The original documents are located in Box 28, folder “Railroads - Revitalization Act: Meeting, March 24, 1975” of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

10:45 AM - Railraod Meeting
Roosevelt Room

Monday, March 24, 1975

1) Regulation — additional provisions to be discuss

2) Rehabilitation — loan program

3) Pub Svc Jobs

4) NE ~~[illegible]~~ Conrail

[March 1975]

A Program to Initiate More Intensive Program Maintenance in the Railroad Industry Utilizing Presently Unemployed Workers

PROGRAM GOALS

The Nation is currently faced with the problem of significant unemployment and a deteriorated and deteriorating rail physical plant. In response to both problems we believe a unique opportunity exists to undertake a Federally assisted effort to expand the currently planned maintenance-of-way program in the industry. This expansion will provide additional jobs not only in the railroad industry but also will have a substantial indirect job-creating effect on supporting industries (e.g., steel, lumber, equipment, etc.).

BENEFITS

Employment effect in rail industry - Maximum maintenance-of-way (MOW) employment in 1974 was roughly 92,000 employees. Currently unemployed rail workers include 10,000 MOW personnel. It is anticipated, however, that an additional 20,000 rail MOW employees will be furloughed by June 1975.

The labor component of maintenance-of-way comprises approximately one-third (32%) of the total costs. At an annual cost of $16,000 per job, every $1 billion per year invested in railroad maintenance (including labor, materials and equipment) could create and fund 20,000 jobs.

Effect on related industries - In addition, of course, there is an indirect employment effect on the allied industries. The Labor Department has estimated that, for every $1 billion spent on program maintenance, there will be an indirect employment effect of 35,000 per year.

ESTIMATED EMPLOYMENT EFFECT

Annual Total Funding Level	DIRECT (In Railroad Maintenance)	INDIRECT (In Related Industries)	Total
$500M	10,000	17,500	27,500
1.0B	20,000	35,000	55,000
1.5B	30,000	52,500	82,500
2.0B	40,000	70,000	110,000

Under the funding schemes and levels recommended in this paper, we estimate that the program would create and fund an additional 20,000 direct jobs in the first year and 40,000 direct jobs in the second year.

3/20/75

We [illegible] [illegible]
the women both
our emotions
[illegible]
run [illegible] range
swing to
temperatures [illegible]

Energy - Studies now underway within the FRA clearly indicate that, while motor carriage is more energy efficient in picking up and delivering small loads, rail transportation is clearly more efficient for long-haul transportation. With a rebuilt right-of-way, some portion of the long distance traffic now moving by truck would be diverted to the more efficient rail system.

Passenger service - Rebuilt rights-of-way would improve the safety, speed, and quality of passenger train service offered by Amtrak and the railroads. This revitalized rail passenger service would offer a reliable, energy-efficient alternative to interstate automobile and air travel.

Freight service - Improved track will increase reliability and speed of freight service, allowing shippers to predict accurately a shipment's arrival time at its destination. The yard congestion and service interruptions common today could also be alleviated. As the service improves, so should railroad revenues and rail's market share.

BACKGROUND

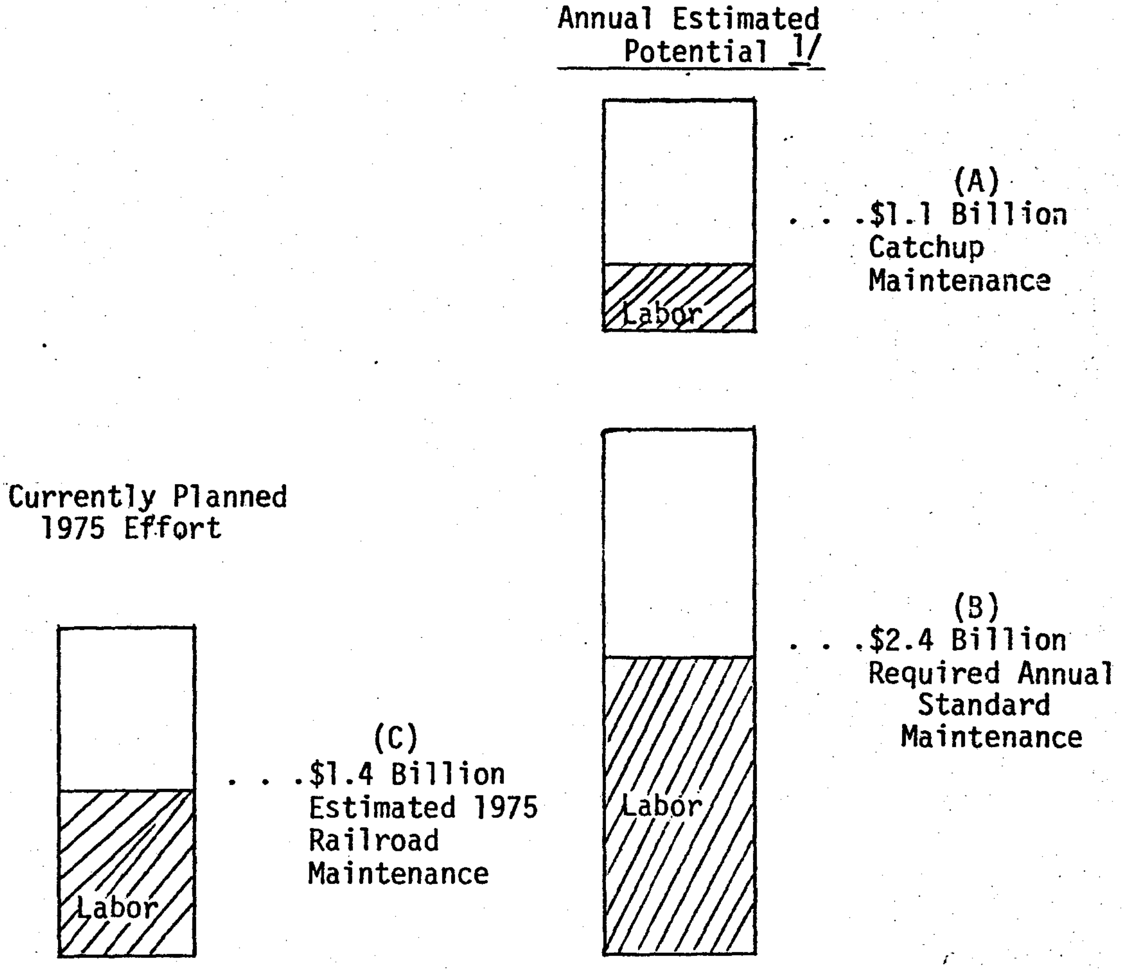
Deferred Maintenance in the Rail Industry - The cost of restoring to "normalized" condition all the track, roadways, bridges and structures used in the U.S. railroads is estimated at almost $7.5 billion in current dollars. "Normalized" condition is defined as the condition in which 50% of the useable life of track and other materials remains. In view of recent USRA findings in the Northeast, it is estimated that at least 75% of the track in the U.S. is appropriate to retain and improve. Restoring this streamlined network is estimated to cost up to $5.6 billion. Of these costs, approximately 32% are labor costs, 61% for materials and 7% for machinery and tools. The estimated deferred maintenance costs of the U.S. railroads are identified in the following table:

