Industries, Inc. (KCS) A, R, W, C, T. 318/645-6181.

MARYLAND

Elkton—North American Car Corp. (Conrail) A, R, W, T, Class B. Category 1, Material Group 1, exterior painting, wheel replacements, clean air brakes, roller bearing replacement, AAR billings, touch-up linings. 301/398-6181.

MICHIGAN

Gagetown—Evans Products Co., Engineered Products Div. (GTW) A, Selective repairs to freight-car components. 517/665-9913.

Novi—Portec, Inc., Paragon Railcar Operations (Chessie) A, R, W, C. 313/349-2451.

Plymouth—Michigan Railcar Repair, Inc. (C&O) A, R, W, O-Mobile repair service, Auto rack repair & removal, Prepare joint inspection certificates, AAR billings and running repairs. 313/455-6900.

MINNESOTA

St. Paul—The Maxson Co. (BN) A, R, W, Custom built freight cars and Rapid transit work cars. 612/488-2501.

Waterville—RESCAR, Inc., A, O, Mobile repairs.

MISSISSIPPI

Pearlington—J.L. Fabricating Inc. (PBVR, L&N) A, R, W, C. 601/533-5331.

MISSOURI

Kansas City—Heckert Sheet Metal Works, Inc.—Fabricate and sell freight car components. 816/531-1226.

Rail Bearing Service, Inc., repair & remanufacturing "AP" type freight-car roller bearings.

RESCAR, Inc., A, O, Mobile repairs.

St. Joseph—RESCAR, Inc. A, O, Mobile repair service. 312/266-1390, 214/759-3891.

St. Louis—St. Louis Rail Car Repair, Inc. (TRRA) A, R, W, C. 314/389-2203.

St. Louis Refrigerator Car Co. (MRS) A, R, W, C, T, component reconditioning, Fleet management. 314/577-1733.

Sugar Creek—Union Tank Car Co., Minor repairs.

Trenton—RESCAR, Inc. A, O, Mobile repair service.

MONTANA

Laurel—Union Tank Car Co. (BN) A, T. (Tanks). 219/392-6314.

Miles City—PLM Railcar Maintenance Co. (BN, MILW) A, R, W. 406/232-1527.

NEBRASKA

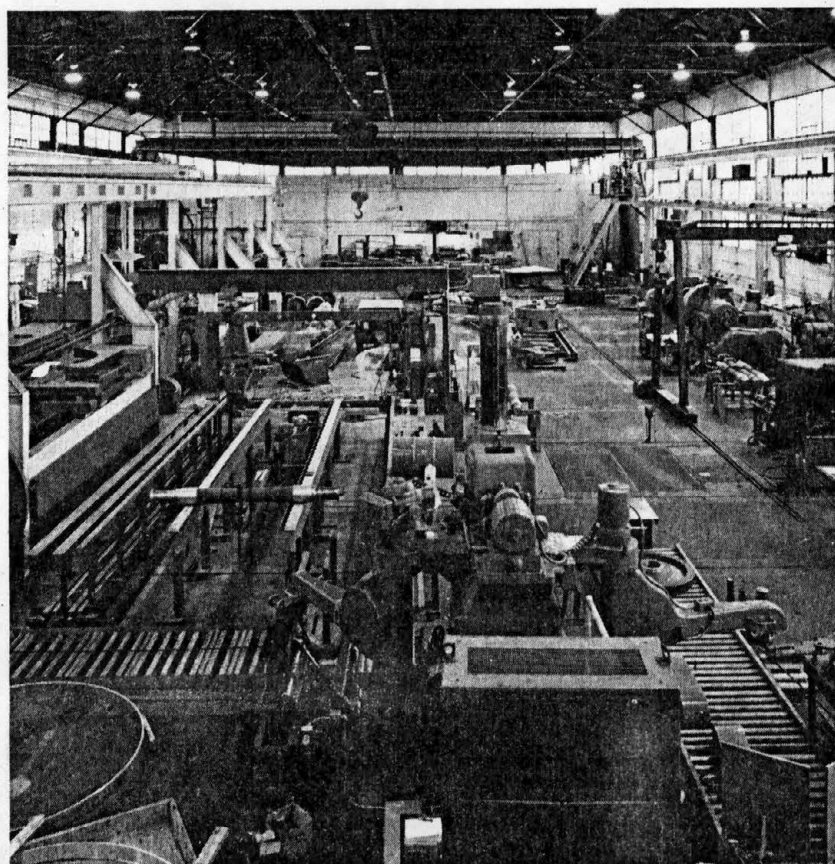
Alliance—PLM Railcar Maintenance Co. (BN) A, R, W, AAR Certified wheel shop. 308/762-1393.

Grand Island—Quick-Car/Grand Island—(UP) A, R, W, preventive maintenance. 308/383-3880.

Omaha—Rail Car Nebraska (CNW, UP, BN, MP, MILW) A, R, W, wheel replacement & roller bearing repairs, prepare AAR billings. 402/731-5660.

Unarco Transportation Equipment Div., Unarco Industries, Inc. (UP) A, R, W, T, C. 402/895-1155.

Scottsbluff—Panhandle Car Service, Inc. (BN) A, R, W. 308/635-3933.



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Write in 14 on Reader Service Card

Meeting: 10 a.m. Monday, July 26, 1982

Iowa DOT District Office

Mason City, Iowa

Attending:

(A) Iowa DOT:

Les Holland, Director, Iowa DOT

Harvey Sims, Rail Operations Manager

Douglas Walkup, Finance Auth Mgr.

(B) Iowa Falls Gateway Shippers Assn.

Ivan Summa, Mgr. Superior Coop, Superior, Ia.

Darwin Ludke, Mgr. Grain & Mdsg, West Bend, Ia.

(5 Locations)

(Fred McKinnon, Mgr. at West Bend, Ia not present)

Ron Grove, North of Belmond.

(C) Soo Line:

T. M. Beckley, Pres; D. Cavanaugh, Exec. VP; R. Smith,

VP Traffic; P. McNamee, Dir. Pricing; J. Darling,

Dir. Sp. Projects; D. J. Boyer, Exec. Asst.

Note: This meeting resulted from a prior meeting between Soo Line officials and Iowa DOT representatives on July 15, 1982 in Des Moines, Iowa. The Iowa DOT arranged the present meeting between Soo and Iowa Falls Gateway Shippers Assn. representatives.

General Meeting Formal/Discussion:

- (A) Open by Les Holland introductions by individual.
- (C) T. Beckley, Pres. Soo
 - (1) History of Soo interest in KC market.
 - (2) Soo position with respect to outright acquisition by purpose and plans for 2 corporations.
 - (3) Participation by users in same terms based upon volume of freight traffic generated.
 - (4) Soo bid for lines based on traffic volume experienced
 - (5) Reference to Assoc. bid on rail lines.
- (B) Ivan Summa principle spokesman offered response to T. M. Beckley opening statements.
 - (1) Agreed with Soo 2 corporation concept for ownership because this lets rail users have local authority to discuss problems with and direct access for input.
 - (2) Critical of railroads management in general and particularly of RI, CNW and Milw.
 - (3) RI trustee keeps talking of 100 million bushels of product to move. More accurately it is 75 million bushels (Translates to 25,000 CLs) on 300 miles of tracks in Iowa.
 - (300 miles is IF to Sibley and Royal to Palmer)
 - (243 / / / / /)
 - (4) IS raised direct question to T.B. what has changed in the scene to cause Soo to think it can "combat" CNW for acquisition of these lines? Other RRs have

backed off. BN-KCS was really just operation of branch lines with user ownership. Equipment added.

(C) *(TB response) CNW debt plus powder river basin financing requirement; erosion of traffic from RI during interim operator time by CNW; Merger plans of CN-Milw and the obvious press to wind up the trusteeship. Additionally Soo is experienced in low volume line operation - successfully. Traffic will determine value.

(5) IS made lengthy explanation of Milw. to the river for barge loading, since it does not complete by going to Gulf markets. C&NW has offered incentive rates North to Savage, Minnesota to compete with trucks in Northern Ia & Southern Minnesota. The ICG is on the wrong side of the river at the Gulf and thus needs additional costly switch. KCS not open to grain terminals at port.

(6) IS emphasized the need of rail users in Iowa (corn & beans) have access to Gulf terminals, Western domestic markets and West Coast ports. Presently 86-88% of IFGSA members go to Gulf port markets. Balance go to West Coast and domestic markets. The owner of the "spine line" would be in the drivers seat by being able to make good rates with connections to markets in S, SW and West of KC.

(D) DC raised the direct question of participation in form of

equity by coops? IS responded that coops do not want to run or own the RRs; but stated "Not out of realm of possibility — Depends on who you get in bed with".

(2) DC commented Soo is exploring the use of non-union labor and reduced crews. IS stated that's the only way to make it work. CNW has too much non-productive track it is keeping and too many employees. IS offered "I have to give the CNW credit they do move cars, even though they are tough to deal with as a R.R."

(B) IS strongly recommended the RR operator must move commodity Dec - Apr or May. Repair track in July because corn and beans will not move to Gulf Port when small grain is running. So Soo should offer incentive rate in summer to combat the Milw-truck operation to river barge. This will also help the shipper use his equipment during summer. Ample storage for fertilizer inbound.

(2) IS stated the 3 representatives all have CH Equipment leased to 3-7 yrs. (North American, Rex and Pullman mentioned)

(C) DB asked IS if he could provide CL data for past 3 years from his association members in as much as we only have RI 1978 data. Yes, also will ask members to provide CLs they believe are going to Milw-truck barge.

(D) Darwin Ludke said it is now time for Soo to present its firm plan of acquisition and operation to the IFGSA.

No more meetings! Suggest Thurs., Aug. 19th (3rd wk)
in West Bend.

(A) Les Holland requested of IS to get the information from
IFGSA membership to Soo prior to meeting.

Adjourn.

cc: T. M. Beckley
J. D. Darling

Meeting: 10 AM Monday July 26, 1982
Iowa DOT District Office
Mason City, Iowa

Attending:

(A) Iowa DOT:

Les Holland,

Harvey Swis,

Douglas Walkup, Finance Auth Mgr.

(B) Iowa Falls Gateway Shippers Assoc.

Ivan Summa, Mgr. Superior Coop, Superior, Ia

Darwin Hudke, Mgr. Grain & Mdg, West Bend, Ia

(5 locations)

(Fred McKinnon, ^{SP} Mgr. @ West Bend Ia Not present)

Ron Corove, North of ~~Belmond~~ Belmond

(C) See line

T. Beckley, Pres; D. Caronough, Exec VP; R. Smith, VP

Traffic; P. McNamee, ^{VP} Dir. Pricing, J. Darling Dir. Sp. Projects

Bob Boyer, Exec Asst.

Page 2 - Mason City

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(5) Reference to Amtrak bid on rail lines.

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(3) RT trustee keeps talking of 100 million bushels of product to move. More accurately it is 75 million bushels (Translates to 25,000 chs) on 300 miles of track in Iowa.

(300 miles is IF to Sibley + Royal + Palmer)

(243 ✓ ✓ ✓ ✓ ✓)

(4) IS raised direct question to TB, what has changed in the scene to cause Soo to think it can "combat" CNW for acquisition of these lines? Other RRs have backed off.

BN-KCS was really just operation of branch lines with user ownership. Equipment added.

(C) *(TB response) CNW debt plus powder river basin financing requirement; erosion of traffic from RT during interim operator time by CNW; Mergers plan of ^{CN} ~~RT~~ Miles and the obvious press to wind up the trusteeship. Additionally Soo is experienced in low volume line operation - successfully. Traffic will determine value.

(5) IS made lengthy explanation of miles to the river for barge loading, since it ~~cannot~~ ^{does not} compete by going to Gulf markets.

Page 4 Mason City

~~(5) continued~~

CPNW has offered incentive rates North to Sauge Minnesota to compete with trucks in Northern Ia & Southern Minnesota. The ICC is on the wrong side of the river at the Gulf and thus needs additional costly switch. KCS not open to grain terminals at port.

(6) IS emphasized the need of rail users in Iowa (corn & beans) have access to Gulf terminals, western domestic markets and west coast ports. Presently 86-88% of IFCSA members go to Gulf port markets. Balance go to West coast and domestic markets. The owners of the "spine line" would be in the drivers seat by being able to make good rates with connections to markets in S, SW and West of KC.

