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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-196314

JUNE 5, 1980

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AGC 00213

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The Honorable Max Baucus
United States Senate

RSN00001

Dear Senator Baucus:

Subject: [Grain Subterminal Facilities] (CED-80-104)

This report is in response to your May 13, 1980, letter requesting certain information on grain subterminals. Your letter noted that we are still in the process of gathering information as part of our comprehensive study of grain transportation problems, but that it would be helpful at this time if we could address several questions to the extent information is available.

We have obtained preliminary information from various sources, including the Departments of Agriculture and Transportation, several Regional Economic Development Commissions, private agencies, grain elevator operators, and published material related to each question in your letter. In addition to addressing each question, this report also provides background information on subterminal development.

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BACKGROUND

Subterminal facilities are used for the transient storage of bulk agricultural commodities located near the area of production which can accommodate unit trains or multiple car shipments.

A unit train is an entire train moving from point of origin to destination and usually returning to the same origin. Multiple car shipments, like unit trains, normally move from point of origin to destination and return to the origin but are not an entire train. Unit trains and multiple car shipments provide fast turnaround time (the time needed to get from origin to destination and



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return), high car-utilization rates, and great efficiency in grain movement according to land grant university researchers.

The development of subterminal grain elevator facilities has been sporadic throughout the grain-producing States and varies by State, crop, and availability of alternative means of transportation. For example, Iowa, which annually produces large volumes of corn and soybeans, has about 150 subterminals which can accommodate unit trains or multiple car shipments; whereas, neighboring South Dakota has only 7. Montana and Kansas, both wheat-producing States, have no subterminal facilities. Studies are being undertaken to determine if subterminals for wheat, with its lower density than corn, are economically feasible.

The development of subterminal facilities has been limited to certain Midwestern States, including Iowa, Illinois, Nebraska, South Dakota, Minnesota, Ohio, and Indiana and has been concentrated in areas relying heavily on rail transportation. For example, although Iowa has 150 subterminals, few are in the southern and eastern parts of the State. The elevators in eastern Iowa are accessible to the alternative barge traffic on the Mississippi River; those in southern Iowa use truck terminals located in St. Joseph and Kansas City.

Our responses to your specific questions follow.

Question: "Are subterminal feasibility studies being done now in any States? If they are, what is the funding source?"

Response: We identified five studies either recently completed or in process, as of May 1980, addressing subterminal feasibility. Some of these studies have identified areas where more subterminal development is needed. These studies cover all or portions of Colorado, Iowa, Kansas, Nebraska, North and South Dakota, Montana, Oklahoma, and Texas. These studies have been funded by Federal and State agencies and private sources.

The Omaha Bank for Cooperatives, a private, member-owned organization, funded a \$26,000 grain transportation study, including the feasibility of subterminal facilities in Iowa, Nebraska, and South Dakota. This study was completed in April 1980.

The Wichita Bank for Cooperatives, a private, member-owned organization, has likewise funded a similar study which is scheduled for completion in August 1980. The study covers Kansas, Colorado, and Oklahoma.

The Federal Railroad Administration (FRA), Department of Transportation, funded an approximately \$635,000 wheat transportation study in a 27-county region of Kansas, Oklahoma, and Texas. This study, nearing completion, addresses alternative marketing practices, including the feasibility of subterminals.

A Montana study is being conducted as of May 1980 by the Montana Highway Department using two FRA grants totaling \$178,000 obtained under section 5 of the Department of Transportation Act (49 U.S.C. 1654). Additional funding is also being provided by the State of Montana and the Old West Regional Commission, a Federal-State partnership associated with the Department of Commerce and designed to promote regional development, which provided \$40,000.

Funding for a North Dakota study includes several private sources. North Dakota State University is contributing funds in the form of salaries and related administrative expenses for the principal investigators. The remaining funds are being solicited from the 12 members of the project's technical advisory group. This group includes three State agencies, the two major railroads serving North Dakota, the St. Paul Bank for Cooperatives, and several businesses or private agencies involved in grain production or marketing.

Question: "Is Federal grant money presently available for subterminal feasibility studies?"