	($ in millions)	
Region	Present Network	Streamlined Network
Eastern	$3,940	$2,955
Western	3,480	2,610
Southern	20	15
	$7,440	5,580

Dividing the streamlined network between mainline and yard trackage, the estimates are as follows:

Region	Mainline	Yards
Eastern	64% or $1,920	36% or $1,063
Western	71% or 1,826	29% or 756
Southern	67% or 10	33% or 5
	68% or $3,756	32% or $1,824

These amounts are required in addition to those expenditures programmed by the railroads prior to the current downturn in business in order to eliminate deferred maintenance. The annual level achievable to reduce deferred maintenance is represented by (A) below. In addition, the difference of the annual level required for standard maintenance (B) and the actual 1975 level now planned by the railroads (C) needs to be funded. Thus, the amount which the railroads should and could spend on maintenance over and above what they will have to spend in 1975, is approximately $2.1 billion ((A)+(B)-(C)) and this would be the outside amount for annual Federal program support.



Based upon the current rate of return on capital investments in the industry, one must conclude that the industry is incapable of meeting this need through either internally generated funds or increasing its debt structure. This situation is reinforced during the current economic recession when car loadings have dropped substantially and revenue is declining. In short, the economic erosion is continuing and the amount of deferred maintenance is probably increasing at an increasing rate.

1/ Based on the streamlined network and assuming sufficient lead time to eliminate institutional, labor, and materials constraints.

Program Issues and Specifications

One of the significant public policy issues raised by a program of Federal assistance relates to government financial assistance to improve facilities within private industry. We believe the public interest is served by creating jobs during a period of high national unemployment and rehabilitating an industry whose assets are rapidly eroding and which may soon be unable to serve the economic needs of the Nation. This, in our view, is ample justification for the utilization of public funds. The program design, however, must reinforce these public purposes. The following funding alternatives are possible.

Alternative 1 - All railroads except those in reorganization under the Regional Rail Reorganization Act would be eligible to apply for direct Federal loans for labor, materials, and equipment. Railroads in reorganization under the Rail Act would be eligible to apply for direct Federal grants provided that all improvements would accrue to the benefit of Conrail. In essence, for these railroads it would be similar to the program we are now executing under Sections 213 and 215 of the Rail Act.

The following outlines a proposed financing mechanism based upon income-related debentures being issued to the Government by participating railroads:

(1) Any railroad willing to participate in the program would apply for a loan from the Federal Government in amounts sufficient to cover the relevant incremental labor, material, and equipment content of specific projects.

(2) If the application met FRA's screening criteria, the railroad would be advanced funds and in return would issue a medium term (perhaps twelve year) income-related debenture to the Federal Government.

(3) The debenture would provide that, in any year in which the railroad earned over a certain level of profit, it would be required to pay the interest accumulated during that year and to repay an amount of principal equal to that year's portion of the total principal. The threshold level of earnings which would require such a repayment is subject to further analysis and refinement but could be established at a specified return on investment (such as 6 percent).

(4) The debenture would also provide that, in any year in which the railroad did not earn a profit, interest would be forgiven and principal payments would be deferred.

(5) Between those two extremes a sliding scale could be incorporated in the debenture which could provide, for example, for each one percent return on investment earned by the railroad in any given year, the railroad would be liable for one-sixth of the interest and principal payments; the remaining interest would be forgiven and the remaining principal would be deferred.

(6) At the end of the period of the obligation, those portions of the principal which for any railroad had been deferred would come due. Payment, forgiving the outstanding principal, or deferral through issuance of another obligation, would be subject to negotiation between that railroad and the Federal Government.

(7) In order to give the Federal Government some negotiating ability at the end of the debenture period, the railroad would be required to offer security for the loan. The adequacy of the security would be judged by the Secretary at the time of approval of the loan.

<u>Alternative 2</u> - The program would include both a grant and a loan authorization for all railroads not in reorganization under the Rail Act. The grant portion would fund all labor related costs of maintenance projects. The loan portion would be restricted to materials and equipment and employ the same financing scheme as proposed under Alternative 1 above. This would require that approximately one-third of the annual authorizations for these railroads be in the form of grants. The remainder would be authorized as loans.

Railroads in reorganization under the Rail Act would be handled as in Alternative 1.

Each of these alternatives has certain advantages:

Alternative 1:

- Avoids the making of a grant to solvent railroads;
- Permits the Government to tailor the repayment of the principal and interest to the future earnings of the solvent individual carrier;
- Permits the Government in the execution of this program to rely most heavily on the internal management discipline of individual carriers rather than substituting Federal controls; and

- Insures that for railroads in reorganization under the Rail Act, that the benefits of the program accrue to the advantage of Conrail.

Alternative 2:

- Recognizes that this is first and foremost a job creation effort and that the Federal Government needs to take extraordinary steps to help the railroad industry during the present economic downturn;
- Will insure that all Class I carriers participate and thus prevent further erosion of railroad maintenance; and
- Maintains the same provisions ensuring benefits accrue to Conrail.

On balance we believe Alternative No. 2 is the preferred funding vehicle.

Funding level - The program level is based on the following assumptions:

(a) During the first year of the program only one-half of the estimated potential would be achieved, or $1 billion.

($3.5 billion potential less $1.4 billion of planned maintenance to be funded by the railroads divided by 2)

(b) The program authorization would be for two years.

Based on the above, an overall program level of $3 billion is recommended.

In addition, we recommend an additional $95 million in further grants to improve the level of passenger service on the Northeast Corridor during this period of time. This program would be executed under Section 213 of the Regional Rail Reorganization Act of 1973, under which $25 million was recently appropriated. (A detailed justification for this program is attached -- Attachment A.)

Maintenance of effort - To insure that the program is additive and not in substitution of the current level of program maintenance in the industry, the Government should insist on a maintenance-of-effort provision. Each applicant would be required to demonstrate that he was maintaining the same level of non-Federally supported maintenance in relation to his revenues that prevailed during the previous 2-3 years. This would have the effect of requiring the railroads to increase the 1975 level of effort from $1.4 billion to approximately $1.8 billion.

Unemployment trigger - To emphasize that this is a job creation effort and will not become a permanent assumption by the Federal Government of all program maintenance responsibilities of the industry, a "trigger" should be used to initiate the program during periods of high unemployment and to stop the commitment of new funds during periods in which the national unemployment rate falls below 6% or some other alternative figure for a three month period. Existing projects (submitted in one year segments) would be continued to their termination. Similar trigger provisions are now included in the unemployment insurance program and public sector employment program.

Fund availability - Federal loan funds would be available until committed. However, commitment authority would cease during any period when national unemployment dropped below 6% for three consecutive months.

Apportionment -

(a) The $3 billion would be split as follows:

(1) $2 billion would be divided among the Class I railroads in proportion to the revenue ton miles (or some other appropriate measure of productivity) of each carrier to the national total. If a railroad does not submit a request for funding within 90 days, the funds apportioned to the railroad would revert to the Secretary's discretionary fund;

(2) $1 billion would be available for allocation among the Class I railroads based on the discretion of the Secretary.