(7) DC raised the direct question of participation in form of equity by coops? IS responded that coops do not want to run or own the RR's; but stated "Not out of realm of possibility — "Depends on who you get in bed with"!

~~(1)~~ continued

(2) DC commented Soo is exploring the use of non-union labor and reduced crews. IS stated that's the only way to make it work. CNW has too much non-productive track it is keeping and too many employees. IS offered "I have to give the CNW credit they do move cars, even though they are tough to deal with as a RR."

(B) (1) IS strongly recommended the RR operator must move commodity Dec - Apr or May. Repair track in July because corn & beans will not move to Gulf Port when small grain is running. So Soo should offer incentive rate in Summer to combat the mill-truck operation to river barge. This will also help the shipper use his equipment during summer. Ample storage for fertilizer inbound.

(2) IS stated the 3 representatives all have CH equipment leased 3-7 yrs. (North American, Rex and Pullman mentioned)

Page 6 Masar City

(F) DB asked IS if he could provide CL data for past 3 years from his association members in as much as we only have RI 1978 data. Yes, also will ask members to provide CLs they believe are going to midw-trunk barge.

(8) Darvin Ludke said it is now time for Soc to present its 5 year plan of acquisition and operation to the IFGSA. No more meetings! Support them Aug 19th (3rd wk) in West Bend.
Adjourn.

(A) has Holland ~~ask~~ requested of IS to get the information from IFGSA membership to Soc prior to meeting.

Adjourn

DBB Notes

Sheraton Motel
Mason City, Iowa

Meeting with two representatives of L.B. Foster Company at noon. This meeting arranged by Iowa DOT, ~~representative Douglas L. Walby,~~
~~Finance Authority Manager.~~

Attending:

(A) Iowa DOT:

Douglas L. Walby, Finance Authority Manager.

(B) L.B. Foster Company

H. Roy Gordon, National Vice President, S.F. Co

Joe ? , Rail Manager, Chicago, Ill.

(C) Sao representatives - (6)

(B) H.R. Gordon, Spokesman for L.B. Foster

briefly described his companies chief activity
~~of~~ as a supplier of ^{RR} track materials, both
new and ~~used~~.

In order to obtain a greater share of
the rail material supply market; L.B. Foster
is proposing a unique lease program.

Page 2 - Sheraton, Mason City

Lease Plan

- (1) LBF proposes to amass a maximum \$300 million financial package from their own funds, and other sources such as banks and insurance companies.
- (2) LBF will finance track improvements, acquire from the RR and lease back to RR over a specified period of years, at a rate of 8-10% in exchange for ITC and depreciation.
- (3) LBF program can include the acquisition of existing track exclusive of real property as well as the improvement program of the track. Or, it can be only the track rehabilitation program.
- (4) Track components included are rail, ties, OTM and ballast. (depreciable items)
- (5) LBF is interested in receiving from Soo designated or specific rehabilitation programs on either the Mpls - KC ML or IFC branch line for a work-up proposal by LBF.
- (6) The entire improvement track program is under the direction of the railroad.
- (7) The improvement program can cover more than one year with price of materials at competitive fair market value.

(8) LBF advised J. Darling, Director Special Projects
is contact representative on So. Line.

Lee Halland
Harvey Sims,

Wlgs Superior Coop - Superior Ia - Ivan Sumner
12 mil bus

Darwin Hudke - Corbin & Wlgs - West Bend - Stockton
7-8 mil bus/yr. (30-75 car trains per yr)
Fred McKinnon - Wlgs.

Ran Grove - N. of Belmont - Single car market - Ark.

A-TB

- ① History of interest in KC
- ② Soo position acquisition
- ③ Participation by U.S.
- ④ Bid based on traffic experience levels.
- ⑤ Assoc bids on rail lines

(IS)* 75 miles on 300 air track. (IS) Tractor thinks could be
IF to Sibley (includes Royal Wagon line)
IF to AL (248 mi)

(IS)* What has changed to cause Soo to think they can combat CNW in
acquisition of these lines? Other RRs have bailed off.

(TB)* Response: CNW - debt, erosion of traffic from RI, merger
GTW & CN, Wind up trust funds,
Soo is experienced in low volume lines. - successful
corporations - traffic will determine value.

(IS)* Explained the miles to river flow. CNW North to Savage
ICC on wrong side of river @ Port - needs add SW @ Port.
KCS - SF open to all port markets. Need west coast rates for
domestic market. From Omaha to West coast Ports.

* IS - Emphasis point of need by grain elevators to be able to go to all markets in Gulf or Ca or West coast. This should make Soc very competitive in dealing with SW & S rails to Gulf over divisions out of KC.

DC * Participation - Equity by coops? IS sez use manual local labor during summer. 2 man crews. Not out of realm of possibility. "Spends you who you get into bed with."

IS * No Am, Rex, Pellman

Suggest Thurs Aug - 3rd wk. West Bend. 19th

12:45 am City - L. B. Foster - Representative

Gordon - explain concept of leasehold materials
to up grade track.

lease pkg - improvements only or acquisition.

leverage lease - ITC, & depr.

Max ^{\$}300 mil financed pkg Total, Bank, Ins, LBF

D. M. CAVANAUGH AND R. H. SMITH
Return flight from Kansas City

AIRLINE SCHEDULE

| <u>DATE</u> | <u>DAY</u> | | <u>FLIGHT</u> | <u>TIME</u> | <u>STOPS</u> | <u>FOOD</u> |
|----------------|----------------|-----------------------|---------------|----------------|--------------|--------------|
| | | LV MPLS | | | | |
| | | AR | | | | |
| <u>7/27/82</u> | <u>Tuesday</u> | <u>LV Kansas City</u> | <u>RC 225</u> | <u>4:55 PM</u> | <u>-0-</u> | <u>Snack</u> |
| <u>"</u> | <u>"</u> | <u>AR MPLS</u> | | <u>5:59 PM</u> | | |
| | | LV | | | | |
| | | AR | | | | |
| | | LV | | | | |
| | | AR | | | | |

Reservations for DMC and RHS were made by JMZ with Cindy of Park Travel on July 20. Tickets will be delivered on July 21. DMC will bring RHS's ticket with on Monday, July 26.

cc: DMC, RHS, TMB, ARH, BMM, JMZ, E. Mueller

ITINERARY OF THOMAS M. BECKLEY
MASON CITY - KANSAS CITY - MPLS.
JULY 26 - 27, 1982

Monday
July 26

Dennis Cavanaugh will pick P. M. McNamee
and you up at home at approximately 7:00 a.m.

Dave Boyer will pick Ray Smith and Joe Darling
up and will meet you at the meeting.

Drive to Mason City, Iowa

Iowa Falls Gateways Shippers Association and
Iowa Department of Transportation Meeting

Time: 10:00 a.m.
Place: District Materials Office
Conference Room
1420 4th St. (a/k/a U.S. Hwy. 18)

Lunch

Drive to Kansas City and find lodging
for the evening.

Tuesday
July 27

Meeting with T. S. Carter

Time: 10:30 a.m.
Place: Kansas City Southern Ry. Co.
114 W. Eleventh St.
816/556-0303

Kansas City to Minneapolis

Flight: Northwest/596
Departure: 7:30 p.m.
Arrival: 8:40 p.m.
Stops: None
Food: None

ST *file*
July 26, 1982

SOO LINE RAILROAD

JUL 26 1982

EXEC. VICE PRESIDENT

TO: T. M. Beckley

FROM: B. D. Olsen

RE: C&NW Trackage Rights Omaha to Kansas City

In connection with our interest in the Rock Island Kansas City line, interest was expressed in the terms by which C&NW will gain trackage rights between Omaha and Kansas City as a result of the Missouri Pacific-Union Pacific consolidation.

The MOP/UP case is now through the briefing phase and a final decision is expected very shortly from the Commission. During the course of the hearings, C&NW and MOP/UP entered into a settlement agreement and filed an application for approval of a pooling agreement to implement the portion of the settlement dealing with C&NW rights between Omaha and Kansas City. MOP crews will operate C&NW trains over UP and MOP lines between Council Bluffs and Kansas City. Traffic handled by the C&NW trains will be limited to freight originating or terminating at C&NW stations in western Iowa, Minnesota, South Dakota, North Dakota, Nebraska and Wyoming, except for coal originating in Wyoming. C&NW will pay an annual rental of \$750,000 in addition to M&O costs. By copy of this letter, I am supplying Mr. Murlowski with a copy of the pooling agreement and ask that it be reviewed to determine whether there is anything unusual in the compensation arrangements for maintenance and operating expense.

The agreement will be effective for 15 years and thereafter will remain in effect subject to a 2-year termination right on the part of the C&NW. It will not be effective until approved by the Commission and the MOP/UP consolidation is consummated. There are a number of other conditions granted the C&NW in the settlement agreement which are not germane to the Omaha/Kansas City rights.

BDO/sjp

cc: ☒ D. M. Cavanaugh
R. H. Smith
R. L. Murlowski (w/pooling agreement)
J. D. Darling

July 23, 1982

SOO LINE RAILROAD

JUL 26 1982

TO: T. M. Beckley

FROM: B. D. Olsen

RE: Funding Assistance for Rock Island Acquisition

EXEC. VICE PRESIDENT

Meetings with the Federal Assistance Office of the Federal Railroad Administration as well as review of applicable statutes reveal the following theoretical sources of aid for acquisition or rehabilitation of the Rock Island Kansas City to Twin City line. All require further investigation, although several appear not worth pursuing.

1. Title 5 (4-R) redeemable preference share financing.
2. Rock Island Transition and Employee Assistance Act - \$38 million for acquisition by non-carrier entities (now added to Title 5 of 4-R).
3. Title 5 4-R loan guarantees.
4. Title 8 (4-R) grant money to states.
5. Farmers Home Administration.
6. HUD.

The FRA told me that at one time the Farmers Home Administration had some money available for rail line assistance. They had heard nothing lately, knew no specifics, and assumed it to be no longer a source. This has not been checked further. FRA also told me that the State of Colorado had made an effort to obtain money through HUD, but regarded this as an improbable source of funds. No further information was available on this either.

Section 505 and subsequent sections of Title 5 of 4-R deal with issuance of redeemable preference shares. This is the source of \$15 million which FRA says is currently committed by them for application to the Rock Island line between Kansas City and the Twin Cities. The authorization is currently due to expire in September but William Loftus, the Associate Administrator of the Federal Assistance Office of FRA, assured me that Congress would extend the authorization into next year. Loftus grudgingly admitted that this money might under certain circumstances be available for acquisition. However they felt that it was not a significant enough sum and could be equally well used for rehabilitation. The latter is their clear preference. Acquiring the money requires a lengthy and complex application process with a very thorough presentation of how

the applicant intends to make the line viable and pay back the loan. According to FRA, the payback starts six years after the funds are received and extends through the 20th year. The effective interest rate is quoted at 3.24%.

The application must also include a detailed plan of how the money will be spent. Once approved, FRA then doles out the money on a monthly "as needed" basis rather than handing it over in a lump. This facilitates continued monitoring by the FRA. The time period for processing the application was described as "several months." The statute permits a longer payback period up to 30 years and requires a minimum of 15 annual redemption payments. There is, however, a right to prepay. These time periods are subject to the discretion of the Secretary and the message I got was that the 6 and 20 payback is what they are requiring.

Under section 505, a railroad may apply for financial assistance "for facilities rehabilitation and improvement financing and for such other financial assistance as may be approved by the Secretary." (Section 505(a) 4-R.) The FRA reluctance to use the Rock Island earmarked funds for acquisition stems in part from an evident dislike for lining the trustee's pockets with federal money. In that connection, they wanted nothing to do with Gibbons but would be glad to assist in negotiating with the C&NW or any other railroads. The concept of multiple users of the line developed during the latter days of the Carter administration. While the current administration has not pushed the concept, the FRA has by no means discarded it and remains interested most strongly in that possibility. Since improvement of the Kansas City line was called the "grain funnel" in the Carter days, the approved Reagan term is "grain line."

The Rock Island Transition and Employee Assistance Act added an additional \$38 million for acquisition or rehabilitation of Rock Island properties "by responsible non-carrier entities to be used for common carrier rail service." I was told that the application filed by the Iowa Falls Shipper Association (FRA referred to it as the Iowa Falls holding company) was made under this provision. This is now incorporated in section 505 as subparagraph (h). There is an ambiguous provision in this section which states as follows: "A responsible non-carrier entity may also include any railroad that wishes to contribute any of its properties under common ownership with the property being acquired by the association." No one at FRA could give me a very clear interpretation except that they're taking the position that any involvement by a railroad under these circumstances would still have to be in conjunction with a shipper or employee groups.

