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THE WHITE HOUSE  
WASHINGTON

March 10, 1975

MEMORANDUM FOR:

WILLIAM T. COLEMAN, JR.  
WILLIAM E. SIMON  
ALAN GREENSPAN  
JAMES T. LYNN

FROM:

L. WILLIAM SEIDMAN *fw*

SUBJECT:

Task Group on Northeast Rail  
Restructuring

On February 26, 1975 the U. S. Railway Association (USRA) published its Preliminary System Plan for restructuring the bankrupt railroads in the Midwest and Northeast. This document is intended to provide a basis for public discussion of the Association's proposal, prior to submission of a Final System Plan to Congress by July 26, 1975.

It is now an appropriate time to evaluate the Preliminary System Plan and develop an Administration position on the major issues surrounding the bankrupt railroads. Toward this end, the Economic Policy Board Executive Committee has approved the establishment of an interagency Task Group composed of DOT, Treasury, CEA, OMB and EPB. Secretary Coleman will be Chairman of this group.

This group will begin to function immediately, in order to reach an Administration position by April 26. That deadline coincides with the date on which ICC must report the results of its public hearings on the Preliminary System Plan. Subsequently, the Administration position will be circulated in the Executive Branch for final comments, and officially presented to USRA on May 12. This will allow the Executive Committee of USRA's Board a month and a half to consider our position, before submitting its Final System Plan to the full USRA Board on June 26.

A broad range of questions should be addressed by the group, including, but not limited to, the following:



- . What overall criteria should the Administration use for evaluating rail freight and passenger system proposals, in terms of capacity, condition, service, private vs. public control, degree of inter-modal and intramodal competition?
- . On the basis of these criteria, what is the most appropriate system structure, and how do we get there? Some examples include:
  - Large ConRail, with certain lines sold to solvent railroads (USRA's proposal in the Preliminary System Plan).
  - A "bare-bones" ConRail, considerably smaller than USRA's proposal, and conceivably more viable.
  - "Controlled Transfer" of bankrupt railroad assets to solvent railroads (this alternative merits far more attention than USRA gave it).
- . How should deferred maintenance of plant and equipment be financed? How can the level of Federal cost and control be minimized, while maximizing the financial viability of the new system?
- . What incentives would help to assure that the restructured system works efficiently and economically? What must be done to create such incentives?
- . To what extent would railroad financial problems respond to passage of rail regulatory reform, and overall improvement in the Nation's economy?
- . How will U.S. policy toward non-rail modes influence the future rail system? For example, what would be the impact of currently proposed motor carrier regulatory reform on the railroads?

I look forward to meeting with you to deal with these important and timely issues.





THE DEPUTY SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

March 24, 1975

MEMORANDUM FOR HONORABLE WALTER D. SCOTT  
ASSOCIATE DIRECTOR, ECONOMICS & GOVERNMENT  
OFFICE OF MANAGEMENT AND BUDGET

Subject: Administration's Rail Program

In accordance with our discussions this morning, herewith the following:

- (1) Proposed inserts for the draft Presidential Message.
- (2) An analysis of rail industry problems and the principles of our program.
- (3) Position papers on the two immediate issues:
  - (a) subsidizing the interest rates on guaranteed loans; and
  - (b) the proposed rail rehabilitation and employment program.

With respect to the third issue of this morning, the rolling stock management information system, if OMB insists on deleting that provision from the RRA on the ground that it is a new money program, we will not press the issue for Presidential decision. We would suggest instead that we delete the specific authorization of \$15 million, but retain the language authorizing the program, which we would then fund under the regular DOT authorization.

Let me know if you have any suggestions or need anything more.

  
John W. Barnum

Attachments

cc: Honorable L. William Seidman  
Honorable James M. Cannon  
Honorable Michael Raoul-Duval

DRAFT: 3/24/75

Proposed Inserts for Draft Presidential Message

"The rail industry in the United States is in a deeply troubled state. Large parts of the rail plant are in a state of physical deterioration. Some rails are in bankruptcy and others are on the brink of financial collapse."

The facts are startling. Over one half of the rail track is unfit for normal operations. At any given time between 15 to 20% of a typical railroad's main line tracks is subject to slow orders limiting the maximum speed to 5 to 10 miles per hour. Deterioration of the rail plant is spreading at an accelerated rate and this is calling into question the ability of the rail industry to provide essential services.

Track deterioration delays the safe shipment of both people and goods. During the first ten months of 1974 there were nearly 7,000 train derailments, a 15% increase over the same period in 1973. The slow transit times and unreliability of service is causing the erosion of the rail industry's share of intercity traffic.

A crucial problem is the grossly inefficient use of the freight car fleet. A typical freight car moves loaded only 23 days a year. Rail cars represent over 50% of the rail industry's net capital investment. No other industry has such an inefficient utilization of its capital investment.