We have opted for an apportionment concept based on the following considerations:

(1) It will encourage more railroads to participate and insure wider geographic participation.

(2) It will provide a benchmark around which individual carriers can develop program plans and thus should facilitate the initiation of the program.

(3) It will make the rationing process easier by reducing the burden on the Secretary to compare the merit or value of different proposals if demand for funds exceeds the supply.

(4) It reduces the charge that the program will interfere with the competitive basis among individual carriers by insuring each a minimum share.

Project application - Each carrier or each terminal company would file an annual application for a loan or grant. The annual application would identify a carrier's entire maintenance program -- both that proposed to be funded by the carrier directly and that proposed to be funded through Federal assistance.

In the case of track improvements, only routes having a traffic density of 10 million gross tons would be eligible for improvement under this program [1]. Yard and terminal improvements would be limited to those yards and terminals connected to eligible routes. In addition, Federal guidelines would encourage carriers to give emphasis to passenger routes, lines having a significant number of hazardous materials movements, lines having the most significant number of slow orders, and grade crossings particularly those used by school buses.

The Secretary would give priority to eligible projects having an immediate and significant employment effect. For allocating his discretionary funds the Secretary would also develop a set of transportation criteria.

Secretarial approval - The Secretary may not make a loan unless he finds that --

(1) The management of the railroad is actively pursuing necessary programs designed to upgrade and develop plant facilities and operations as necessary to fulfill its obligations as a common carrier.

(2) The prospective earning power of the railroad furnishes reasonable assurance that the railroad will be able to repay the loan within the time fixed.

(3) The activity to be financed under the loan will enhance the efficiency of the carrier's operations.

(4) The proposed improvements will contribute to the establishment of a rational, efficient, and economical national rail transportation system.

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[1] The effect of the ten million gross ton mile cutoff is to concentrate on 63 thousand or about 30% of the nation's 207 thousand route miles (approximately 50% of all track miles). These are the nation's most essential routes and tracks. For further detail see Attachment B.

These are the same type of provisions as included in this year's RTIA legislation.

<u>Work eligible</u> - All maintenance, rehabilitation, or other improvement work would be eligible, provided that in the case of track the work resulted in the removal of slow orders or upgrading the track to a higher class.

<u>Employment</u> - The railroads would be responsible for negotiating with the unions on labor rates applicable to workers funded under this program provided, however, that none of the funds could be used to provide labor protection for when employment is terminated. Of course, the usual unemployment insurance provisions would apply. A basis for this type of labor provision is contained in Section 505(f) of the Regional Rail Reorganization Act. This provides termination allowances of up to 180 days pay for employees who had less than three years of railroad service as of the effective date of the Act (January 2, 1974) should Conrail choose to terminate them. Service subsequent to the above date cannot bestow additional protection of this type.

Employment should first be offered to furloughed railroad maintenance-of-way employees. Once this source depleted, employment would then be offered to other furloughed railroad workers. This includes operating as well as non-operating railroad employees. The individual railroads and the Railroad Retirement Board have data on ex-employees and should be able to locate them easily.

The third source of manpower would be the general labor force through the employment assistance agencies existing in each state. A given railroad would be in a position to determine the additional manpower required once the furloughed railroad worker pool had been exhausted. References from the state agencies would be made directly to the railroad where interviewing, physicals, and applications would be handled.

The degree of training would vary with each of the hiring classes. The last class, i.e., the general public, would require training in general railroad safety and maintenance practices. As a general rule, the training would be performed by the railroad. Training would be an eligible use of Federal loan funds.

<u>Evaluation and control</u> - A system of evaluation and control is needed. The first step should be the development by the Federal Railroad Administration of standard application criteria. This would elaborate on how the railroads are to apply for Federal assistance and in what order priorities will be established. A uniform application format is essential for comparison purposes and for future evaluation of programs in progress versus newly recommended programs.

During life of the program progress reports will be required from railroads, outlining the number of man-hours worked, number of slow orders removed, ties and rails installed, new efforts started, etc. These reports will be compared to plans initially approved to assess program results.

RELATIONSHIP TO OTHER ADMINISTRATION SPONSORED LEGISLATION

This program would be limited to two years. It would set the stage for the financial assistance program included in the Administration-proposed Railroad Transportation Improvement Act (RTIA). Should RTIA be enacted before the conclusion of this program the two programs would be additive. The interim assistance program for the Northeast Corridor does not preempt any decisions related to the longer term corridor improvement program nor is it duplicative of that program.

CONSTRAINTS

One of the significant constraints in this program may be this Nation's ability to produce rails. Present domestic rolling capability for rails limits annual production to one million tons which also has been the rate of rail installation in this country. However, we now estimate that as a result of the current economic downturn, the industry has cut back its maintenance programs by about 20%. Consequently, we assume that there may be approximately 20% difference between maximum rail production capability and the current rate of utilization. Should the economic downturn continue, this differentiation is likely to grow. At the present time there is estimated to be 3,000 miles of new rail, 2,000 miles of relay rail, and 23,000,000 ties available in inventory in railroad shops to permit initiation of the program. In addition, short-term rail supplements may be available from foreign sources. In summary, we believe most of the work is not related to rail and other material constraints and can proceed without delay.

The willingness of the industry to increase its debt under the above terms must be explored. The labor provisions applicable to this group of employees is attached (Attachment C). These provisions do not provide subsequent protection for these employees.

NORTHEAST CORRIDOR RAIL: INTERIM IMPROVEMENTS

SUMMARY

A $95 MILLION PROGRAM IS PROPOSED FOR CY1975 AND 1976, BUILDING ON AN EXISTING $40 MILLION PROGRAM NOW UNDERWAY. THE WORK HAS BEEN DEFINED IN DETAIL, SPECIFICATIONS ARE AVAILABLE AND IMPLEMENTING ORGANIZATIONS ARE ALREADY ESTABLISHED WITHIN FRA AND THE PENN CENTRAL. THE WORK INCLUDES THOSE LABOR INTENSIVE TASKS THAT MUST BE PERFORMED TO KEEP THE RAILROAD OPERATING AND EFFECTIVE IN PROVIDING INTERCITY RAIL PASSENGER SERVICE REGARDLESS OF THE LEVEL OR EXTENT OF IMPROVEMENTS MADE UNDER THE RRR ACT.

INTRODUCTION

Current plans identify three phases of construction in the Northeast Corridor (NEC) passenger rail program as (1) Emergency Improvements, (2) Interim Improvements and (3) Long Range Improvements.
The Long Range Improvement Program is being developed in response to the RRR Act requirement to improve the NEC rail passenger system as recommended by the Secretary in September 1971.