Aside from the drawback of not being available to a railroad, the \$38 million is fully committed according to the FRA. A substantial portion of this money is going to the OKT

acquisition. Also to tap this pool, an application would have to be on file and approved by September of this year. The Iowa Falls application is still considered legally alive by FRA as are one or two others, including apparently one by the C&NW. FRA was a little vague about the latter and indicated that none of this latter group of applications had been processed at all.

Loan guarantees are provided by section 511 of 4-R. According to FRA, there is currently available \$100 million under this category and could be made available to a solvent railroad such as the Soo. FRA estimated there would be a slight interest rate advantage. Permissible purposes include acquisition or rehabilitation of facilities or equipment or development and establishment of new railroad facilities.

Title 8 of 4-R provides money to states for distribution in the discretion of each individual state, subject to overall federal requirements. Iowa and Minnesota have each received, or will receive, approximately \$2 million for each of the years 1981 and 1982. The Minnesota state rail plan reports that Minnesota received \$2 for 1981 and estimated \$1.67 million would be received for 1982. According to the Minnesota state rail plan report, use of this money is limited to low density lines in no event more than 5 million gross ton miles per year. However, the same rail plan does express strong support for development of the Rock Island Kansas City line (see e.g., Minnesota State Rail Plan 1981-1982, p. 98). The apparent favorable attitude of both Minnesota and Iowa DOTs could conceivably make some funding assistance available, although it would be a relatively small amount compared to the overall need.

BDO/sjp

cc: ~~D.~~ M. Cavanaugh
C. H. Clay
R. H. Smith
R. L. Murlowski
J. D. Darling

Soo Line Railroad Company



Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

THOMAS M. BECKLEY
President

July 22, 1982

Mr. T. S. Carter
President
Kansas City Southern Ry. Co.
114 West 11th Street
Kansas City, Missouri 64105

Dear Tom:

This will confirm our conversation to meet with you in your office on Tuesday, July 27.

I plan to drive to Kansas City with Messrs. Ray H. Smith, Vice President Traffic, Joe D. Darling, Director, Special Projects, and Dennis M. Cavanaugh, Executive Vice President on Monday.

It may be necessary for us to stop somewhat short for the night, but we will plan on meeting you in your office about 10:30 a.m.

We are looking forward to meeting with you and other members of the staff of the Kansas City Southern.

Sincerely,

bcc: ✓ D. M. Cavanaugh
R. H. Smith
J. D. Darling

Kansas City Southern

1. KCT

- a. Articles of incorporation
- b. By-laws
- c. Operating agreements
- d. Intermediate switching tariff
- e. Reciprocal switching tariffs
- f. Current costs.

2. KCS-MILW Joint Agency

- a. Agreement
- b. Current costs

1. Classification, train make up and break up.
2. Transfer and interchange
3. Industry switching
4. Intermodal
5. Locomotive
6. Clerical

3. Other KCS Trackage.

4. Trackage rights on KCS.

6. Negotiating position with MILW
a. Join KCS-MILW Joint Agency agreement.

1. Without equity position.
2. Purchase $\frac{1}{2}$ MILW interest.
3. Purchase $\frac{1}{3}$ each of KCS and MILW interest

b. Intermediate switching tariff

1. KCS
2. MILW

3. Joint Agency

c. Contract

1. KCS
2. MILW

3. Joint Agency

7. Alternatives

a. Will the KCS accept our searching for alternatives to strengthen position with MILW (KCS trackage rights)

b. Interchange run-throughs with KCS

6. Outrange

a. By road, including KCT

b. Location

c. Multiple Deliveries per transfer

d. Push pull agreements

e. Run throughs.

July 22, 1982

TO: T. M. Beckley
D. M. Cavanaugh ✓
R. H. Smith
P. M. McNamee
D. J. Boyer

FROM: J. D. Darling *JDD*

RE: Rock Island Study

The meeting with the Iowa Falls Gateway Shippers Association and the Iowa DOT is scheduled for 10:00 a.m., on Monday, July 26, 1982. The meeting will be held at the District Office Materials Conference Room, 1420 Fourth Street, Mason City, Iowa. Fourth Street is the same as U. S. Highway 18. The meeting place is located on the east side of Mason City, on the north side of the road across from a grade school.

JDD/jmz

C. S. Stoffer, Jim

7/21/82

Down Northern

Waterloo

Lumber - Duluth / Superior

Waterloo Currier

Waterloo Mills

John Deere

Pillsbury

WLO

Cedar Rapids

Corn Sweeteners ADM

Cargill - RI (CNW)

Quaker Oats - RI (CNW)

Perich & Ford

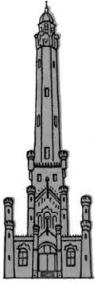
Nall Oats

CIRC - ICG

515-823-8949
-823-8870

480 5A

Greene, Iowa



The Chicago Corporation

Member NEW YORK, MIDWEST AND AMERICAN STOCK EXCHANGES

208 SOUTH LA SALLE STREET • CHICAGO, ILLINOIS 60604 • 312 • 855-7600

July 20, 1982

Mr. Dennis M. Cavannaugh
Executive Vice President
SOO Line RR Company
800 SOO Line Building
P. O. Box 530
Minneapolis, Minnesota 55440

Dear Dennis:

The enclosed form sheet briefly describes the terms for the financing of the former Rock Island RR Co. line of track between Minneapolis and Kansas City. These terms are necessarily sketchy because they must be applied to your specific situation. Item #3 can possibly include rail, OTM, and other equipment. We have personally checked the potential availability of the F.R.A. rehabilitation funds.

The next step is for you to consider the enclosed and to meet with us in Washington, D.C. to begin the process of making a clear, concise and mutually satisfactory proposal.

We look forward to hearing from you.

Sincerely,

William H. Sills III

WHS/bgh

enc.

July 20, 1982

TO: T. M. Beckley
FROM: J. D. Darling *JDD*
RE: Rock Island Study

On Friday, July 16, 1982, I received a call from Les Holland, Director, Rail Division, Iowa DOT. Subsequent to our meeting in Des Moines on Thursday, July 15, 1982, Les had determined that the amount owed the State of Iowa by the Rock Island Trustee for State contributions under the Branch Line Assistance Program was \$1,046,579, rather than the approximately \$4,000,000 mentioned at the meeting.

The State is being paid back at the rate of \$60 per carload, originated or terminated, above 19,557 carloads annually.

It was stated that the CNW lease of trackage from the Rock Island Trustee provides that the CNW assume the Rock Island obligations under the Branch Line Assistance Program. The CNW has paid approximately \$600,000. The CNW has retained this amount on its own accounts and should the CNW cease to operate the Iowa Falls Gateway trackage, these funds could be spent as a State contribution in the form of a grant on projects on other CNW branch lines in Iowa.

Shippers have been repaid at the same \$60 per car rate, but with no minimum volume commitment. However, the figures quoted would indicate that the carloads on the Iowa Falls Gateway branches averaged 24,557 in 1980 and 1981. This would include the isolated Palmer to Royal segment, for which 3,225 carloads were listed in the 1978 Rock Island tape. Our traffic analysis indicated 20,807 carloads, excluding the Palmer to Royal segment.

No payments to the State have been made this year.

JDD/jmz

cc: D. M. Cavanaugh
D. J. Boyer ✓

Ses Holland 7/16/82

Reese Hawkins -1549

Administrator, Negotiation
Trustee

\$1,046,579 owned State

~~19557~~ cars/State
19557

\$300,000 - \$500,000
avg. max.

Shippers live than one year
State 2-7 years

\$60/car average

CNW paying under lease with
RI

bill \$600,000

7/16/82

TMB, PMM, RLM, WHS, ~~DBB~~ JDD, CHC, DMC, HCN

Main Line

Purchase price based on volume

\$15,000,000 FRA Main Line
maintenance, preference stock
no obligation for 6 years, 3%,
repayment on sale.

\$10,000 per mile

Loans in form of capital contribution,
repaid on basis of volume over
break-even

(21 multiple car shippers)

FRA - Banner Olson

JDD - Iowa DOT

~~200 Weds~~

1200 Norm Thurs

Dave Boyer

IRRC, Dept of Ag, Dave Duenberger

Lease arrangements

Volume of traffic

Names of people

July 15, 1982

OW \$16,500,000 Clinton - Washington

Judicial ordered sale by Christmas.

30 days notice

\$4,000,000 overdue taxes

\$4,000,000 State rehab to be repaid

26/33 are Agri

Iowa Falls Gateway Shippers Association

Title V ~~June 15~~

Omaha Bank of Cooperatives

SOS ~~June 15~~

RI Transition Act Money

May be vehicle for funding

Agri keep books open

Evans, North American

MN, IA

Title 8

\$2,000,000 million

Miami Accord

ITINERARY FOR
T. M. BECKLEY, D. J. BOYER & J. D. DARLING
MPLS.-DES MOINES-RETURN
July 15, 1982

Thursday
July 15

Minneapolis to Des Moines

Flight: Ozark/665
Departure: 10:56 a.m.
Arrival: 11:43 a.m.
Stops: None
Food: None

You will be met at the airport by:

Les Holland, Director, Iowa DOT
Harvey E. Sims, Rail Operations Mgr., Iowa DOT
Douglas L. Walkup, Finance Authority Mgr., Iowa DOT
C. I. "Ian" MacGillivray, Director,
Planning & Research, Iowa DOT

Arrangements have been made for lunch.

Iowa Department of Transportation
Meeting

Place: State of Iowa
Aeronautical Division
Board Room

Des Moines to Minneapolis

Flight: Ozark/662
Departure: 4:13 p.m.
Arrival: 4:59 p.m.
Stops: None
Food: None

July 15, 1982

JUL 16 1982

TO: S. M. Mrosak
FROM: J. D. Darling *JDD*
RE: ~~RI Study~~

Attached is a copy of a real estate appraisal obtained by the RI Trustee. We would appreciate your comments as to the method of appraisal and anything you might be able to say regarding the appraised values.

Also attached is a copy of my letter of July 14, 1982 listing the segments believed to constitute the properties under study.

JDD/smh

Attachments

cc: T. M. Beckley
D. M. Cavanaugh

JUL 16 1982

July 15, 1982

TO: W. B. Peterson

FROM: J. D. Darling ~~JD~~

RE: RI Study

Attached is an appraisal of the fixed improvements of the RI obtained by the Trustee. We would appreciate your comments concerning the methods of appraisal. We would also appreciate your opinion on the reasonableness of the appraisal. A sample of representative segments for ties, rail, OTM and ballast would be adequate at this time.

We would also appreciate an estimate of the impact of the change in scrap prices since 1980.

JDD/smh

Attachment

cc: T. M. Beckley
D. M. Cavanaugh

Waterway Revenue Act established a relatively moderate four-cents-per-gallon fuel tax in 1980, which rises to 10 cents per gallon in 1985. The Reagan Administration has been promoting a higher fuel tax, one closer to 30 cents per gallon, which would recover an estimated 75% of federal expenditures on inland waterways. Also under consideration is a separate annual fee of up to \$10,000 per vessel to be levied on waterway users specifically to recoup the cost of Coast Guard services. Such measures could help narrow the cost advantage of tug-barges over railroads, enabling the rails to make some market share gains for coal and other bulk commodity traffic.

