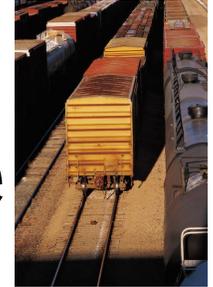




**BIGGS APPRAISAL**

PROVIDING VALUATION AND TRANSPORTATION SERVICES TO THE RAIL INDUSTRY



# Subjects of Value

*The Inspection and Appraisal of Rail Equipment*

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## Flooding Impact on Railroads and Rail Equipment Owners

Generally, railroad engineers chose the high ground that were well beyond normal flood stages when they laid out their plans for railroad right of ways. As one of the wettest spring seasons that has been encountered closes, the test of what is normal has been far exceeded in many places. Both motive power and freight cars have been submerged to the point where costly repairs are required. Rivers have risen well beyond the design limits of flood control levees and have washed out or weakened substantial parts of rail line segments which have caused rerouting of trains. Reroutes delay shipments and if prolonged can draw more equipment into service and add to congestion. All of this moisture puts a damper on the Precision Scheduled Railroading efforts as well.

The U.S. Department of Agriculture

monitors crop progress during the planting season, and on May 28 they reported that only 58 percent of the corn that could be planted was in the ground. For soybeans, it was only 29 percent. That's a big deal for U.S. farmers who supply a quarter of the world's grains, a category that includes corn, wheat, and rice.

Depending on the state, early June is the latest corn can be planted and mid-June is the latest soybeans can be planted. After that, temperatures climb too high and rain falls too little for the crop to be successful.<sup>1</sup>

Freight revenues will be down in the agricultural sector as the fall crops will be at low levels not seen in most people's lifetimes. A low corn harvest may well impact the ethanol business and require a lower percentage of ethanol in motor fuel than the 10% we are accustomed to seeing.

A number of ethanol production facilities have idled operations after nearby rail lines became submerged. The idling could have national consequences, as Nebraska and Iowa alone account for 40% of the country's total production. That all but ensures shareholders of ethanol producers such as Archer Daniels Midland, Valero Energy, and Green Plains to prepare for an impact on first quarter -- and perhaps full-year -- 2019 earnings results.

An initial report from [Reuters](http://Reuters) estimates that 13% of

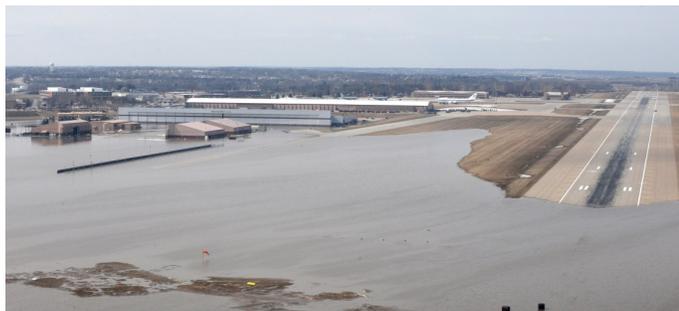
ethanol production capacity in the United States was taken offline as a result of the flooding cutting off rail lines. That includes facilities that have been completely idled and those operating at reduced throughput. There hasn't been conclusive word on the direct impact to all facilities owned by leading ethanol producers in Nebraska and Iowa, but each has a significant presence in the states based on million gallons per year (mmg/y) of capacity.<sup>2</sup>

### Major Crop Forecasts as of June 11, 2019

Corn production for 2019/20 is forecast to decline 1.4 billion bushels to 13.7 billion, which if realized would be the lowest since 2015/16.

Total wheat production is now forecast at 1,903 million bushels, up 5.8 million bushels from the May forecast.

Projected U.S. all rice production is lowered 20.1 million cwt or 9 percent to 198.1 million with all of the decrease in long grain rice, primarily on a reduction in planted area. The excessive spring precipitation in the Delta is



Flooding in the Midwest in early 2019

*(Continued on page 2)*

<sup>1</sup>Midwest flooding is drowning corn and soy crops. Is climate change to blame? Environment, Sara Gibbens June3, 2019.

<sup>2</sup>How Will the Devastating Midwest Flooding Affect U.S. Ethanol? Motley Fool, Maxx Chatsko March 26, 2019

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## BIGGS APPRAISAL

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*Biggs Appraisal and Subjects of Value are service products of Edward D. Biggs III, LLC D/B/A Biggs Appraisal. An Accredited Senior Appraiser (ASA) member of the American Society of Appraisers with a focus on rail equipment, locomotive, railcar, and maintenance of way equipment valuations. Ed Biggs has spent over 40 years in the railroad industry with a mix of significant experience with railroads and leasing companies, including experience in fleet operations, mechanical, and sales. Biggs has particularly in-depth knowledge of railcar extended life upgrade and rebuilding programs. Biggs Appraisal also researches a wide variety of subjects to support valuations, both for its own interests and those of its clients. Stuart Biggs has been involved with every aspect of Biggs Appraisal's business for over 10 years and is a qualified rail equipment inspector that you can expect to see more of on inspections. Johanna Biggs Mitchell has been working behind the scenes for a couple years in research, appraisals, and inspections. The articles in Subjects of Value are by necessity brief and are designed to spur further conversation. Questions, comments, and feedback are always appreciated. This newsletter is aimed at people interested in the rail industry. If you wish to be either added or removed from our mailing list, please email us at [biggsappraisal@yahoo.com](mailto:biggsappraisal@yahoo.com). We encourage industry distribution of this newsletter.*

## Flooding Impact on Railroads and Rail Equipment Owners

expected to result in lower rice area in this region.

Although adverse weather has significantly slowed soybean planting progress this year, area and production forecasts are unchanged with several weeks remaining in the planting season.<sup>3</sup>

Reducing the ethanol supply should have a positive effect on the current glut of oil and may actually cause an increase in exploration.

In two Wall Street Journal Articles on June 25<sup>th</sup> it was noted that crude oil exports from United States Gulf were increasing due to the "Straights of Hermuz" conflict. And that oil exploration was being cut back. "U.S. Oil Exports Jump on Turmoil in Mideast". And "A leader of Fracking Boom rethinks headlong growth".

Looking at conflicting information tends to cause one to look between the lines and draw their own conclusions. Yes! We are in a temporary slowdown in a marketplace with good fundamentals. Yes! the oil exploration people need to reign in expenses and continue to bring in new wells to replace the wells that have been depleted. Deeper wells in the North need that hard white sand and a lot of it.

What is in store for railcar owners in the short term is likely to be cars that might have been renewed being returned by lessees because of a change in their expected traffic. Cars that were stored are being called out into service. Lessors who are looking for storage need to be looking for high and dry storage locations. Lessors who have cars in flood prone areas should be looking to make sure their assets have not been

submerged. Generally, once the railcar is placed in storage the railroads responsibility/ liability for damage not caused by the railroads stops in most storage agreements. If your freight cars have been submerged the Interchange Rules require the roller bearings be reconditioned, slack adjusters be replaced, air brake valves be replaced, and a single car air brake test performed. The key term "Submerged" is when any portion of a component has been under water. This is determined by visual inspection.

The Biggs Appraisal team had been out on a number of submerged rail equipment projects and can assist you with inspections at any time.



Evidence of submersion can usually be seen by discoloration, rust, and mud residue.

<sup>3</sup>WASDE: Corn Production Trimmed by 1.4 Billion Bushels, AGWEB June 11, 2019, <https://www.agweb.com/article/wasde-corn-production-trimmed-by-14-billion-bushels/>