This phase will cost many hundreds of millions of dollars and will take eight years plus to implement under ideal conditions. The planning for this program is nearing completion and a preliminary report was completed in February. It consists of work in the following categories:

- Track Upgrading
- Bridges and Tunnels
- Electrification
- Stations
- Fencing
- Grade Crossings

Signaling
Communications
Rolling Stock
Yards and Shops

While the planning for the long range improvements are underway, the continuing degradation of the railroad has caused FRA to implement an Emergency Improvement Program (EIP). The EIP is a $40 million effort to arrest the continuing degradation and regain some travel time loss due to existing slow orders. The FRA is funding a $25 million program south of NYC and Amtrak is funding $15 million worth of upgrading north of NYC. The $40 million EIP is extremely well defined and coordinated between Penn Central, Amtrak and FRA personnel. The program is in the final stages of negotiations and actual construction should start in the spring of 1975. Some bridge work is already underway.

The Program proposed herein consists of necessary work to the Corridor which goes beyond the Emergency phase and is required regardless of the extent of the Long Range Improvements. The groundwork for quickly implementing Interim Improvements was established through the extensive planning which preceded the start of the EIP, and the months of engineering planning which has been completed to define the Long Range Program. The Interim Program can be implemented concurrent with the Emergency Program and integrated therewith.

The following paragraphs summarize the work effort which could be quickly initiated, is meaningful from a transportation user standpoint, would dovetail effectively with the Long Range Program and not preempt any options regarding the Long Range Program.

INTERIM IMPROVEMENT PROGRAM

Track Work

As originally proposed by PC/Amtrak/FRA, the EIP was an $87 million effort which would have upgraded the entire DC to Boston track to 110 mph operation. Only $40 million is underway and the remaining $47 million, which is defined in detail, could be initiated immediately. This type of work is labor intensive and consists of crosstie and continuous welded rail (CWR) installation, ballast cleaning, interlocking rehabilitation, ditching, and rail surfacing. The labor associated with all of the activities except CWR placements could begin immediately. The availability of CWR is a definite problem here that could drive the bulk of the rail laying effort into calendar year 1976 and continuing into 1977. Some rail is known to be available from railroads who have the material but inadequate funds for installation; the exact quantity available from this source has not yet been determined but is probably small. Also, installing new rail is self-generating so far as rail availability is concerned since the old rail can be cropped and welded into CWR strings with about an 80 percent saving on the rail material. In any event, if funds were made available early in 1975, it is quite probable that mill orders could be placed for early delivery in 1976. It is estimated that 25 percent of the $47 million dollars for this task would go for labor costs along the Northeast Corridor right-of-way with the remainder going for materials such as rail, crossties, ballast, machinery, and other track materials.

Maintenance Program

To begin the restoration of the normal maintenance work force of the Penn Central in the Northeast Corridor would require about 300 additional workers between New York City and Boston and a similar number between Washington DC and New York City. This crew would complement the work force doing the $47 million dollar Track Upgrading program by conducting the routine daily maintenance along the 455 mile right of way.

Track maintenance work includes such activities as bolt tightening, spot tie and rail section replacements, spike driving, brush cutting, ditching, and weed control. Other maintenance includes bridges and buildings, communications and signalling, and maintenance of the electric catenary system.

Worker salaries plus applicable burden rates results in a total yearly requirement of approximately 14 million dollars.

Bridges

Many of the bridges in the Corridor are quite old and have been neglected because of a lack of fund availability within Penn Central. Approximately 150 of the 800 bridges on the NEC were built before 1895. Work would begin almost immediately in the area of scraping and painting, and making navigation light and fender system repairs to improve the safety for marine traffic and testing for structural integrity. Some of this work is of a specialized nature which would be contracted out by the Penn Central Transportation Company; but most is non-specialized work effort, such as minor structural work and track repairs, and would be accomplished by Penn Central work crews. The estimate for the type of bridge work contemplated herein is $10 million dollars.

Signalling

The signal system used to control current train movements within the Corridor is in need of rework as a result of a long-term lack of maintenance. There are many locations where signal wires are laying above ground unprotected and should be buried, field splices should be redone in a permanent fashion, and many wire replacements are required. The cost of this activity is estimated at $12 million.

Clean-up and Police Protection

The right-of-way between New Haven and Washington, D. C., is a national disgrace. It has been used as a dumping ground for trash, old auto parts and appliances which are a constant threat to rail service. In addition, several locations along the route are notoriously high vandalism areas and should enjoy the protection of police vigilance. Unskilled labor is required for clean-up activities. The initial clean-up campaign would be followed by a regularly scheduled program of clean-up and the total clean-up program is estimated to cost $2 million. This is estimated to require about 60 laborers on a continuing basis. A trial police protection program is recommended at a cost of $3 million for the 1975 through 1976 time period.

Program Funding Requirements

The attached chart depicts the funds required for the Program for calendar years 1975/1976. It is assumed the funds would be available by June 1, 1975.

NORTHEAST CORRIDOR RAIL: INTERIM IMPROVEMENTS

FUNDING REQUIREMENTS

	CY 1975	CY 1976
Track Work	$10,000,000	$37,000,000
Maintenance Program	7,000,000	14,000,000
Bridges	3,000,000	7,000,000
Signalling System	4,000,000	8,000,000
Clean-up and Police Protection	2,000,000	3,000,000
TOTAL	$26,000,000	$69,000,000

ATTACHMENT B

RAILROAD ROUTE MILEAGE BY RAILROAD AND TRAFFIC DENSITY LEVEL
ANNUAL GROSS TONMILES (IN MILLIONS)

RAILROAD	<5M	5M-9.9M	10M-19.9M	20M-29.9M	30M-39.9M	40M+	TOTAL MLG
AKRON, CANTON & YOUNGSTOWN	180			8			188
ANN ARBOR	334	100	20				454
ATCHISON, TOPEKA & SANTA FE	6,913	1,371	1,269	710	779	1,505	12,547
BALTIMORE & OHIO	2,322	979	450	625	313	740	5,429
BALTIMORE & OHIO CHICAGO TERMI	19						19
BANGOR & AROOSTOOK	483	66					549
BESSEMER & LAKE ERIE	68			108	52		228
BIRMINGHAM SOUTHERN	26						26
BOSTON & MAINE	1,071	72	192	76			1,411
BURLINGTON NORTHERN	12,563	2,662	3,969	2,201	575	151	22,121
CANADIAN NATIONAL				46			46
CENTRAL R.R. OF NEW JERSEY	304	63	34				401
CENTRAL VERMONT	296	3					299
CHESAPEAKE & OHIO	2,087	139	894	511	515	293	4,439
CHICAGO & EASTERN ILLINOIS	179	117	228	45			569
CHICAGO & NORTH WESTERN	7,718	1,139	780	173	86	21	9,917
CHICAGO, MILWAUKEE, ST. PAUL &	6,280	2,144	935	197	34	29	9,619
CHICAGO, ROCK ISLAND & PACIFIC	2,769	1,809	1,475	157	138		6,356
CLASS II RR'S & URBAN TRACKAGE	17,909	3,623	1,926	1,597	555	946	26,556
CLINCHFIELD	107		26	154	6		293
COLORADO & SOUTHERN	533		13				546
DELWARE & HUDSON	320	141	116	123			700
DENVER & RIO GRANDE WESTERN	876	127	420	378			1,801
DETROIT & TOLEDO SHORE LINE			52				52
DETROIT, TOLEDO & IRONTON	193	98	75		27		393
DULUTH, MISSABE & IRON RANGE	208	81	48		16	34	387
DULUTH, WINNIPEG & PACIFIC			173				173
ELGIN, JOLIET & EASTERN	72	73	66				211
ERIE LACKAWANNA	1,276	369	360	525	294	95	2,919
FORT WORTH & DENVER	430	702					1,132