A fundamental handicap of barge transportation is limited accessibility and highly circuitous routes. Route circuitousness is particularly acute for coal shippers in Kentucky and Illinois, and it has limited barge coal traffic. However, the multi-billion-dollar Tennessee-Tombigbee Waterway project is under construction and nearly 75% complete. This 234-mile man-made waterway, when completed in 1985 after some 15 years of construction, will lop 800 miles off the distance required to move coal to Gulf ports. Suffering the greatest coal traffic loss is likely to be the Louisville & Nashville, a unit of CSX CORP. ■

GRAIN TRAFFIC

Grain export traffic boom fading

During the decade of the 1970s, the railroad industry's grain traffic expanded 35% to an annual volume of 5.0 billion bushels, or about 132 million metric tons. In contrast, total originated tonnage of all traffic hauled by rail during the same period rose only 0.5%. Grain traffic, accounting for 10% of rail tonnage and 7% of carloadings in 1981, has become a major swing factor in rail profits. Together with coal, strong grain shipments helped sup-

port rail profits in 1974, 1979, and 1980, difficult years for traffic of general merchandise and cyclical goods. Like coal, grain's contribution to the bottom line is disproportionately greater than incremental revenues generated, since mechanized loading and unloading and the efficient utilization of freight equipment through unit-train movements keep handling costs per ton-mile low. ■

Growth sharpest on East and West Coasts

The growth in rail grain traffic has arisen primarily from export shipments. While rail movements of grain for domestic consumption, primarily to food processors and livestock breeders, trended lower during the past decade, export hauls increased sharply. Rail export grain traffic rose 135% between 1970 and 1980 to 2.8 billion bushels annually, from 1.2 billion, while domestic traffic fell 12% in the same period to 2.2 billion bushels, from 2.5 billion. Railroads serving Atlantic and Pacific ports have benefited most from the export boom: between 1970 and 1980, carloads of grain unloaded at Atlantic ports increased nearly fourfold to 150,000 cars annually, while at Pacific ports carloadings nearly tripled to 210,000 cars. While the Gulf export route is by far the largest, with some 310,000 carloads of grain dumped in 1980, its growth has

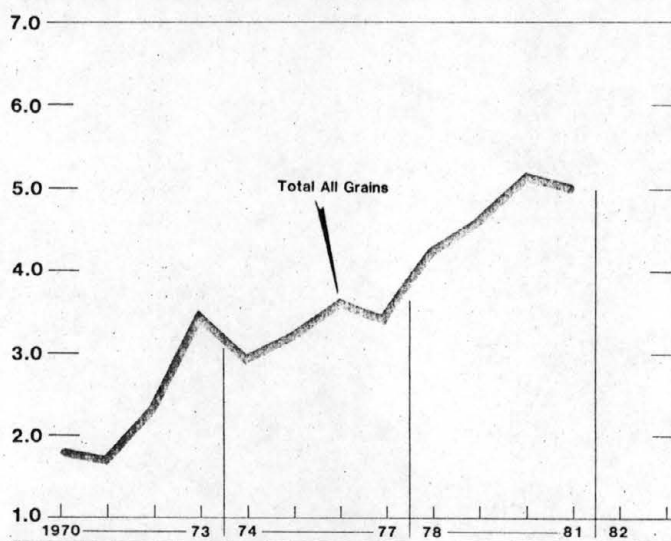
been far slower—only 63% during the 1970-80 period. Export grain traffic to the Great Lakes, where navigation is limited during the winter, has remained essentially static at some 110,000 carloads. Carriers connecting to the Great Lakes have participated in the grain traffic boom only during unusually heavy periods, garnering the spillover volume when the capacity of coastal ports has been strained.

The single largest purchaser of grain from the U.S. is Japan. In 1981, Japan accounted for the following percentages of U.S. grain exports: corn, 22%; soybeans, 19%; and wheat, 8%. The bulk of grain destined for Japan moves through Pacific ports. In the Western district, where more than two-thirds of the railroads' grain traffic originates, such carriers as the Sante Fe, BURLINGTON NORTHERN, CHICAGO & NORTH WESTERN, and the UNION PACIFIC have experienced sharp increases in Japanese-bound grain traffic. Japan's ravenous demand for grain largely reflects the success of American-organized campaigns to alter food consumption habits from a largely fish and rice diet, to one that favors beef, poultry, eggs, and baked goods. With no other grain-exporting nation capable of supplying the large volumes that agriculture-poor Japan requires, Japan has developed close ties to the U.S. grain distribution system, purchasing several sizable grain elevators at U.S. ports. While continued expansion of grain trade with the Japanese is certain, the pace of

| Leading U.S. grain* importers—1981 | | | |
|------------------------------------|-------------------------------------|------------|-------------------------------------|
| Country | Percent of Total U.S. Grain Exports | Country | Percent of Total U.S. Grain Exports |
| Japan | 16.5 | Mexico | 3.7 |
| U.S.S.R. | 8.0 | Korea | 3.5 |
| Netherlands | 6.9 | W. Germany | 3.1 |
| China | 6.1 | Italy | 2.7 |
| Spain | 6.0 | Brazil | 2.5 |

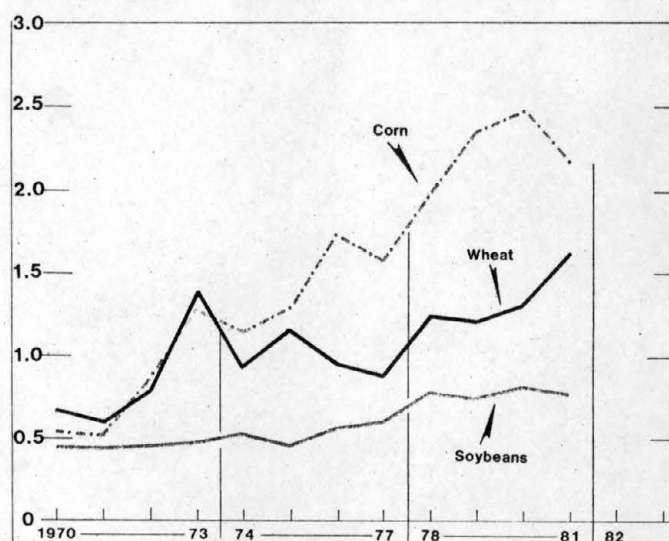
*Incl. corn, wheat, soybeans only.
Source: U.S. Department of Agriculture.

*** U.S. GRAIN EXPORT PATTERNS**
(In Billions of Bushels—Calendar-Year Basis)



* Includes overland export shipments from 1980

Source: U.S. Department of Agriculture



growth should slow since the process of conversion to western food tastes has largely been completed. In the future, grain exports to Japan will be primarily a function of that nation's population growth and further improvement in the Japanese standard of living. While the U.S. will remain Japan's primary grain source, the relative strength of the U.S. currency and that of other grain exporters *vis-a-vis* the yen will greatly determine the U.S. share of Japan's grain imports in any given year.

Strained U.S.-Russian relations cloud trade

The Soviet Union, which accounted for 8% of U.S. grain exports in 1981, making it the second-largest foreign customer for U.S. surplus grain production, has recently become a less dependable market. Since the 1980-81 grain embargo, imposed by President Carter as a gesture of U.S. displeasure with the Russian invasion of Afghanistan, the Soviet's share of U.S. grain exports has been slashed in half.

As a political act the grain embargo was a failure. Two years have passed since the embargo was imposed, yet Russian troops remain in Afghanistan and the Soviets are obtaining enough grain to meet their needs through other grain-exporting nations. The embargo could have been successful had the U.S. cut off all grain trade with the Russians rather than only the 17 million tons in excess of the 8 million tons guaranteed under the 1975 U.S.-U.S.S.R. five-year trade agreement—and had 1980 not been a year of bumper harvests for the Soviet's substitute suppliers. Moreover, worldwide recession in 1980 curbed demand for some grains, increasing the surplus that exporters had available to sell to the Russians.

To fill its grain import gap during the embargo, the Soviets turned to Argentina, a relatively minor factor in world grain trade. In the 1980-81 crop year, Argentina accounted for only 1.8% of world wheat production and 2.9% of the world's production of coarse grains (primarily corn). By way of comparison, the respective U.S. produc-

tion figures were 14.7% and 27.3%. Nevertheless, Argentina's 1981 surplus was sufficient to enable Argentina to sell to the U.S.S.R. 12 million metric tons of grain, or about 75% of its export volume. With annual Soviet grain import requirements running in excess of 30 million tons in recent years, and now 45 million tons, the Russians cannot satisfy all their needs solely from Argentina. But because of the 1980 U.S. embargo, Argentina's farmers have been spurred to increase grain production and are turning a one-time windfall into a long-lasting trade partnership. Argentina signed a five-year grain pact with Russia in 1980, guaranteeing minimum shipments of 22.5 million tons over the life of the pact, a level already exceeded in the agreement's second year.

Several other nations besides Argentina have moved swiftly to fill the Soviet grain demand. Canada negotiated an agreement based on the U.S. model in 1980 to sell a total of 25 million tons of grain to the U.S.S.R. over five years. But Canadian grain sales to the Soviets in 1981-82 of 7.5 million tons have already far exceeded the contracted minimum levels. Canada, which produces about 5.4% of the world's wheat and 3.3% of coarse grains is the world's second-largest grain exporter, with a 12% share of the world grain trade. More than any other nation, Canada is the U.S.'s most formidable competitor, since the U.S. and Canada are equidistant from Soviet markets. Moreover, Canada has both the capacity and the financial resources to expand its grain output and transportation/distribution network, and it can significantly undersell U.S. grain since the Canadian currency is nearly 25% below the dollar. Furthermore, much of Canada's grain is transported under rail rates frozen at levels one-fourth those charged by U.S. rails. The Canadian threat to U.S. grain exports and the rails' grain traffic is real, and in mid-1982, there have been rumors of an imminent signing of a new Canadian-U.S.S.R. grain agreement that would supplant the existing pact and guarantee Russia 8 million tons per year.

Political tension between the U.S. and U.S.S.R. may

not subsidize enough in the near term to enable the signing of a new long-term grain pact. Caught in the middle are U.S. farmers and railroads, both of which are witnessing the dissolution of their once largest export market. Evidence bearing this out is the fact that the Soviets, facing one of their worst grain harvests in recent years, have purchased only 13.7 million tons of grain from the U.S. in the marketing year ending September 1982, despite America's offer to sell 23 million tons. This action by the Soviets can be interpreted to mean that Russia is no longer shunning U.S. grain as a point of honor stemming from the grain embargo, but because the Soviets have found other reliable sources.

Barring poor harvests among all of the Soviets' new grain suppliers simultaneously, the U.S., henceforth, may obtain only spot purchases from Russia in declining amounts and well below levels sold and transported during the current marketing year. Railroads that will suffer the brunt of the Soviets' withdrawal will be those western rails with large positions in wheat traffic, such as Santa Fe, BURLINGTON NORTHERN, and UNION PACIFIC. Corn-hauling railroads will suffer less since Russia's grain suppliers have limited surpluses of corn and limited production capability.

Improved farming methods also a restraint

Even had U.S.-U.S.S.R. trade not come unglued over Poland and Afghanistan, Russian programs to improve farming methods and crop yields probably would have reduced their grain imports. Unlike Japan, whose grain purchases reflect a limited agricultural base, the Soviet imports are primarily a function of its perennial large harvest shortfalls. During the past decade, Russia has consistently failed to meet or exceed planned crop production targets. The results of the 1980-81 harvest, which for the first time in many years were not disclosed in the Soviet yearly economic report, have been unofficially estimated at 150 million metric tons. While this is better than the disastrous 140-million-ton harvest the Soviets reaped in 1975, it is some 35% below their production target of 238 million tons. Russia's 1979 and 1980 harvests were similarly dismal at 179 million tons and 189 million tons, respectively.

The pronounced weakness of the Russian grain harvests is generally attributed to bad weather—hot, dry weather in some areas and heavy rains in other areas. But the Soviet agricultural woes are far more deeply rooted. A large percentage of the Russian farm equipment is obsolete, in disrepair, or otherwise so defective that part of the Russian grain crop is lost because not enough equipment is in working condition at harvesting time. Other problems include the shortages and inferior quality of seeds, and improper planting methods, all of which make Soviet wheat yield per acre one-third that of the U.S. Inefficient coordination of transportation to move the harvest, inadequate storage facilities, and the general poor management that stems from a distant central planning bureaucracy also are responsible for the Soviet Union's problems.

But the Russians are currently taking important steps toward food self-sufficiency. In May 1982, the Russians announced the establishment of a special food program. Spending on agriculture over the next eight years will

total a staggering \$230 billion, with this sector of the Russian economy garnering 33% of that nation's capital budget, up from about 27% in previous years. The Soviets also hope to attract and retain competent farm help by providing wage incentives and more comfortable farm lodging. Prices for privately farmed crops will be raised; efforts will be made to improve soil quality; various work tasks will be mechanized; and improved machinery will be developed for more efficient harvesting and distribution of fertilizers and chemicals. Should these efforts prove successful—and skeptics abound—Russia will be able to reduce its grain import bill and may one day be able to totally satisfy its grain needs *sans* U.S. purchases.

