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The Railroad Problem in Minnesota

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The Railroad Problem in Minnesota

Major changes are occurring in the transportation system serving the agricultural areas of Minnesota and other mid-western states. Historically, railroads were predominant in serving the transportation needs of Minnesota's agricultural interests. Railroads shipped the agricultural products out of the region and received important products such as fertilizer, lumber, machinery, and manufactured goods.

Today, many railroads are financially hard pressed. One major railroad serving Minnesota, the Chicago, Milwaukee, St. Paul and Pacific Railroad (called the Milwaukee Road) has been in bankruptcy since December 1977. Another major line, the Chicago, Rock Island and Pacific Railroad (called the Rock Island) was ordered liquidated January 25, 1980, and no longer exists as an operating railroad. Furthermore, the Chicago and North Western, although solvent, has been unable to finance needed track and equipment improvements. Within the last 10 years, 1,400 miles representing roughly 17 percent of Minnesota's railroad mileage have been abandoned as a result of 62 separate abandonment proceedings.

On July 1, 1980, another 1,676 miles or 23 percent of the existing railroad mileage faced an uncertain future. Non-bankrupt lines have petitioned the Interstate Commerce Commission (ICC) to abandon over 231 miles of Minnesota railroads. If abandonment is granted, rail service will be discontinued, and rail-served communities will have to rely solely on trucking for bulk commodity movement. In addition, these railroads have classified another 385 miles of tracks in Minnesota as potentially subject to abandonment. Table 1 lists and figure 1 shows branch-lines (belonging to solvent railroads) either in or subject to abandonment proceedings.

The future of the tracks operated by the bankrupt Milwaukee Road is even more uncertain. When a railroad company goes into bankruptcy, it does not cease operations and liquidate as other bankrupt businesses do. Rather, it continues to operate under court supervision and a

special section of the federal bankruptcy code, until it can be successfully reorganized with a reduced debt load. Only if the railroad company cannot be reorganized to operate profitably will it be liquidated and the roadbed and facilities sold or abandoned. However, a successful reorganization requires that current income exceeds current expenses. Before 1970 and the Penn Central bankruptcy¹, most railroads were eventually reorganized without liquidation or large scale abandonment.

The Milwaukee Road, which currently operates 858 miles of track in Minnesota²,

has been in bankruptcy since December 1976. To date, the Milwaukee has filed two reorganization plans, plus a plan to abandon all of its routes. All three plans were turned down by the ICC or the court. The Milwaukee plans to submit another reorganization plan (Milwaukee II) in December 1980 or soon after. If the plan is accepted, the Milwaukee will continue to operate 739 miles of railroad in Minnesota. Figure 2 shows the disposition of the tentative Milwaukee II plans relative to Minnesota.

The 202 miles of Rock Island track in Minnesota will be either sold or abandoned. As of August 1980, no decision has been made as to the future of these lines. Meanwhile, the ICC has allowed the Chicago & North Western to operate the Twin Cities to Kansas City line. Roughly 134 miles of this line are in Minnesota.

Table 1. Minnesota tracks which may be abandoned *

Railroad	Railline	Minnesota mileage	
Abandonment application pending			
Burlington Northern	Foxhome-Breckenridge	11.83	
	Funkley-Kelliher	10.43	
	Moose Lake-Carlton	21.99	
	Pelican Rapids-Fergus Falls	21.37	
	Starbuck-Villard	15.39	
Chicago & North Western	Gary, SD - Tracy	57.30	
	Heron Lake-Lake Wilson	36.60	
	Norwood-Hopkins	31.40	
	St. James-Hanska	13.40	
Illinois Central Gulf	Hills-Steen (Sioux Falls, SD - Cherokee, IA)	11.40	
		TOTAL	231.11
Potential for abandonment			
Burlington Northern	Barnesville-Downer	4.09	
	Dennis Spur-Camp Ripley Jct.	19.95	
	St. Cloud-Clearwater	9.08	
	Hoot Lake-Battle Lake	16.05	
	Starbuck-Morris	19.00	
Chicago & North Western	Austin-Manly, IA	11.00	
	Cannon Falls-Red Wing	20.50	
	Dundas-Northfield	4.30	
	Hayfield-Waltham	5.20	
	Randolph-Oelwein, IA	75.70	
	Sanborn-Butterfield	24.70	
Duluth, Winnipeg & Pacific Railway	Munger-West Duluth	10.50	
SOO	Bemidji-Remer	57.40	
	Trout Brook Jct.-North St. Paul	2.39	
	Baylston Jct.-Webster, WI	30.40	
	Remer-McGregor	42.60	
Duluth, Messabe & Iron Range	Ely-Winton	2.16	
	Jordan-Sawbill Landing	30.20	
		TOTAL	385.22

*The Milwaukee Road and the Rock Island are not included in this table.

¹ The Penn Central, which had over 10 percent of the nation's rail mileage, had problems so severe that special Federal legislation was required. One result was the establishment of Conrail, a new corporation heavily subsidized by the Federal Government.