ATTACHMENT B

GRAND TRUNK WESTERN	445	50	166	213			874
GREAT BAY & WESTERN	269						269
ILLINOIS CENTRAL GULF	1,661	209	914	123	132	121	3,160
ILLINOIS TERMINAL	234	27	50		16		327
INDIANA HARBOR BELT	21						21
KANSAS CITY SOUTHERN	47	21	125	613	9		815
LAKE SUPERIOR & ISHPEMING	98						98
LEHIGH VALLEY	387	98	371		76	12	944
LONG ISLAND	291						291
LOUISVILLE & NASHVILLE	2,662	794	916	1,527	579	43	6,521
MAINE CENTRAL	678	244	14			12	948
MISSOURI PACIFIC	4,307	1,817	1,382	223	121	166	8,016
MISSOURI-ILLINOIS	130	10					140
MISSOURI-KANSAS-TEXAS	862	500	567				1,929
MONONGAHELA	113	51					164
NORFOLK & WESTERN	3,050	1,032	1,284	778	181	822	7,147
NORFOLK SOUTHERN	823						823
NORTHWESTERN PACIFIC	306						306
PENN CENTRAL	9,852	2,032	2,883	1,265	1,018	2,037	19,087
PENNSYLVANIA-READING SEASHORE	368						368
PITTSBURGH & LAKE ERIE	92		44				136
READING	968	56					1,024
RICHMOND, FREDERICKSBURG & POT				118			118
SEABOARD COAST LINE	4,413	1,041	2,455	934	155		8,998
SOO LINE	3,114	674	543				4,331
SOUTHERN	5,229	1,199	1,682	1,314	237	187	9,848
SOUTHERN PACIFIC	5,410	525	1,540	508	1,937	1,283	11,203
ST. LOUIS-SAN FRANCISCO	2,718	517	1,009	339	24		4,607
ST. LOUIS-SOUTHWESTERN	521		61	207	393	54	1,236
TEXAS & PACIFIC	666	569	521	158	46		1,960
TEXAS MEXICAN	183						183
TEXAS PACIFIC-MISSOURI PACIFIC	4		26				30
TOLEDO, PEORIA & WESTERN	223	21					244
UNION R.R.-PITTSBURGH	24		16	6		7	53
WESTERN MARYLAND	362	119	114	125		13	733
WESTERN PACIFIC	87	198	472	154	148	56	1,115
	116,154	27,682	30,676	16,239	8,462	8,627	207,848

Attachment C

HIRING PRACTICES (FACT SHEET)

As the list below describes, a new hire under a Public Works Program to rebuild railroads would be subject to and covered by the same working agreements, benefits, etc., which the existing railroad employee is subject to. The only major difference is that a new hire under this program would not be covered by job protection agreements which were signed prior to his date of hire.

Present Employee	New Hire
-Join union 60 days after first working day	-Join union 60 days after first working day
-Represented by Brotherhood of Maintenance of Way Employees Union	-Represented by Brotherhood of Maintenance of Way Union
-Subject to and covered by rules of working agreements, which prescribe rates of pay and working conditions	-Subject to and covered by rules of working agreements, which prescribe rates of pay and working conditions
-Subject to protective provisions only if employed at effective date of agreement	-Not covered by protective provisions, unless new agreement signed
-Contributes employee portion of Railroad Retirement Fund	-Contributes employee portion of Railroad Retirement Fund
-Non protected employees subject to furlough with five working days notice	-Subject to furlough with five working days notice
-Seniority date established by date of hire, after accumulating 90 calendar days of service	-Seniority date established by date of hire after accumulation of 90 calendar days of service
-Furloughs administered in inverse order of seniority	-Furloughs administered in inverse order of seniority

Present Employee	New Hire
-Unemployment Benefits: Administered by Railroad Retirement Board: Must work seven months in a given year and earn at least $1,000, to qualify for benefits in following year. Maximum benefits up to amount of earnings in prior year. Extended benefits available based on years of service	-Unemployment Benefits: Administered by Railroad Retirement Board: Must work seven months in a given year and earn at least $1,000, to qualify for benefits in following year. Maximum benefits up to amount of earnings in prior year. Extended benefits available based on years of service
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-Vacation: Length of vacation based on years of service	-Vacation: Length of vacation based on years of service

10:45 AM - meeting Roosevelt Room - Monday, March 24, 1975

Meeting to Discuss Presidential Message on Administrations Railroad Program and DOT's Railroad Public Works Type Employment and Rehabilitation Proposal.

DOT Representatives
Secretary-Bill Coleman
Deputy Secretary-John Barnham
Acting Assistant Secretary-John Snow
Deputy Assistant Secreatyr (Budget)-Ted Lutz
FRA Acting Administrator-Ace Hall

White House Attendees
Bill Seidman
Jim Cannon
Dick Dunham
Mike Duval

Jim Lynn
Wally Scott

Jim Connor

B

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

March 24, 1975

MEMORANDUM FOR HONORABLE JAMES T. LYNN
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Subject: Stimulating Employment Through a Federally Supported Rail Rehabilitation Program: Rationale for Grants to Solvent Railroads

In a memorandum of March 21 outlining the above program, we recommended that the funding of the entire program for bankrupt railroads and the labor portion of the program for solvent railroads be effected through Federal grants. The bankrupt railroads account for approximately 16% of the track miles that would be eligible for rehabilitation. The labor element of the program would be approximately one-third of the total program. Thus, in a $3 billion program, the bankrupts might be expected to receive approximately $500 million in grants and the solvent carriers approximately $800 million in grants.

In the attached memorandum we give the reasons why, in our judgment, it is desirable to fund the labor portion of the program for solvent railroads with Federal grants, rather than loans.

SIGNED BY
WILLIAM T. COLEMAN, JR.

William T. Coleman, Jr.

Attachment

cc: Honorable L. William Seidman
Honorable James M. Cannon

The Critical Role of Grants in a Federally Supported Rail Maintenance and Rehabilitation Program

The Department of Transportation has proposed for consideration a temporary program to stimulate employment in the railroad industry, specifically in the vital areas of track and plant maintenance and rehabilitation. This program would cover the entire industry, i.e., both solvent and bankrupt companies, and would employ a combination of Federal grant and loan financial assistance. The program's underlying rationale and specifics have been covered in another paper. This paper addresses the critical role of grants for the labor cost component in ensuring the program's acceptance and success.

Summary

Powerful arguments can be made that any Federal financial assistance designed to stimulate employment could be directed to no better purpose than the maintenance and rehabilitation of the nation's railroads. To realize the full potential of this opportunity, especially in light of the current state of railroad finances, a grant component (for the direct labor costs involved) in the Federal financial assistance program would be essential.