Other grain export markets fading

Another potentially large export grain market, Mexico, is also fading. During 1980 and 1981, grain exports to Mexico skyrocketed, stemming in part from Mexico's ruinous 1980 drought and burgeoning petroleum revenues, which lifted national wealth and fueled demand for a fuller diet. In 1981, Mexico took some 6% of U.S. grain exports. About half of these purchases were shipped through the Gulf of Mexico, while the balance was moved by way of an all-rail interior route. The railroads benefiting from the Mexican grain boom were the Santa Fe, SOUTHERN PACIFIC, and MISSOURI PACIFIC. At times the grain traffic moving by rail into Mexico grew so heavy that the Mexican government was forced to temporarily bar any new shipments because thousands of U.S. boxcars were clogging Mexico's rail lines.

The Mexican grain boom has since disintegrated. Despite the close proximity of Mexico and the U.S., the buoyant dollar has driven Mexico to cheaper suppliers. Although American grain prices have declined sharply, they have yet to compensate for the currency factor. Mexico is expected to reduce its 1982 purchases of American grain by 25% from 1981 levels. Another factor is the success of recent food production programs aimed at reducing Mexico's dependence on foreign grain supplies. Weak petroleum revenues this year are also forcing a reduction of food consumption at the higher end of the scale—meats, for example—and Mexico has thus reduced its imports of corn and other feed grains. For the near term, exports to Mexico will contract, with wheat sales least affected. On a longer-term basis, only a renewed climb in oil prices and an accompanying rise in Mexicans' standard of living would increase American grain exports to this market, but only if Mexican demand for meat and poultry outstrips Mexico's ability to produce feed grain.

Despite the poor intermediate outlook for U.S. grain exports and thus railroad grain traffic, vast untapped markets exist in third-world nations. Over time, the income of at least some of these nations should rise, and traditional native diets could be supplemented with western foods, providing for a possible rejuvenation of export grain traffic. One such enormous and rapidly developing market is China. Though grain trade with China has materialized only recently, China is already this country's fourth-largest export grain market and largest purchaser of wheat, accounting for 17.4% of 1981 exports. China's potential to generate additional grain traffic is signifi-

cant: China imports almost no American corn or coarse grains, since western tastes for beef and eggs have hardly penetrated its boundaries. Like Japan, Chinese eating habits may very well change, slowly at first, but then more rapidly as U.S.-Sino relations improve and China moves to exploit its vast, untapped natural resource wealth to provide a rising standard of living.

China has signed long-term agreements with various grain suppliers, including one with the United States providing for purchases of at least 8 million tons annually through 1985. Though the U.S. certainly will participate in the growth of Chinese grain imports, the extent of that growth will depend on the competitiveness of U.S. grain prices. Another determinant of near-term U.S. grain exports to China is the size of that nation's wheat harvest. Spurred by an incentive system that allows peasants to retain a percentage of their harvest for resale, Chinese wheat harvests have hit new records. China has announced that because of its good harvest, it will reduce grain imports 25% in 1982 to 11 million tons, from 14.5 million in 1981.

Barges gain larger share of export traffic

While the near-term prospects for U.S. grain exports are better than for 1981, the railroad industry faces a serious challenge for that traffic from other competitive transportation modes. Export grain may initially move by truck to an intermediate grain terminal for subsequent movement to port either by barge or rail. The most profitable area of rails' grain traffic is the long-haul volume movement of export grain. Lately, barge competition for that traffic has been particularly fierce. The preponderance of the grain traffic handled by barges is export shipments. While barges transport less than half the total volume of grain hauled by railroads, the two modes hold equal shares in the export market. And the barge market share has been growing. In 1980, 48% of grain exports were moved by barge, up markedly from 32% in 1973, when export grain traffic heated up. Barges' market share has continued to expand during 1982 to perhaps as much as 50%-55% of grain export shipments. Though U.S. grain exports fell 6.3%, year to year, during the first quarter of 1982, barge grain loadings rose 12.5%; rail carloadings fell 17.3% during the same period. Despite a marked pickup in export volume during April and May, cumulative rail carloadings for domestic shipment as well as for export were 8.1% below 1981 levels, while grain traffic moving by barge rose 19%.

While each transportation mode possesses inherent basic advantages and disadvantages that will favor or preclude its selection by shippers, many overlapping situations exist where direct rail/barge competition exists. More often than not, rates largely determine modal selection in such circumstances.

Barges have always provided the cheapest transportation for long-haul moves. However, an oversupply of barges has hammered barge rates down to levels where

Grain export prospects for 1982 favorable

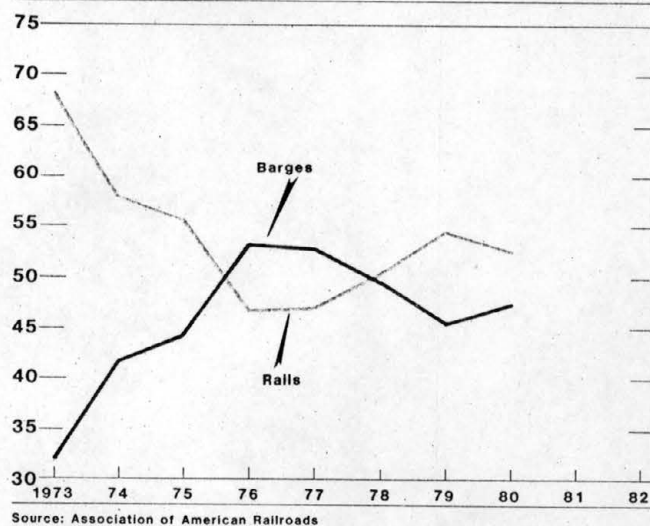
As a result of the worldwide recession, the competitive disadvantage wrought by the strong dollar, abundant surpluses in other grain-exporting nations, and various nations' efforts at food self-sufficiency, the U.S. Department of Agriculture (USDA) forecast in April 1982 that U.S. grain exports for the year would rise 4.5% to 138 million tons. This gain, if it materializes, will follow a decline of 0.6% in 1981 and gains of 11%, 9%, and 25% in 1980, 1979, and 1978, respectively.

Following a weak 1982 first quarter, when grain exports fell 6.3%, year to year, the U.S. experienced a rebound in the second quarter, aided by increased shipments to the U.S.S.R. Through late May, cumulative exports to all foreign markets were ahead 2.0%, primarily reflecting greater exports of wheat (up 18%) and soybeans (up 25%). Although corn exports were down 18% through May, the USDA is forecasting a 0.7% improvement in such exports for 1982 as a whole. ■

traffic naturally suited for a rail move is being diverted to barges as price has overshadowed service considerations.

For waterway carriers, the capital cost of equipment is a major element bearing upon their transport rates. When surplus equipment is available, as it is presently, rates are slashed in an effort to generate revenues from idle equipment in order to help defray the barge operators' fixed charges. The current oversupply condition developed during the mid-1970s when waterway carriers lacked sufficient closed-top barges needed for transporting grain. Consequently, railroads were able to grab a larger portion of the initial export boom spawned by Soviet purchases. Spurred by glowing projections of continuing boom times

BARGES, RAILS BATTLE FOR GRAIN EXPORT TRAFFIC
(Share of Grain Hauled—in Percent)



for grain exports, favorable tax legislation, and the availability of low-cost government loans, barge operators, invested heavily in new equipment. By some estimates, the nation's fleet of dry cargo barges expanded some 60% between 1980 and 1981, while the number of barges servicing the grain trade has tripled since 1975.

When the export boom evaporated with the Russian grain embargo, the strong dollar, and improved world grain crops, barge rates tumbled to 60%-75% of 1980 levels, as waterway carriers strove to improve fleet utilization. The equipment surplus problem was particularly acute during the coal miners' strike during the spring of 1981, since much equipment that normally would have been used for coal transport was freed up for grain traffic. While coal production has recovered to more normal levels, the barge surplus has not improved, since recession in many basic industries served by barges, such as steel and mining, has again idled more equipment.

Compounding the barge oversupply problem has been the notable improvement in waterway operating efficiency achieved in recent years, which has enabled the completion of more trips per season than in the past. Many of the traffic bottlenecks at the locks and dams have been alleviated, improving traffic flow, and loading and unloading time at waterside grain terminals and with ocean vessels has been trimmed through added storage capacity and more efficient transshipment methods. Additionally, more powerful tugs have been acquired, enabling quicker transport and greater volume per tug.

Rails move to block barge inroads

Railroads have responded to the barge challenge in varied ways. Some rails simply accept the superiority of barges for certain moves and do not attempt to compete. The Illinois Central Gulf, a carrier whose territory essentially parallels the Mississippi River, had initially adopted such a philosophy, rationalizing that cutting grain rates would not draw more volume to their system from barges but simply eliminate profits. Faced with an intolerable equipment surplus, however, the ICG reversed its position in April 1982 and launched a head-to-head attack against barges, choosing a strategy of bargain basement rates as its ammunition. For the shipment of wheat moving to the Gulf of Mexico, ICG cut its rates some 50%, bringing its charge to little more than 5% above rates for comparable barge moves. The rates were only applicable for unit-train shipments moving in ICG-owned or leased railcars. Additionally, minimum annual volume commitments were required. Because much of the ICG's grain traffic is barge-competitive, its grain volume in 1982 has been trailing last year's level by nearly 10%, while the rail industry in general only suffered an 8% decline in grain carloadings. The success or failure of ICG's incentive grain rate program is difficult to evaluate: while ICG's carloadings of grain improved following the implementation of the offer (up 10% through late May), the improvement was no better than that registered by the railroad industry as a whole during the same period. The conclusion that can be drawn is that while slashing rates helped the ICG arrest further diversion of grain traffic to barges, the program was not successful in boosting the ICG's

market share *vis-a-vis* barges, and the cost in profits may not have been worth the effort.

One strategy the railroads have adopted collectively to check the growth of barge traffic has been to lobby for taxes on barge fuel and the imposition of other waterway user charges that the rails consider necessary to redress the competitive inequity that exists since barges pay relatively little for the use and maintenance of their rights of way. While the railroad industry has been successful in recent years in obtaining such taxes and may meet with other victories, it appears unlikely that barge costs will be boosted significantly enough—even if everything sought by the rails came to pass—to materially narrow the favorable rate differential enjoyed by barges. A more positive approach toward balancing the competitive position of the two modes is illustrated by the industry's request to exempt rail export grain traffic from rate regulation. The foundation for the rails' argument to decontrol its export grain traffic is a strong one. First, rail rates are already regulated by the world market for grain. If rail transportation rates are too high, the U.S. will lose export sales to other nations and rail grain traffic will suffer. Moreover, barges provide an effective alternative for many shippers. While barges cannot gain access to all shippers, motor carriers can and do transport grain short distances to connect with a barge operator. Only in the western U.S., where wheat farmers are located far from ports or barge connections, do railroads hold a near monopoly over shippers. Strengthening the railroads' case is the fact that both waterway carriers and truckers already enjoy full rate deregulation for grain shipments of all kinds. The railroads contend that with the same degree of pricing flexibility possessed by their competitors, they would be better able to adjust their rates to the latest change in service demand or equipment supply.

While the ICC has not formally initiated hearings into the matter of export grain traffic deregulation, proceedings concerning closely related export coal traffic are under way and could set a precedent opening up grain and other export commodities to full decontrol. With decontrol, shippers can be expected to rush into contracts with railroads to ensure stable and predictable rates as well as to obtain equipment supply guarantees. Had such contracts been negotiated in past years, the rail industry could have retained a larger portion of its market share for export grain *vis-a-vis* barges, and shippers would not have recklessly purchased large numbers of covered hoppers to hedge themselves against car shortage problems. Since the passage of the Staggers Rail Act of 1980, shippers may enter into rate and service agreements with railroads; but with grain markets weak and the railroads unable to significantly boost rates during periods of peak demand, shippers are not pressed to commit themselves to any carrier.

Railroads hold certain advantages

While it will be difficult for rails presently to reverse or even arrest barges' growing market share of export grain traffic, some success is possible a few years hence. First, the ability of barges to capture rail grain traffic is limited by the fundamental drawbacks of waterway transporta-

tion. While offering low-cost service, barges are handicapped by lengthier transit times owing to more circuitous routes and slower operating speeds. Additionally, many shippers do not have easy access to the nation's inland waterway system. Other problems with barge service include the limited shipping season: ice conditions generally restrict movement on the upper Mississippi River system until early April. Moreover, extended periods of drought can reduce water levels to an extent that barges must lighten carrying loads (often to one-third of normal capacity), creating extensive congestion. Storms and other weather conditions can also hamper barge transportation and increase the possibility of cargo damage.