Response: FRA has authority under section 5 of the Department of Transportation Act for making grants to States for comprehensive rail planning purposes, including such projects as subterminal facilities. According to the 1980 Federal Domestic Assistance Catalog and confirmed by FRA officials, an estimated \$90 million is available in fiscal year 1980. These funds are available for a number of purposes, only one of which is subterminal feasibility studies. The funds are also available for subterminal and related facilities construction associated with lines eligible for assistance under section 5. FRA officials have informed us that as of June 3, 1980, States have not requested funds for constructing subterminal related facilities, but States may make such requests in the future. In addition, the Regional Commissions, Federal-State partnerships associated with the Department of Commerce and designed to promote regional development, have grant funds that could be used for pilot subterminal feasibility studies. According to the catalog the Commissions encompassing the majority of major grain-producing States had a total of over \$23 million in fiscal year 1979 for a technical and planning assistance program which could encompass subterminal feasibility studies. Similar data for fiscal year 1980 was incomplete as of May 1980.

Question: "What Federal loan or grant money is presently available for building subterminals and related facilities and what can it be used for?"

Response: FRA and the Farmers Home Administration, Department of Agriculture, have grant and/or loan programs that could provide funds for the construction of subterminal facilities.

The Local Rail Service Assistance Program, under section 5 of the Department of Transportation Act, administered by FRA, provides Federal funding which may be used to plan and implement projects designed to maintain essential rail freight services, to make rail service more efficient, or to reduce the adverse affects of rail line abandonments. Fundable activities

include State rail planning and the cost of rehabilitating light density lines or constructing rail or rail related facilities related to such lines including new connections, intermodal freight terminals and sidings, and relocation of existing lines. Subterminals could also be funded as projects to replace freight service on a line that is being abandoned. A subterminal could qualify for this funding if the State in which it is located has an approved State rail plan on file with FRA and the project is eligible under section 5. As previously noted, an estimated \$90 million in fiscal year 1980 is available for, among other purposes, subterminal construction.

The Farmers Home Administration's program, authorized by the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1932), provides assistance to public, private, or cooperative organizations for the purpose of improving, developing or financing business, industry, and employment and improving the economic and environmental climate in rural communities. Farmers Home Administration officials stated that \$1.1 billion is available in fiscal year 1980 through this program. These funds are available for a number of purposes, one of which is subterminal construction.

Question: "How much of this money has gone into subterminal and related facilities development?"

Response: Our efforts to date have shown that very little Federal funds have been used for subterminal and related facilities development. The only Federal funds for such facilities which we identified have been discussed on page 3. These funds were for a study of subterminal feasibility being done in Montana, for which both FRA and the Old West Regional Commission provided funding (\$178,000 and \$40,000, respectively) and for the 27-county region of Kansas, Oklahoma, and Texas study FRA funded (\$635,000).

In areas where subterminal development has occurred, the member-owned banks for cooperatives and other private sources such as local banks and insurance companies have provided the necessary financing.

Question: "How aware are potential subterminal builders of Federal funds availability?"

Response: Our talks with State officials, elevator operators, and other grain trade officials indicated a general lack of knowledge about available Federal programs that could provide subterminal feasibility study and construction funds. One State official, who is an FRA State contact point, stated that he was not aware that FRA's program could be used for subterminal feasibility studies and construction.

Question: "How useful is the current definition of subterminals?"

Response: There is no generally accepted definition of a subterminal. We found a wide variety of definitions describing subterminals, which included the facilities' storage capacity, loading capability, and source of grain. In addition, some of these definitions would eliminate many facilities considered to be subterminals. For example, in Iowa only 2 of the 150 multiple-railcar loading facilities purchase a majority of their grain from country elevators--a factor often included in the definition. Furthermore, the storage capacity which ranged from 145,000 to 13 million bushels appears to be an incidental factor, although most subterminals tend to have a larger storage capacity.

The definition in the Senate and House subterminal bills (S. 261 and H.R. 7141) does contain reference to the facilities' ability to accommodate unit trains which is necessary for reduced unit train rates--a primary factor in the subterminal concept.

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Matters contained in this letter have been discussed with officials of the Departments of Agriculture and Transportation. Agriculture officials commented that they had no difficulty with the contents of the letter. Transportation officials emphasized that in their view subterminals should be viewed as one of

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many approaches to be utilized in the comprehensive State rail planning process. These officials do not feel that a categorical subterminal program would contribute to resolving rail freight transportation problems.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

We trust that this information satisfies your request.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege". The signature is written in black ink and is positioned below the typed name.

Henry Eschwege
Director