- Federal grant assistance for at least the labor component of such a program appears critical to obtaining the participation of "solvent", albeit current money losing, railroads which constitute the bulk of the nation's rail system.

- A Federal program of financial assistance to the railroads must treat both "solvent" and "financially distressed" (including bankrupt) railroads equitably, lest it unfairly disadvantage the former.

- The truly vital nature of the work to be supported by this program -- affecting directly the economic efficiency of the nation's rail system as well as the safety of its operation -- must be given appropriate weight in any consideration of this proposal's merit.

- Any "grant" assistance given in this program would be truly "additive" in terms of its ultimate economic impact, providing a significant multiplier effect.

Discussion

Central to an understanding of this real nature of the rail maintenance and rehabilitation problem is a recognition that: (1) it is pervasive, affecting all parts of the rail industry -- both solvent and bankrupt companies -- albeit in somewhat different ways and degrees; and (2) the costs of a rundown, inefficient national rail plant will be paid for by society one way or the other. It will be paid:

> either in terms of increasing accidents and derailments, more "slow orders" and train delays and the higher freight rates and impaired service inherent in the foregoing,
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> or in terms of a positive effort to arrest the deterioration of the rail plant, to rebuild and rehabilitate that plant (especially the vital mainline links), and to put presently furloughed maintenance-of-way employees (now receiving Federal unemployment pay) and other idle workers back into truly productive employment in an industry vital to the nation's economic health.

The reality for rail industry finances of the recent sharp drop in revenues stemming from the depressed economy and the poor prospects for an early revenue recovery means that virtually no railroad, solvent or bankrupt, will earn a profit this year and few, if any, will do so in 1976. Across the industry, rail managements have almost uniformly cut back sharply on maintenance activities in an effort to husband cash. In this situation, the management imperatives to curb deferable expenditures are as real and sharp for the normally "healthy", solvent railroad as they are for the financially shaky or bankrupt company.

Given the foregoing, several powerful arguments can be advanced for including a strong grant component in any Federal employment support program oriented to the national rail maintenance and rehabilitation problem.

1. Encourage Maximum Participation

As noted above, any railroad facing the prospect of depressed revenues and an uncertain traffic outlook will be very reluctant to take on additional indebtedness for the materials, supplies and equipment needed for maintenance and rehabilitation unless there is a strong financial incentive for them to do so. Federal grant financing for the labor component of the maintenance and rehabilitation projects approved under this program will ensure that all major railroads will participate. A pure loan program would almost certainly be shunned by most, if not all of the solvent roads under present circumstances.

2. Provide a Measure of Equity As Between the Solvent and Bankrupt Railroads

Within the overall national railroad system, carriers -- solvent carriers, financially periled carriers, and bankrupt carriers -- compete with one another not simply for traffic but for profit, and, in a very real sense, for economic advantage and even survival. While acknowledging government's responsibility for ensuring the provision of vital transport services, including substantial direct financial assistance, government's programs and policies should not work to penalize the well-managed, relatively efficient, "successful" carrier vis-a-vis his bankrupt competitors. The effects of the present recession, which gives rise to both the unemployment and rail maintenance problems, fall equally heavily on all parts of the industry. In a program such as the one being considered here, Federal financial assistance should be provided evenhandedly across the entire industry.

3. The Vital Nature of the Work To Be Supported

The physical condition of the rail network bears directly on the system's overall economic effectiveness and on the safety of those who work in railroading and those who ride on trains. It is the principal determinant of the real value of a vital national transportation asset and one of the most important factors in the overall efficiency and productivity of the national economy. To put it bluntly, rail maintenance employment is about as far from "leaf raking" as you can get in terms of true social and economic value to the country.

4. The Incremental Nature of the Federally Assisted Program

The Federally assisted program will be a true net addition to what would otherwise be invested in maintaining and improving the nation's rail system. Safeguards are built into the program to ensure this. Thus, Federal grant assistance for the employment component of the program will not only reduce unemployment payments and add to the employed rolls in the railroad industry, it will also leverage very significant additional employment and economic activity among suppliers and vendors of materials and equipment.

5. The Threat of Disruptive Litigation If the Program Is Confined to the Bankrupts or Discriminates Against the Solvents in a Way to Affect the Competitive Balance

If a Federally assisted program were to benefit solely the bankrupts or were to discriminate against the solvents, the latter would almost

certainly bring suit on the grounds that they were being unfairly disadvantaged vis-a-vis their competitors. While it is believed that such suits would not ultimately prevail, in light of the clear public interest objectives involved, the hurt to the solvents would be real. Being real, they would likely elicit much sympathy from the Congress, and, perhaps, from the courts.

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March 23, 1975

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* * * * *

TPI-30
March 23, 1975

THE WHITE HOUSE
WASHINGTON

INFORMATION

March 31, 1975

MEMORANDUM FOR THE VICE PRESIDENT

FROM: JIM CANNON

SUBJECT: RAILROAD MEETING

Attached is a decision memorandum, prepared by the Office of Management and Budget, on the proposals by Secretary Coleman for a major railroad initiative. The memorandum was completed on Thursday, March 27, for use at a meeting with the President last Friday on economic matters. However, because of the absence of Secretary Coleman, the President did not take up the substantive issues involved, and instead, asked the Domestic Council to follow up on them with Coleman and OMB.

The OMB memo, which was written in coordination with Secretary Coleman, takes up three major issues:

1. Should the Federal Government pay for the interest payments incurred by railroads borrowing the $2 billion of guaranteed loans, which will be provided under legislation soon to be submitted by the Administration?

2. Should the Administration propose to bypass the ICC in certain cases involving joint use of track, mergers, etc., and require DOT approval instead?

3. Should the Administration propose a major program to reduce unemployment and help the rail industry, consisting of $3 billion over two years?

The above three decisions are needed prior to the Administration's submitting legislation which the President has already approved in concept. The approved legislation contains reform of the economic regulation of railroads and also contains $2 billion in loan guarantees to revitalize the capital assets of all the Nation's railroads.

A

MEMORANDUM FOR: The President

From: James T. Lynn

Subject: Revitalization and Job Stimulation Proposals for the Nation's Rail Freight System

Background

- The problems of the U.S. rail freight system are serious, and growing worse as a result of the recent economic slump. Current estimates indicate that the industry will show that the first quarter 1975 loss will be the largest in its history. Roughly 50% of rail track is restricted to below-normal speeds due to poor maintenance. On 15-20% of mainline track speeds are restricted to 10 miles per hour.

- Nevertheless, the rail system remains an essential national asset. It carries 38% of all freight (in ton-miles) and over 75% of all coal shipments.

- For this reason, several proposals are now being considered by the Administration which would help the freight railroads through financial assistance, reorganization, and regulatory reform. In addition to the rail passenger service programs (AMTRAK and Northeast Corridor), the freight related programs include:

  - Restructuring of Northeast bankrupt railroads (primarily Penn Central)

    ...U.S. Railway Association has completed preliminary plans; final submission to Congress by July 26.