Given waterway transportation's basic handicaps, railroads—which provide relatively stable rates and faster, more reliable and more convenient service—will retain a solid grain traffic base of service-oriented shippers unmoved by tempting barge rates. Another rail advantage is the ability to make shipments directly to port-side and to transfer its cargo through simpler transshipment methods. Also, smaller volumes can be more efficiently handled by rail.

Segregating grain traffic into its various components, railroads tend to be at a particular disadvantage relative to barges for the shipment of corn. Because most corn is grown in the Midwest nearby the Mississippi system, only a short truck connection is generally required for shippers wanting to use barges. Facilitating the growth for barges' corn traffic in recent years has been the construction of new or expanded grain elevators along the Mississippi, since this has greatly reduced the length of the necessary truck haul.

In contrast to the situation with corn, rails' wheat traffic stands to benefit materially from the construction of additional storage capacity at Pacific ports. Presently, inadequate elevator facilities result in the forfeiture of much wheat and other grain traffic to Gulf ports, despite the higher costs resulting from the greater shipping distances involved. In 1981, some 71% of China's wheat purchases and 16% of Japan's were shipped through Gulf ports.

Grain traffic also subject to truck competition

In addition to providing the necessary short-haul connection to barges, trucks are increasingly becoming a source of direct competition for long-haul grain traffic. Historically, farmers transported their crops by wagon or truck to nearby country elevators. Involving distances of less than 50 miles, rails do not compete for this traffic, although in the past, railroads did provide farmers with trucks at rail-equivalent rates. From the country elevators, typically situated on a rail's branch line, grain would next move to the distant subterminal elevators, processing plants, or terminal elevators located at the ports.

For years, rails moved grain in single cars from the country elevators under unduly low rates. This discouraged the industry from investing in new grain hauling equipment, or spending the necessary funds needed to properly maintain its numerous branch lines. When the regulatory authorities finally recognized that low rates

were undermining the railroads' financial underpinnings, a more liberal posture was adopted toward rate increases. In many instances, the higher rates still could not justify the heavy investment in maintenance needed to serve the numerous country elevators, and branch-line abandonments were made wholesale. Where rails continued to provide branch-line service to country elevators, single-car rates over time ultimately reached levels where trucks could match or undercharge the rails. Consequently, smaller grain shippers increasingly began to turn to trucks and began to acquire their own small fleets to transport grain directly to the subterminals, involving distances of nearly 500 miles. Moreover, farmers discovered that trucks provided the flexibility to ship grain to secondary markets, when prices at their principal markets were not as high. Farmers were also encouraged to acquire their own truck fleet when low-cost government financing enabled farmers to construct onfarm storage since larger volumes of grain could be accumulated, thus improving the investment return for farmers' trucks.

By the 1970s, the rails' grain traffic underwent a transformation from a low-profit traffic gathered in small quantities from scattered shippers and shipped varying lengths of haul, to one where the predominant move was full-train loads, moved long hauls between single origination and destination points and with fewer shippers. This transformation accelerated when heavier export grain traffic spurred the development of the unit-train concept. Single-car traffic diminished in importance as shippers waited to accumulate complete trains of 25 to 50 carloads to qualify for unit-train rates. Short-haul grain traffic of less than 250 miles became the domain of the truck.

During the past couple of years, however, truckers have been making inroads for longer-haul grain traffic, grabbing part of the volume moving between regional elevator and subterminal and even usurping the longer regional or subterminal to terminal move, which can measure some 1,000 miles. Generally, motor carriers cannot match the low-cost volume rates offered through unit-train service. But, because of the recession, and exacerbated by trucking deregulation, the motor carrier industry is currently experiencing a painful degree of excess capacity. Consequently, owner-operators and other truckers facing an empty backhaul (or deadhead) have slashed truckload rates for grain shippers to levels hardly covering operating costs. This has resulted in a diversion of some railroad traffic to trucks or truck/barge combinations, although other types of railroad grain traffic have been relatively immune.

In retaliation to truck inroads, BURLINGTON NORTHERN, for example, has had to cut its rates for grain moving to the West Coast after truck and truck/barge rates were reduced to where it made it more economical to route that traffic through the Gulf of Mexico. Grain being diverted to all-truck movements competes primarily with rail traffic moving between regional and subterminals, and where unit-train service is not offered. Reportedly, only 50% of the railroad industry's grain traffic moves via unit-trains. This is because not all elevators are equipped to handle such trains, or volume has not been sufficient for the railroad to make a commitment. BURLINGTON NORTHERN, which had been slow to introduce unit-train

service, has been victimized by backhaul hungry truckers. In 1980, BURLINGTON only moved about 15% of its grain by way of unit trains. Following the implementation of an aggressive program to restructure its grain traffic, BURLINGTON, in 1981, hauled some 35% of its grain volume in unit trains.

Other steps taken by rails to secure their grain traffic include the development of more through service and coordinated run-through movements, the former being trains that bypass intermediate stops, while the latter refers to trains relayed by two or more carriers, unaltered in composition from line to line. Rails have also been slashing single-car rates, but because they must provide a 20-day notice period before they may raise their rates again, the railroads are essentially forced to maintain higher rates than truckers. This is because the rails must leave a margin of safety in their rate structure should a sudden change in demand or equipment supply create a situation where it would be impossible to accommodate all shippers wanting to make use of the low rail rates. In contrast, truckers, whose grain traffic is totally unregulated, can cut their rates to extreme levels, secure in the knowledge that they bear no common carrier obligation to maintain such rates for any time period.

Intramodal competition heats up

During the past year, a number of railroads, in addition to reducing single-car rates, have cut their multiple-car rates, reflecting mounting competition for grain among railroads. While only one rail can directly serve any given shipper, rails, nonetheless, rarely possess a monopoly for their grain traffic. If an originating carrier's rates become out of line with other nearby roads, the shipper may transport their grain by truck to another carrier. If this is not feasible, both the shipper and the railroad will forfeit potential revenue since grain originating in that rail's territory will be noncompetitive in the marketplace. BURLINGTON NORTHERN, as was cited previously, has been relatively weak in unit train service, and has been leading the intramodal rate cutting in an effort to build market share. As grain traffic for the rail industry weakened and the surplus of covered hoppers grew rapidly, rail-to-rail price cutting has intensified. The object of much of the rate cutting has been export wheat moving to western

Leading U.S. grain haulers

(Millions of tons hauled)

| Railroad | 1980 | 1975 |
|------------------------|------|------|
| Burlington Northern | 27.6 | 23.1 |
| Santa Fe | 22.7 | 18.5 |
| Union Pacific | 19.0 | 11.4 |
| Chicago & N. Western | 18.5 | 9.1 |
| Missouri Pacific | 16.9 | 13.4 |
| Illinois Central Gulf | 11.2 | 9.2 |
| Louisville & Nashville | 8.0 | 4.8 |
| Norfolk & Western | 7.4 | 6.5 |
| Southern Railway | 7.2 | 6.1 |
| Seaboard Coast Line | 5.4 | 4.9 |
| Soo Line | 4.8 | 3.5 |
| Missouri Kansas Texas | 4.7 | 2.4 |
| Kansas City Southern | 4.2 | 2.3 |
| Baltimore & Ohio | 3.9 | 2.7 |
| Chesapeake & Ohio | 2.4 | 1.4 |
| Western Maryland | 2.3 | 1.6 |

Source: Moody's Transportation Manual—1981.

ports. In addition to BURLINGTON NORTHERN, the Soo Line also has been an aggressive participant in the battle for export wheat traffic.

While the western rails struggle for a greater piece of a sluggish market, a shake-out of midwestern carriers has provided for huge windfalls for those surviving carriers. In 1975, the Chicago, Rock Island & Pacific, and in late-1977, the CHICAGO, MILWAUKEE, ST. PAUL & PACIFIC each filed for bankruptcy. Both were major Midwestern granger roads. The Rock Island has since been liquidated, while the Milwaukee continues to operate under bankruptcy over a core system about one-third the size of its original network. As branch lines were abandoned or liquidated, other rails (and in some instances state authorities) stepped in to pick up the pieces. The single greatest beneficiary of the midwestern bankruptcies has been the CHICAGO & NORTH WESTERN, a railroad that during the mid-1970's was widely believed to also be on the verge of collapse. Since 1975, however, the North Western's grain traffic, its largest source of revenue, has exploded by some 103%. The NORTH WESTERN now ranks number one in corn traffic, having scored a 157% increase between 1975 and 1980. The Illinois Central Gulf to a lesser extent garnered some traffic from the downfall of the Rock Island and Milwaukee Road; its corn traffic, which is highly vulnerable to barge competition, grew some 71% between 1975 and 1980. ■

July 14, 1982

TO: T. M. Beckley

FROM: J. D. Darling *JDD*

RE: ~~RI Study~~

JUL 15 1982

The real estate and fixed improvements appraisals furnished by the RI Trustee offer are opportunity for comparison to a sale agreed to by the Trustee. Appraised values for the Royal-Palmer segment are shown as:

| | |
|---|--------------------|
| Fixed Improvements (net salvage value) | \$1,920,291 |
| Real Estate | 2,729,632 |
| Total Appraised Value | <u>\$4,649,923</u> |

ICC Service Order No. 1493 lists the CNW operating authority between Palmer and Royal as between mile posts 454.5 and 502, a distance of 47.5 miles. The Trustee's Status Report of April 30, 1982 lists a contract for sale with the Royal Manson Shippers Association for 55 miles from Manson to Royal for \$4,350,000. Using the appraised value of the Palmer to Royal segment, the prorated appraised value of the Manson to Royal segment would be \$5,384,121. Thus, the sale agreed to by the Trustee, after the appraisals had been made, was for about 80% of the total appraised value.

The sales agreement was reached in the spring of 1981, but has not been closed due to inability to secure financing.

JDD/smh

cc: D. M. Cavanaugh ✓
D. J. Boyer

July 14, 1982

JUL 15 1982

TO: T. M. Beckley

FROM: J. D. Darling *JDD*

RE: ~~RI Study~~

A quick review of the appraisals of real estate and fixed structures furnished by the RI Trustee indicate the following values:

Main Line (including Indianola Branch):

| | |
|---|-------------------|
| Fixed Structures (net salvage value) | \$37,323,650 |
| Real Estate | <u>26,596,694</u> |
| Sub Total | \$63,920,344 |

Iowa Falls Gateway:

| | |
|---|-------------------|
| Fixed Structures (net salvage value) | 7,329,372 |
| Real Estate | <u>16,526,086</u> |
| Sub Total | \$23,855,458 |

Total Proposed Acquisition:

| | |
|---|-------------------|
| Fixed Structures (net salvage value) | \$44,653,022 |
| Real Estate | <u>43,122,780</u> |
| Grand Total | \$87,775,802 |

T. M. Beckley
Memorandum
July 14, 1982

I believe this represents the property under study, with the following exceptions, all relating to the main line:

1. The net salvage value of \$81,562 listed for the fixed structures on the segment Rosemont to Comars, Minnesota, which is the segment of RI trackage rights on the MILW, is believed to consist largely of signal systems and possibly communications. As we would require only that portion between Northfield and Comas, we might be required to purchase only about 25% of this amount.
2. The real estate estimate of 932,959 for Central Iowa Segment C includes the right of way from Allerton to Seymour, Iowa. This right of way is not required to operate the lines under study, but would be required to grant the MILW access to trackage rights from Allerton to Polo, Missouri. This property appears to represent one-third of Segment C. It is believed the track has been removed and the net salvage value of the fixed structures is not included.
3. These appraisals do not include the RI interest in the Iowa Transfer Railway Company at Des Moines, or separate data regarding an appraisal of the property required to reach it. This would be about 0.6 miles and could be by trackage rights as well.