² 321 miles of Milwaukee Road routes are on jointly owned tracks or tracks owned by other lines.

Causes of the railroad problem

The financial problems of the railroads serving Minnesota, and other rural areas, have many causes. These include obsolete roadways and facilities, equipment shortages and failures, and institutional constraints such as rate and service regulations and rigid labor work rules. Most important, however, is the intense competition from trucks that travel on publicly maintained roads and from barges that move on publicly maintained waterways free of user charges and fuel taxes.³

Many of the railroads' problems are not new. Most of the railroads up for or "potentially subject" to abandonment were constructed in the late 1800's and were important in the state's early development and growth. However, the practice back then was to construct branch lines as rapidly and as cheaply as possible. Then, if the line prospered, its profits could be used to rebuild to higher standards. Frequently, however, the profits didn't develop or were spent elsewhere. The midwestern railroad system matured and then started to decline as the rapid development of automobiles, trucks, and hard surface roads occurred. Today, the typical railroad considered for abandonment has a physical plant that is marginally adequate at best and probably obsolete because of the increased size and weight of today's mainline locomotives and jumbo hopper cars.

In the early years of the rural road system, the trucking industry was complementary to the railroads. Trucks provided an improved local gathering and distribution system. Subsidizing the rural road system frequently meant more goods for long hauls on the railroads. Now that the interstate highway system is in place, the trucking industry can frequently provide better and faster service than the railroads at competitive rates, especially for short and intermediate hauls. Furthermore, truck-barge movements have captured much of the long-haul movement of grain and soybeans from Minnesota to export terminals on the Gulf Coast. The St. Lawrence Seaway has reduced rail movements to eastern ports. This trend has been aided by larger trucks that require better and more expensive roads which are constructed and maintained by the public and by the failure to impose user charges on the federally maintained inland waterway system.

Consequently, the marketplace indicates that railroads are frequently not the preferred mode of transportation and the railroads' financial problems indicate

that more branchlines will have to be abandoned if the railroads are to remain solvent.

Abandonment as a solution

In some instances, abandonment of railroad lines and service will be the best solution. The rails can be sold for scrap and the land returned to farming or used for other purposes. The railroad can reduce both its operating and maintenance costs. However, several economic, social, and political considerations must all be reviewed before deciding to abandon branch lines.

Lots of questions need to be answered. Are the signals from the marketplace correct? Are trucks and truck-barges really cheaper or is this a mirage caused by subsidizing highways and waterways while taxing railroads and continuing to observe obsolete union work rules? Will continued energy shortages and/or increased fuel costs affect the picture? Although trucks can be more energy efficient than railroads for short hauls, which include some branchline movements, trucks use three to four times as much energy as railroads for long distance movement of heavy commodities.

Other important questions concern the treatment of communities and firms on abandoned branch lines. Is rail service vital to the well-being of the community or are trucks an adequate substitute? Can these transportation deficiencies to the communities be overcome by better roads? Are there key industries relying on rail service that would be hurt financially if the service were discontinued? Should firms injured by loss of rail service receive financial aid? Should this aid be a state or federal responsibility or should it come from the benefiting railroads through the rates charged the remaining shippers?

Will the cost of maintaining roads and highways increase if heavy loads are diverted from the rails? It is recognized that deteriorating roads and highways are a state and national problem. Rural roads have to be much stronger and consequently are much more expensive to construct if semitrailers are used for grain movements rather than tractors and wagons or light trucks. Since many rural roads are financed primarily by property taxes and not gasoline taxes, part of the transportation cost that was borne by the railroad users before abandonment may be switched to the taxpayers of the community.

After considering these and other issues, some communities and shippers may prefer to keep the railroad even if they have to bear some of the costs. In other instances, abandonment may be the best solution.

Legislation

Both federal and state legislation have been passed to seek solutions to branch line problems. The Federal Railroad Revitalization and Regulatory Reform Act of 1976 (The 4R Act) includes provisions for hurrying abandonment proceedings, operating subsidies for continued railroad service, and providing railroad rehabilitation loan funds. Minnesota has developed a state rail plan and is participating in railroad service continuation programs. The Minnesota Legislature has passed the Minnesota Rail Service Improvement Program which provides state funds for the rehabilitation of light density rail lines through loans and grants. These actions provide some alternatives to rail abandonment. Currently there are Minnesota branchlines operating with federal subsidies and branchlines being rehabilitated under the Minnesota Rail Service Improvement Program. Table 2 (back) lists the railroads that have received federal and/or state aid. As of July 1980, roughly 7 million state dollars and 1.2 million federal dollars have been spent to improve rail lines.

Extension Study Funded

Because of the importance of bulk commodity transportation to agriculture and to rural Minnesota, the Agricultural Extension Service has recently been funded by the U.S. Department of Agriculture for a transportation pilot project. It will concentrate on finding the costs of providing different bulk commodity transportation systems in a specific area and determining who will bear these costs: farmers, other shippers, local government, state and federal government, or transportation companies.