    ...Federal cost estimated at more than $4 billion over 10 years, of which $2.6 billion is already authorized.

    ...Administration position being developed by late April.

- Rail Revitalization Act of 1975

  ...Would amend the Interstate Commerce Act, to free the railroads from excessive regulation, increase competition, and streamline ICC procedures.

  ...$2.7 billion Federal financial assistance package, which will help to rehabilitate the rail plant, create a mechanism for needed restructuring, and also provide an incentive for passage.

- Rail-oriented job support program

  ...Would stimulate employment of rail workers in maintaining and improving right-of-way

  ...$3 billion Federal cost over two years

. Attachment I provides a detailed breakout of funding for these proposals.

. In view of the serious nature of the rail problem, and mounting estimates of the cost involved, Congress is growing more receptive to Federal takeover of the rail system. For example, in the Railroad Revenue Act of 1975 (S.1143), Senators Hartke and Weicker propose that the U.S. government own and rehabilitate all mainline right-of-way. Governor Shapp of Pennsylvania argues that a Rail Trust Fund should be set up to finance such a scheme, patterned after the Interstate Highway System.

. To date the Administration has opposed both Federal ownership and operation of the rail freight system. However, the three issues discussed below, present a clear challenge to this "hands-off" policy.

. These issues are raised for a decision at this time, because DOT would like to submit its proposals on regulatory reform and rail employment to Congress as soon as possible. DOT believes that the substantive need is urgent, and political timing is attractive.

. The primary objective of the Administration is to solve the rail problem as a whole. Therefore, it is important that current decisions anticipate, and leave the flexibility for, later decisions on related issues.

- A final Administration position on the Northeast rail plan is due on April 26.

- This plan, the Rail Employment proposal, and the Rail Revitalization Act, will each have a major track rehabilitation component.

- They should therefore be designed to complement each other, and avoid duplication, especially on a geographic basis.

RAIL REVITALIZATION ACT OF 1975

On March 22 you agreed to send to Congress the Administration's rail regulatory reform bill, including a $2 billion loan guarantee financial assistance package. Subsequently, DOT has concluded that two additional provisions should be included in the bill. We request your decision on whether to include these provisions, as described below.

Issue #1: Interest Subsidies

The Act would authorize the Secretary of Transportation to pay (i.e., subsidize) some or all of the interest payments incurred by railroads in borrowing $2 billion of guaranteed loans under the Act. Provides up to $650 million through 1978. The Secretary may require applicants to use tracks and other facilities jointly or to acquire or sell assets to achieve greater system efficiency as one of the conditions for providing financial assistance. (See issue #2).

Should the provision of $650 million for interest payments be included in the Rail Revitalization Act of 1975?

Pros

- DOT believes that these funds, and associated conditions, will enable the Federal government to bring about a more rational geographic structure for the rail freight system. This would, in turn, improve the financial viability of the railroads.

- Without the $650 million interest provision, DOT anticipates that very few railroads would have sufficient incentive to participate in the loan program. This would tend to undermine the value of the loan program as a sweetener to the regulatory reform package.

- DOT believes the subsidy is necessary to deal with the railroads' serious cash flow problem.

Cons

- This would set a potentially costly precedent for other Federal loan programs, and particularly for the new rail program.

- It is not clear that this is the best way to create the desired incentive for participation. An alternative might be to relax the criteria for use of the $2 billion in loan guarantees. For instance, a portion of the funds could be made available to help pay interest·during the first few years.

- By staying within the $2 billion funding level in this way, there would be no violation of your "no new spending program" policy, whereas a $650 million add-on would require an exemption from this policy.

- The guarantee itself would provide a significant savings in the interest cost, which should in itself be an incentive for participation.

Decision

Option A: Provide interest subsidy grants ________________
(supported by DOT)

Option B: Allow loan guarantees to pay interest during first few years ____________
(supported by OMB)

Issue #2: Mergers

Permits "by-pass" of ICC authority for joint use of track, purchase/sale of assets, and mergers. Opportunity for informal public hearings provided, before DOT approval. "Least anticompetitive" options must be approved. Such joint use and mergers may be required, to qualify for financial assistance in the bill.

Pros

- Would avoid onerous and drawn out merger procedures currently imposed by ICC, and thereby permit streamlining of the rail system.

- DOT sees this as an integral feature of the financial package in the bill.

Cons

- This provision would inject DOT into a very controversial role, without a clear understanding of how it would exercise its authority, in terms of procedures or criteria for analyzing merger applications.
- Although DOT indicates labor support for this provision, shippers and local communities would oppose it because of the downgrading of service on certain lines which would result. This could jeopardize passage of the bill.
- An interagency working group is presently developing a more thorough proposal to reform rail merger laws and standards. Pending their recommendations, this proposal appears to be premature.

Decision

Option C: Permit "by-pass" of ICC merger authority _____
(supported by Coleman)

Option D: Further study to develop more complete merger laws and standards __________
(supported by Lynn)

RAIL REHABILITATION AND EMPLOYMENT PROGRAM

Issue #3: Whether to support such a proposal immediately, not at all, or subject it to further comparison with employment proposals in other areas.

DOT proposes a two-year program to assist the rail industry in expanding its maintenance program. Total $3 billion two-year authorization ($1 billion in grants, $2 billion in loans). Direct employment impact over life of program optimistically estimated at 60,000 man-years; indirect employment estimated at 105,000 man-years. Federal government would provide grants for labor cost, and income debentures for material and equipment cost. (see Attachments II and III for details).

Pros

- Aimed at two major problems: unemployment and rail deterioration. DOT believes the proposal would have a significant impact on each area. Improved roadbed is considered critical to a viable rail system.

- Funding package designed to insure maximum railroad participation. Without labor grants, DOT believes that railroads could not afford to take advantage of the program.

- Strong support for this program by rail management, labor, and Congress.

<u>Cons</u>

- Not in accord with your policy of "no new spending programs".

- If considered, should be compared with other job creating programs to determine relative employment impact.

- Need more analysis of relationship to other pending rail assistance programs, to insure coordinated approach. Need to further assess overall impact on Federal involvement with railroads.

- Direct payroll subsidy for private firms is an unprecedented practice in the U.S.; to violate this boundary between the private and public sectors could open up a host of similar proposals from other financially troubled industries.