JDD/smh

cc: D. M. Cavanaugh ✓
D. J. Boyer

NET SALVAGE VALUES

North-South Main Line

| | |
|-----------------------------------|---------------------|
| Rosemont - Comas | \$ 81,562 |
| Comas - Northwood | 6,388,919 |
| Northwood - Clear Lake Jct. | 177,027 |
| Clear Lake Jct. - Short Line Jct. | 858,876 |
| Short Line Jct. Carlilse | 988,101 |
| Carlilse - Allerton | 5,574,619 |
| Allerton - Trenton | 4,947,075 |
| Trenton - Air Line Jct. | 8,681,622 |
| Subtotal | <u>\$36,697,901</u> |

Branches

| | |
|----------------------|------------|
| Carlilse - Indianola | \$ 280,570 |
|----------------------|------------|

Yards

| | |
|------------|-------------------|
| Albert Lea | \$ 66,848 |
| Manly | 149,120 |
| Trenton | 129,311 |
| Subtotal | <u>\$ 345,279</u> |

| | |
|-----------------|---------------------|
| Total Main Line | <u>\$37,323,650</u> |
|-----------------|---------------------|

Iowa Falls Gateway

Branches

| | |
|--------------------------|---------------------|
| Iowa Falls - Estherville | \$ 3,906,374 |
| Estherville - Rake | 1,308,565 |
| Estherville - Ocheyeden | 1,082,866 |
| Iowa - Forest City | 898,083 |
| Subtotal | <u>\$ 7,195,888</u> |

Yards

| | |
|--------------------------|---------------------|
| Iowa Falls | \$ 64,609 |
| Estherville | 68,875 |
| Subtotal | <u>\$ 133,484</u> |
| Total Iowa Falls Gateway | <u>\$ 7,329,372</u> |
| Grand Total Net Salvage | <u>\$44,653,022</u> |

REAL ESTATE VALUES

Main Line and Indianola Branch:

| | |
|---------------------|------------------|
| Missouri | 5,365,713 |
| Central Iowa | 17,913,182 |
| Minnesota | <u>3,317,799</u> |
| | 26,596,694 |
| Iowa Falls Gateway: | |
| Northwest Iowa | 16,526,086 |
| Grand Total | 43,122,780 |

MAIN LINE REAL ESTATE VALUES

Missouri:

| | |
|----|-----------|
| A. | 992,400 |
| B. | 210,058 |
| C. | 447,320 |
| D. | 396,848 |
| E. | 503,676 |
| F. | 410,796 |
| G. | 643,522 |
| H. | 686,148 |
| I. | 744,732 |
| J. | 330,213 |
| | <hr/> |
| | 5,365,713 |

Central Iowa:

| | |
|----|-----------------------------------|
| C. | 932,950 |
| D. | 349,312 |
| E. | 278,876 |
| F. | 332,145 |
| G. | 471,672 (includes Indianola line) |
| H. | 244,165 (Indianola) |
| I. | 347,925 |
| J. | 5,467,785 |
| K. | 475,776 |
| L. | 1,269,480 |
| M. | 123,562 |

| | | |
|----|------------------|------------|
| N. | 1,041,090 | |
| O. | 426,164 | |
| P. | 741,188 | |
| Q. | 493,164 | |
| R. | 643,206 | |
| S. | 117,684 | |
| T. | 1,318,344 | 17,913,182 |
| U. | <u>2,838,694</u> | |
| | 17,913,182 | |

Minnesota:

| | |
|----|------------------|
| A. | 472,428 |
| B. | 876,370 |
| C. | 413,982 |
| D. | 502,548 |
| E. | 682,840 |
| F. | 286,160 |
| G. | 83,471 |
| | <u>3,317,799</u> |

IOWA FALLS GATEWAY REAL ESTATE VALUES

Northwest Iowa:

| | |
|----|-----------|
| D. | 263,172 |
| E. | 649,858 |
| F. | 81,849 |
| G. | 1,500,512 |
| H. | 959,262 |
| I. | 588,583 |
| J. | 869,512 |
| K. | 129,304 |
| L. | 1,431,599 |
| M. | 216,486 |
| N. | 37,767 |
| O. | 729,126 |
| P. | 516,622 |
| Q. | 861,252 |
| R. | 862,470 |
| S. | 522,546 |
| T. | 369,278 |
| U. | 95,340 |
| V. | 659,212 |
| W. | 1,675,318 |
| X. | 563,304 |
| Y. | 480,902 |
| Z. | 677,092 |

AA 688,422

BB 427,236

CC 670,062

16,526,086

July 13, 1982

JUL 15 1982

TO: B. D. Olsen
FROM: J. D. Darling *JDD*
RE: ~~RI Study~~

Attached are copies of the principle joint facility and trackage rights agreements on the segment of the RI under study. We would appreciate your comments on the terms of these agreements. We are particularly interested in your opinion on the ability of the trustee to transfer these agreements to a purchaser of a segment of the RI. We are also interested in whether these contracts reveal any tangible assets, such as the signal system mentioned in the cover letter, to which the trustee might attach a value over and above any rights in themselves.

JDD/smh

cc: T. M. Beckley
D. M. Cavanaugh ✓

Attachments

July 13, 1982

TO: T. M. Beckley
D. M. Cavanaugh
R. L. Murlowski

FROM: B. D. Olsen

RE: Rock Island Interline Accounts

✓ JUL 13 1982

In a significant decision, the Rock Island bankruptcy court has now ruled that the estate must pay post-petition interline accounts. The Soo Line was a leader in working diligently with the accounting staff of the Rock Island to reach agreement over the past two years on accounts between our two companies. Sidley & Austin, who represents most of the interline railroads, has pushed the court hard in recent months for this ruling. The decision relies heavily on a 1979 Seventh Circuit decision in the Rock Island case which held that the bankruptcy court did not have the power to permit the Trustee to defer payment on interline accounts. At that time, payments could not be resumed because of cash depletion. The cash situation has now improved and the Trustee has been contending that he cannot pay some interline accounts unless agreement has been reached upon all of them. The Trustee has asserted counterclaims in some instances as an offset and has claimed that some of the counterclaims may exceed the balances due.


The decision will not automatically result in immediate payment. A further conference will be necessary to determine which accounts have been resolved to the point where they should be ready for payment. There is also the possibility that either the Trustee or other creditors may appeal this decision. However, the appeal will go to the Seventh Circuit and the decision is consistent with the Circuit's earlier decision holding that these accounts must be paid.

BDO/sjp

6

June 21, 1982

TO: B. D. Olsen
FROM: D. M. Cavanaugh
RE: Rock Island Study



We have reached a point in the Rock Island Study where we may soon wish to present a proposal to the Board of Directors. Consequently, we would appreciate your opinion as to any liability for labor protection we might incur should we determine to acquire any portion of the former Rock Island. Presumably, we could be faced with protection for current CNW employees as well as former RI employees. There is also some likelihood that home terminals and crew districts would not be as they were or are under the RI or CNW.

Somewhere we have picked up the notion that we would be obligated to give preference for employment to former RI employees in seniority order, but only to the extent their employment was required by us and at locations determined by us. Your advice will be appreciated.

JDD/jmz

July 13, 1982

TO: B. D. Olsen
FROM: M. M. Mullins^{MM}
RE: Grants for Rehabilitation of Rock Island Lines

You would like to know what procedures could be used to apply to the Federal Railroad Administration for funds to rehabilitate any Rock Island railroad lines acquired by the Soo Line. The framework is set forth in Subchapter II of the 4-R Act, 45 USC § 821, et seq.

The primary method of applying for grants from the FRA is found in § 505(a), 45 USC § 825(a). Under this section a railroad may apply to the Secretary of Transportation for financial assistance. The information required in the application and the criteria on which the application is to be evaluated are set forth in § 505(b). The requirements for application and the evaluation criteria are more fully set forth by regulation in 49 CFR, Part 258. On approval of the application the Secretary enters into a financing agreement with the railroad under § 505(c) and under § 505(d)(1) the financing for a non-bankrupt railroad is in the form of the purchase by the Secretary of redeemable preference shares at par according to the terms and conditions set forth in § 506, 49 USC § 826. Presumably this latter section permits railroads to use the redeemable preference share method of financing even though § 506 seems to apply by its terms only to railroad employee and employee shipper groups. This problem results from the language in Staggers Act § 405(c)(3) which added employee and "employer"-shipper group after railroad without indicating whether "railroads" could continue to request funds or whether the word was transformed into an adjective modifying the added language. Section 507, 49 USC § 827, authorizes the Secretary to issue notes, to the extent of appropriated funds, in an amount not more than \$1,400,000,000 until September 30, 1982. (The same Staggers Act language also creates an ambiguity here.)

Section 112 of the Rock Island Transition and Employee Assistance Act added § 505(h) to the 4-R Act in 1980. This permits the issuance of redeemable preference shares for the purchase, lease or rehabilitation of the properties of the Rock Island Railroad by responsible non-carrier entities to be used for common carrier rail service. A responsible non-carrier entity includes associations of labor organizations, employee coalitions, shippers and states, and may also include "any railroad that wishes to contribute any of its properties under common ownership with the property being acquired by the

association." Although I did not find anything called the Grain Funnel Act connected with this amendment (or in fact find any reference to any such act anywhere else), this may be the legislation the FRA was referring to. Unfortunately its terms will make it very difficult for the Soo Line to use its provisions. I have found no regulations elaborating on procedure to be used for applications under § 507(h).

The only mention in the fiscal year 1982 appropriations that I found connected with this program is in the DOT Appropriations Act, PL 97-102, 95 Stat. 1442, 1452, which permits the Transportation Secretary to expend proceeds from the sale of notes from the Railroad Rehabilitation and Improvement Fund (established by § 502, 49 USC § 822), from which these moneys come, in an amount not to exceed \$67,500,000.

I attach copies of the various statutes and regulations mentioned above. If you need further information, please let me know.

MMM/sjp
Attachment

7/9/82

Confirm arrangements ✓

IA DOT Personnel - Jan

CW offer ^{previous} offer ✓

Les

✓ Option package

Harry Smith

Des Moines, Iowa

Doug Walby

~~2000~~

#420M Powder River

Soo Line Railroad Company



Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

July 8, 1982

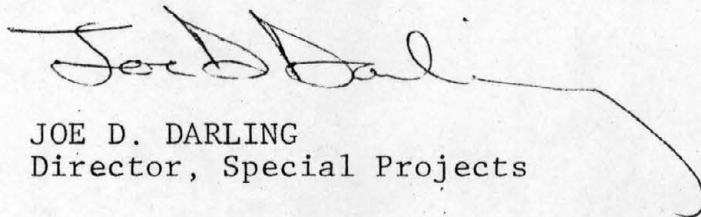
Mr. Les Holland, Director
Railroad Division
Iowa Department of
Transportation
800 Lincoln Way
Ames, Iowa 50010

Dear Mr. Holland:

Confirming our conversation this date, our Mr. Thomas M. Beckley, myself, and one or two other representatives from the Soo Line will arrange to meet with you and other representatives of the Iowa D.O.T. at the Des Moines Municipal Airport on Thursday, July 15, 1982. We will be arriving on Ozark Flight No. 665, which is scheduled to arrive at 11:43 a.m.

I look forward to seeing you again.

Sincerely,



JOE D. DARLING
Director, Special Projects

JDD/jmz

cc: T. M. Beckley
D. M. Cavanaugh



CHICAGO ROCK ISLAND AND PACIFIC RAILROAD COMPANY/332 S. MICHIGAN AVE./CHICAGO, IL 60604/WILLIAM M. GIBBONS, TRUSTEE

July 8, 1982

Mr. Thomas M. Beckley, President
Soo Line Railroad Company
Soo Line Building, Box 530
Minneapolis, Minnesota 55440

Dear Mr. Beckley:

Per discussion in Mr. Gibbons' office yesterday, herewith the following documents pertaining to the Twin Cities-Kansas City "spine" line and the northwest Iowa "grain lines":

- I. Evaluation study by Ford, Bacon & Davis of tracks and improvements on Properties proposed for sale to C&NW, which include a few segments in addition to those in which you have indicated interest.
- II. Real estate appraisal by Shales & Co. of properties in Missouri, Iowa, Minnesota and Illinois, including those segments in which you have indicated interest.
- III. Copies of the following joint facility contracts:
 - (1) Contract of November 23, 1901 with the Milwaukee covering use of their line between Comus (referred to in the contract as Erin) and Rosemount, Minnesota.
 - (2) Contract of August 1, 1931 with the Milwaukee covering joint trackage between Polo and Birmingham, Missouri.
 - (3) Contract of June 1, 1945 with the Milwaukee covering joint trackage between Birmingham and Kansas City, Missouri.
 - (4) Contract of July 18, 1901 with the North Western (former M&StL, and its predecessor the Iowa Central) covering joint line between Albert Lea, Minnesota and Manly, Iowa. Between Albert Lea and Northwood, Iowa C&NW is tenant of the Rock Island, while between Northwood and Manly RI is tenant of C&NW.
 - (5) Contract of February 24, 1912 with the North Western (former CGW) covering use of their line between Manly and Clear Lake Junction (Mason City), Iowa.