One of the key questions is, "If the railroads are abandoned, who will pay the additional costs of highway and rural road maintenance due to the increased number of heavy trucks?" Another is, "Will it cost society less in the long run if all or selected portions of the branchline network are maintained or rehabilitated after considering the additional capital and maintenance costs necessary to replace the rail system?" Finding these answers should help provide for a strengthened rural transportation system.

³The recent legislation authorizing construction of a new Lock and Dam 26 at Alton, Illinois, would impose a fuel tax of 4 cents a gallon beginning October 1, 1980, increasing to 10 cents a gallon in 1985. Currently, fuel taxes are not charged for commercial navigation. Operation and maintenance costs of the locks and navigation channels are borne by the Federal Government.

Table 2. Status of projects

Minnesota rail service improvement program (state program)		
Projects funded	Description	State \$
2/78 Plainview—Eyota	Rehabilitation	\$ 860,000.00
4/78 Redwood Falls—Sleepy Eye	Defray subsidy costs	8,542.34
8/78 Alden—Winnebago	Rehabilitation	1,818,000.00
12/78 Winnebago—Jackson	Rehabilitation	2,257,000.00
4/79 Redwood Falls—Sleepy Eye	Defray subsidy costs	9,592.00
4/80 Redwood Falls—Sleepy Eye	Defray subsidy costs	11,147.00
6/80 Cliff—Austin—Alden	Rehabilitation	2,025,450.00
Total		\$ 6,989,731.34

Federal local rail assistance program (federal program)		
Projects funded	Description	Federal \$
4/78 Redwood Falls—Sleepy Eye	Rehabilitation	\$ 894,666.00
9/79 South Dakota Transfer	Provide funds to S.D. to rehabilitate the Miles City-Jonathan line	315,000.00
4/80 Redwood Falls—Sleepy Eye	Subsidy	6,790.00
Total		\$ 1,216,456.00

Source: Minnesota Department of Transportation

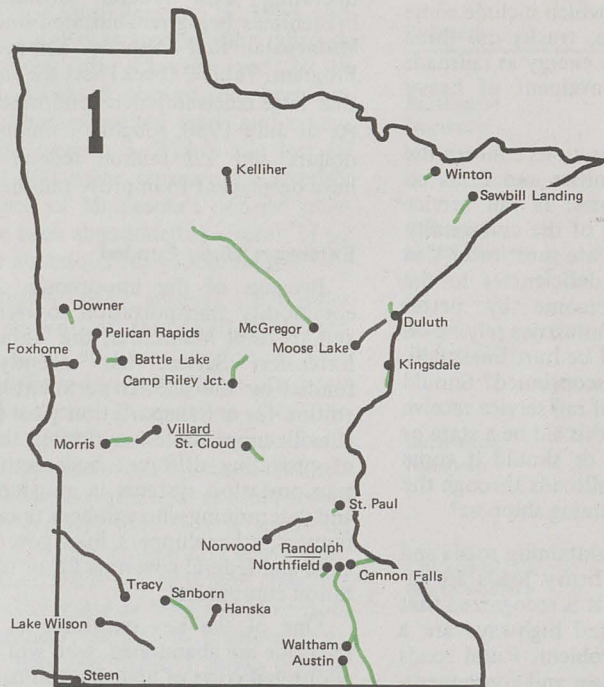


Figure 1. Problem lines of solvent railroads
 — Category 1 & 2 - subject to abandonment
 — Category 3 - abandonment pending

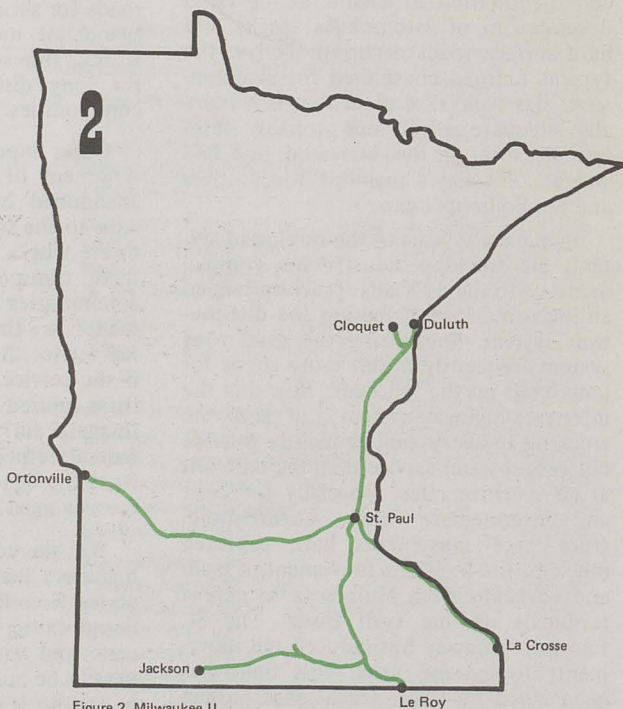


Figure 2. Milwaukee II
 — to be operated if reorganization approved.

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