<u>Decision</u>

Option E: Support DOT concept. Direct Secretary to prepare legislation for Executive Branch clearance. (supported by DOT) ________

Option F: Consider later in relation to other actions to stimulate the economy, and in the framework of overall approach to railroad industry. (supported by OMB) ________

Option G: Basically disagree with this proposal, and so inform the Secretary. Do not pursue further. ________

Attachments

cc: DO Records, Director, Director's Chron, Deputy Director, Mr. Scott, Mr. Bray, Return to Mr. Johanson

EGD AJohanson:vt 3/27/75

Breakout of Federal Funds for Pending Rail Freight Proposals

($ millions)

	Authorized	Under Consideration	Total
I. Northeast Rail			
. Planning and interim cash assistance	340	-	340
. Interim maintenance and improvement of plant	300	-	300
. Labor protection and branch line subsidies	430	-	430
. Financial assistance to new rail system, AMTRAK, and other connecting railroads	1,500	2,000	3,500
	2,570	2,000	4,570
II. Rail Revitalization Act*			
. Loan guarantees	-	2,000	2,000
. Interest subsidies	-	650	650
	-	2,650	2,650
III. Rail Employment*			
. Grants	-	1,000	1,000
. Loan Guarantees	-	2,000	2,000
	-	3,000	3,000
Totals	2,570	7,650	10,220

* Expected to substitute for some of Northeast rail funding requirement.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

March 21, 1975

MEMORANDUM FOR HONORABLE JAMES T. LYNN
Director of Management and Budget

SUBJECT: Stimulating Employment Through a Federally Supported Rail Rehabilitation Program

During the current economic downturn, railroad industry revenues have declined sharply as car loadings (level of freight traffic) dropped 15 percent below last year's level. This, in turn, has forced the industry to reduce substantially its maintenance efforts. The result is that the industry is experiencing both a high rate of unemployment and a more rapid deterioration of its physical plant.

The total amount of deferred maintenance in the industry is not known exactly but conservative estimates put the figure in the range of $5.5 to $7.5 billion. Even at the 1974 level of maintenance, effort, which involved the employment of 92,000 workers, the backlog of deferred maintenance was increasing annually. It is estimated that 10,000 maintenance-of-way workers have already been laid off this year and that an additional 20,000 workers may be furloughed by June 1975.

Rail's rapidly eroding physical plant may soon result in a situation where it would become a positive drag on the whole economy. The only alternatives then would be massive amounts of direct Federal assistance or Federal ownership.

We believe that the present situation constitutes a unique opportunity to undertake a Federally-assisted but industry managed effort to provide more jobs while raising the industry's currently planned level of maintenance. Such an effort would not only produce additional jobs in the railroad industry, it would also have a substantial indirect job creating effect in the supporting industries (e.g., steel, lumber, equipment, etc.). Such a program will meet urgent national needs in a vital industry while stimulating employment, and this would be far more productive than the public sector job programs. This is a view that seems to be shared by many in the Congress, as evidenced by the several bills introduced by Senator Buckley, Congressman Heinz, and others to authorize such a program. We strongly urge that the Administration develop a better program of its own as a response to Congressional initiative.

Attached to this memorandum are the specifications for such a program. In summary, this Department recommends the following:

1. A two-year program to assist the industry in expanding its planned maintenance program;

2. For railroads in reorganization under the Regional Rail Reorganization Act, Federal financial assistance would be in the form of a grant for the costs of labor, material, and equipment with a proviso that the benefits must accrue to ConRail. These funds then would simply substitute for funds which the Federal Government would be providing later to ConRail anyway;

3. For all other railroads grants would be available for the labor portion of the costs associated with the Federal assisted incremental maintenance program with loans available for the related materials and equipment;

4. The loan provisions would be in the form of income related debentures and would provide a flexible repayment scheme for both interest and principal, based on the earnings performance of the individual railroads during the repayment period;

5. The program anticipates a total authorization of $3 billion for both the grant and the loan elements, with a $1 billion effort in the first year and with $2 billion in the second year;

6. In order to ensure that the program is truly additive, i.e., over and above that which the railroads would do with their own resources, a maintenance of effort provision would be required for participation.

7. To emphasize that the program is geared basically to the current unemployment situation and is not a permanent assumption by the Federal Government of a role in normal program maintenance, a "trigger" is employed which would keep the program in effect only during periods when the national unemployment rate exceeds 6% (or some other appropriate figure);

8. Two-thirds of the funds would be apportioned among the railroads on a formula basis and one-third would be left to the discretion of the Secretary; and

9. The program envisions project approval by the Secretary.

In addition, the proposal includes $95 million to accelerate efforts to maintain and improve current passenger service on the Northeast Corridor. This effort is envisioned as a continuation of the program recently authorized as part of the Penn Central emergency legislation. The additional $95 million will not in any way preempt decisions related to the long term improvements required in the Northeast Corridor.

In total, this program should create 20,000 additional jobs in the railroad industry and 35,000 jobs in related industries during the first year. The second year job effect would be roughly double that of the first year.

I recognize that this program will have an effect on the budget but the total impact over the long run will be significantly smaller than the total dollar amount because of loan repayment and the substitution of ConRail assistance. Moreover, it is my judgment that the social dividends resulting from whatever net cost is involved will be worth the cost. It will help avert further layoffs and, indeed, should increase the employment within the industry. It will foster much needed rehabilitation and improvement in the physical facilities of the industry and ensure that the nation's rail transportation system will not deteriorate further during this economic downturn.

A viable rail transportation system is fuel efficient and is needed to ensure that the transport of bulk commodities and other resources can be efficiently executed. The program should improve the safety record of the industry. The program, itself, is temporary, but it also sets the stage for and dovetails well with the financial assistance program included in the Administration's proposed Railroad Transportation Improvement Act. Finally, we sense a great deal of interest for such a program in the Congress and, in the absence of an Administration proposal, we will undoubtedly be forced into a reactive posture.

My staff and I are prepared to discuss this proposal with you in greater detail as soon as possible.

William T. Coleman Jr.

William T. Coleman, Jr.

Attachment

ATTACHMENT
III

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

March 24, 1975

MEMORANDUM FOR HONORABLE JAMES T. LYNN
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Subject: Stimulating Employment Through a Federally Supported Rail Rehabilitation Program: Rationale for Grants to Solvent Railroads

In a memorandum of March 21 outlining the above program, we recommended that the funding of the entire program for bankrupt railroads and the labor portion of the program for solvent railroads be effected through Federal grants. The bankrupt railroads account for approximately 16% of the track miles that would be eligible for rehabilitation. The labor element of the program would be approximately one-third of the total program. Thus, in a $3 billion program, the bankrupts might be expected to receive approximately $500 million in grants and the solvent carriers approximately $800 million in grants.

In the attached memorandum we give the reasons why, in our judgment, it is desirable to fund the labor portion of the program for solvent railroads with Federal grants, rather than loans.

William T. Coleman, Jr.

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Honorable James M. Cannon

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Powerful arguments can be made that any Federal financial assistance designed to stimulate employment could be directed to no better purpose than the maintenance and rehabilitation of the nation's railroads. To realize the full potential of this opportunity, especially in light of the current state of railroad finances, a grant component (for the direct labor costs involved) in the Federal financial assistance program would be essential.

-- Federal grant assistance for at least the labor component of such a program appears critical to obtaining the participation of "solvent", albeit current money losing, railroads which constitute the bulk of the nation's rail system.

-- A Federal program of financial assistance to the railroads must treat both "solvent" and "financially distressed" (including bankrupt) railroads equitably, lest it unfairly disadvantage the former.

-- The truly vital nature of the work to be supported by this program -- affecting directly the economic efficiency of the nation's rail system as well as the safety of its operation -- must be given appropriate weight in any consideration of this proposal's merit.

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* * * * *

TPI-30
March 23, 1975