As indicated in our meeting yesterday, we have researched these contracts and are confident that the rights covered thereby will pass to our successor in interest.

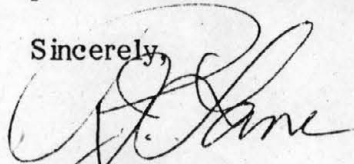
IV. Average monthly joint facility debits and credits on the above line segments for the year 1977 (the last year for which we have such record on file) were as follows:

| Line Segment | Jt. Facil. Debits | | | Jt. Facil. Credits | |
|-------------------|-------------------|-----|----------|--------------------|------------|
| | Rent | M&O | | Rent | M&O |
| Comus - Rosemount | \$2,100 | — | \$14,000 | — | — |
| Albert Lea-Manly | — | — | 230 | \$220 | — |
| Manly-Cl.Lk. Jct. | 1,750 | — | 10,000 | — | — |
| Polo-Birmingham | — | — | 9,100 | — | — |
| Birmingham-K.C. | — | — | 6,200 | — | — |
| | | | | | \$14,000 * |
| | | | | | 5,100 |

*R.I. maintained both the RI and CNW segments. Subsequently CNW took over maintenance of its segment. R. I. owns and maintained signal system on both segments.

It was a pleasure meeting you and if there is any further information which we can provide which will be helpful to you we will be pleased to do so.

Sincerely,



Richard J. Lane
Director - Staff Coordination
and Rail Assets Disposition

rlf

cc: Messrs: W. M. Gibbons
N. G. Manos

TMB, DMC, RLM, HSN, RNS, CHC, BO, JTH, JDD
July 8, 1982

#1 SM FRA ~~Left~~ committed 2%
staff person @ FRA

RI-CNW route, east west traffic
Shearson-Hamill (Shearson-American
Express)

Tom Carter - KCS
MKT \$40M FRA OKT

1. FRA

Barney a. Funds available to CNW available
to SOO

b. Public files, CNW acquisition and
aid.

2. Iowa DOT

a. CNW aid.

b. Level of shipper interest.

c. State aid.

d. Venture capitalists.

JDD
set up
meeting

3. KCS

4. MKT

5. North American Car.

Summary of Meeting
with
William M. Gibbons, Trustee, Rock Island
and
Richard J. Lane, Director, Staff Coordination
July 7, 1982

C&NW has made bid that morning not acceptable to trustee. (Included \$15 M of FRA funds). *Are they available*

Asked Gibbons for copies of joint facility contracts with Milwaukee and C&NW. He assured me they were transferable.

Gibbons had available to give me valuations made for 1980 which had been delivered to C&NW. Also subsequent data in response to C&NW proposals.

A.E. Shearson ~~Hamill~~ represents trustee in evaluating proposals.

I indicated that our interest was prompted by:

1. Acquisition of MN&S.
2. Probable decline in interest on part of C&NW.
3. Grand Trunk-Milwaukee merger proposal.

I said our initial review of 1978 Rock Island figures did not indicate enough revenues to support operation but that further analysis suggested possibility. Would be dependent on contribution of Estherville line.

I inquired whether he regarded yard at Inver Grove as salable. Lane said the property coordinator was interested in moving on some of these parcels including Inver Grove.

Re yard at Des Moines they felt this belonged to East West line. If E-W and N-S routes acquired separately, both might participate.

Asked if we could set bid contingent on volume. He indicated something like that was done on a lease where lease payments were adjusted for volume and Staggers Act formula price adjustments.

Asked whether trustee would be receptive to low interest rate on deferred installments. He indicated C&NW had included in Fruitland proposal bank lending at ~~4~~1½% over prime. He thought any extended term financing might require bank Letter of Credit. Because of experience with Rock Island, creditors reluctant to rely on railroad credit.

Gibbons not particularly interested in low interest rate in order to pump up price but indicated he would be willing to review it.

Lane indicated terms of C&NW use of KC-Omaha tracks would support C&NW maximization of use in order to reduce per car cost.

Asked whether Soo could have permission to view tracks in view of C&NW lease. Gibbons hesitated but recalled C&NW had done this with track leased by Milwaukee. Would have to be cleared through Wolfe. He would help us.

Gibbons inquired whether we had consulted Missouri Pacific or Kansas City Southern about use of yard on north side of Kansas City. I indicated we had no contact prior our meeting with him.

*Called
Sul meeting
next week?*

July 7, 1982

File: 352 - Soo Acquisition of
Rock Island Trackage

TO: File
FROM: Ray H. Smith

In response to discussions at the joint CP-Soo meeting in Winnipeg, June 15-16, 1982, Gil Mackie, General Manager, Marketing, has provided the following information:

1. With respect to CP traffic flow to and from eastern Canada potentially susceptible to movement via the Soo gateway, given Soo's acquisition of Rock Island to Kansas City.

From 1981 traffic tapes via Windsor gateway:

| | |
|--|------------------|
| CP overhead traffic from New England originations | 2000 cars |
| CP overhead for termination by New England connections | <u>1300 cars</u> |
| | 3300 cars |

| | |
|--|------------------|
| From Southwest to CP's Atlantic region (Quebec, New Brunswick, Nova Scotia) | 2900 cars |
| To Southwest from CP Atlantic region | <u>2200 cars</u> |
| | 5100 cars |

| | |
|---|----------|
| Between New England and Atlantic region on the one hand and stations on the Rock Island line on the other | 300 cars |
|---|----------|

2. CP's Winnipeg office identified 140 cars per year of newsprint from the Abitibi mill at Thunder Bay moving to Kansas City and Des Moines via Canadian National and connections which they feel could be diverted to CP-Soo with Soo acquisition. They also identified approx. 8000 tons of potash per year moving CN which would be extremely susceptible to CP origination with access to the Kansas City gateway.

Without any quantification, they also identified the movement of woodpulp to Laredo.

Northbound there is a movement of canned citrus from Texas moving SP-BN-CP delivery, and automobiles from Dallas and Kansas City, moving to markets in the Prairie provinces via BN to Winnipeg and connections.

3. The Vancouver office did not provide any "hard" numbers, but did provide their evaluation of the following opportunities:

Page 2

Memo R. H. Smith to File

Re: Soo Acquisition of RI Trackage

July 7, 1982

- a) Their interchange with the Burlington Northern, both northbound and southbound at Sweetgrass, is negligible and what little moves through that gateway is not oriented on Kansas City.
- b) The CP delivered to the BN at the Sumas gateway in 1981, 9000 cars. This is mostly shakes and shingles from the Fraser Valley for southern California, Colorado and New Mexico. CP personnel estimate that 2500 of the 9000 are potentially divertable for movement via Portal and Kansas City.
- c) Ed Dodge in Vancouver, contrary to my expectation, gave me very little encouragement about a potential, significant interchange of petrochemicals between Alberta and the Texas Gulf. It is his perception that these two producing areas are not interrelated but, rather, are free-standing production facilities, each with its own markets.
- d) He believes that Soo access to the Kansas City gateway would open up BCOL lumber to CP-Soo which otherwise is restricted by BCOL routing policy to interchange with CN.

In total, CP's present participation in business tributary to the Kansas City gateway, either tangible or potential, is of a magnitude large enough to offset the projected Soo participation in CN business originally included in the study.

Copy to: T. M. Beckley
D. M. Cavanaugh
~~J. D. Darling~~
H. J. Ness

July 7, 1982

TO: D. M. Cavanaugh
FROM: J. D. Darling ~~SSS~~
RE: Private Covered Hopper Cars

Based on December 1981 averages for foreign and private covered hopper cars, the Soo Line pays more per mile or per hour for private covered hopper cars than we would for foreign railroad covered hopper cars when they average a speed of about five miles per hour or more. This also assumes 100 percent empty return.

Cars in country grain service on a four week turn over a 1,000 mile round trip from North Dakota to Duluth-Superior and back average only 1.5 m.p.h. Hence, private cars are less expensive to the Soo Line in this service than foreign railroad cars.

However, cars in unit train service in a two week turn over the 2,600 mile round trip from north central Iowa to Houston, Texas would average 7.74 m.p.h. Thus, private cars would earn more in loaded mileage than would railroad cars under time/mileage. This would appear to negate my notion that Iowa Falls Gateway shippers car pool might be more attractive subleased to a branch line carrier.

JDD/jmz

cc: H. J. Ness

8

July 2, 1982

TO: T. M. Beckley
FROM: J. D. Darling *JD*
RE: Rock Island Study

Reference is made to your note of June 22, 1982.

Page 4 of Exhibit A to the Trustee's Progress Report of Liquidation for Period Ending December 31, 1980 lists the following trackage interest on the part of the KCS.

KCS

St. Paul-Kansas City
Des Moines-Chicago
Manly-Columbus Jct.
Peoria-Bureau, Illinois
Davenport-Altoona
Centerville-Allerton
Indianola Branch
Lafayette-Orion, Illinois
Cadiz Yard (Dallas)

While this does not include the Iowa Falls Gateway lines, a map furnished by the Iowa DOT labeled, "Carrier Interest in Rock Island Railroad As Reported By FRA February 4, 1980," does show KCS interest in the Iowa Falls Gateway trackage, as well as other variations, including entry into Omaha from Des Moines.

I have found no references to specific offers by the KCS.

The Trustee's Report also lists the following major carrier interest:

CNW

St. Paul-Kansas City
Iowa Falls-Estherville
Bricelyn-Ocheyedan
Palmer-Royal
Dows-Forest City

T. M. Beckley
Page Two
July 2, 1982

CNW (Continuation)

Cedar Rapids
Peoria-Henry, Illinois
Joliet-Depue, Illinois
Missouri Division Jct. (Davenport)-Wilton
East Moline-Fruitland
Newton-Dexter
Altoona-Pella

Chessie

Blue Island-Bureau
Bureau-Council Bluffs
Des Moines-Kansas City

GTW

Blue Island-Council Bluffs
Des Moines-Kansas City

ICG

Superior-Iowa Falls
Buffalo Center-Dows
Joliet-Rockdale, Illinois
Waterloo-Shellsburg
Ruston, Louisiana

NW

Des Moines-Council Bluffs

The BN-KCS proposal was for:

BN-KCS

St. Paul-Kansas City
Albert Lea-Sibley
Iowa Falls-Estherville
Dows-Thompson
Palmer-Royal
Des Moines-Newton
Altoona-Pella
Carlilse-Indianola

T. M. Beckley
Page Three
July 2, 1982

The most recent Trustee's Report for the period ending February 28, 1982 shows the CNW leasing 841.9 miles, negotiating for the purchase of 842.6 miles. Presumably, these mileages represent approximately the same trackage.

JDD/jmz

Soo Line Railroad Company



Date

6-22-82

To:

JDD

From:

JMB

☐ Please note and return.☐ For your information.☐ Please reply directly to attached.☐ Please give me your recommendations.☐ Please draft reply for my signature.☐ Please handle.☐ Would like to discuss with you.☐ Proposed draft attached for your review
and suggestions.☐ Comments?

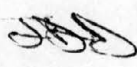
How much R/T leackage
was involved in offer to
R/T track? Just the
spine line, or did it also
include line to Chicago?

We should identify
carefully.

Retention of power over
property by K1 trustees
should be of considerable
value to them

June 17, 1982

TO: The File

FROM: J. D. Darling 

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

July 2, 1982

P E R S O N A L

TO: Thomas M. Beckley
FROM: Ray H. Smith *RHS*
RE: Soo Line Acquisition of Rock Island Trackage
To Kansas City.

When Les Holland and Harvey Sims from the Iowa DOT called me on Wednesday, June 30th, in connection with a Des Moines TV and radio station carrying an announcement to the effect that the Soo was going to buy this line, they also advised that since they had met with us on June 11th, they had had several "productive" meetings with an investor or group of investors interested in the line. Sims related that they were talking "big dollars", and he indicated great pleasure with the prospects.

Personal Copy: ~~D. M. Cavanaugh~~