Rails are a vital national asset essential to the commerce and defense of the country. Today railroads are being called on to play

a key role in our energy conservation program. Railroads are a very energy-efficient means of moving freight. Moreover, if we are to achieve the goals of PROJECT INDEPENDENCE, there must be a greater use of coal. More than three quarters of all coal shipped from the U.S. mines moves by rail. PROJECT INDEPENDENCE calls for the doubling of coal production by 1985. As this goal is met, the railroads must double their coal-carrying capacity. The present financial condition of the rail industry will not permit that needed capital expansion.

Rail Industry Problems and the Principles of Our Program

The rail industry in the United States is in a deeply troubled financial and physical condition. Rate of return on investment for the industry as a whole in a "good" year (such as 1974) is less than 4%. Excluding the bankrupts, rate of return rises to only 5%. The industry will show a loss for the first quarter of 1975.

Because of its low earnings, the rail industry is unable to generate sufficient funds for an adequate program of plant maintenance and rehabilitation. Funds from outside sources are virtually unavailable. As a consequence of its perilous financial condition, the railroad industry has not been able to put sufficient funds into its plant and the rail plant is in a badly deteriorated condition. Over 50% of the rail plant is operating under so-called slow orders. During the first ten months of 1974 there were a total of 6,961 derailments, up 15% above the same period in the previous year.

The plant deterioration which characterizes the Northeast is spreading to the rest of the country at an accelerating rate. Because of inflation, a dollar's worth of improvement today will cost much more in the future. Moreover, failure to do necessary repairs now will necessitate total rebuilding of lines in the future. Despite their deteriorating condition and financial troubles, railroads remain the backbone of the nation's freight transportation system, handling about 38% of the ton-miles. In addition, the rail industry is an absolutely essential part of the solution to our environmental and energy problems. Rails themselves are an energy-efficient mode of transportation.

Moreover, rails handle over 75% of all coal movements in this country. If we are to lessen our dependence on imported oil, it is essential to have an adequate and efficient rail plant. Because of its deteriorating condition, we are reaching a point where the rail industry's ability to provide adequate service is increasingly being called into question. In addition, due to the disrepair of the rail system, much of the long-haul traffic which should be moving by rail is now moving by truck. A major rebuilding program of the rail system would move much of this long-haul traffic from less energy-efficient trucks to more energy-efficient rails.

Congress is becoming increasingly disturbed about the rail industry's problem and there is a growing feeling in Congress that the only answer lies in nationalization or creation of a Rail Trust Fund. Legislation to nationalize the railroad rights-of-way has been introduced by Senators Hartke and Weicker. Brock Adams, a leading spokesman on rail matters in the House, has publicly stated that serious consideration should be given to such a proposal. Privately, many congressmen are saying that the only solution to the rail industry problems lies in nationalization. They see themselves increasingly vulnerable to attack for not solving the problem and for having applied band-aids in the form of emergency financial assistance to deal with it. Faced with the prospect of continuing financial crises in the railroad industry and the need to pour more Federal money "down the rathole," and in the absence of a constructive alternative, Congress could seize nationalization as an easy out.

The Department of Transportation has a program which we believe will meet the railroad industry's problems with minimum Federal involvement and will assure a viable private sector rail system in the United States capable of meeting the commerce, energy and defense needs of the country. The overall program we are proposing involves:

1. Removal of a number of outmoded and inequitable regulations on railroads. Changes in the regulatory system are an essential condition to preventing future Penn Centrals and restoring the vitality of the railroad industry. They are also essential to assuring the viability of the railroad or railroads which emerge from the Northeast rail restructuring process.
2. A consolidation and restructuring of the national rail system utilizing financial incentives and a new mechanism to bypass the regulatory impediments to rail acquisitions and joint use of facilities.
3. Financial assistance to rehabilitate the essential elements of the national rail system including the Northeast.
4. Bringing the Northeast rail restructuring planning process to a successful solution consistent with the national program. This will result in a paring down and rehabilitation of the bankrupt railroads in the Northeast.
5. Recognition of the need for rail passenger service in certain corridors and the public (and congressional) demand for such service in other markets.

This program is built on a number of unifying principles. First, running through the program is the notion that railroads are a vital

national asset which are being poorly utilized. The first principle then is the essentiality of recreating a healthy, progressive rail system.

A second unifying element of the program is the recognition that rail plant deterioration is a major problem which the industry is unable to solve fully alone. The cost of rehabilitating the six bankrupt railroads in the Northeast could be as much as \$3 billion. The cost of rehabilitating a rationalized rail plant for the nation as a whole to a minimum level of adequate service is estimated at \$7-9 billion. The rail industry is simply incapable of generating either from internal or external sources all of the funds required to upgrade the plant to even minimal acceptable standards. The Regional Rail Reorganization Act, the financial assistance package of the Rail Revitalization Act, and the proposed Public Works Rail Employment Program are designed to assist the industry in rebuilding the plant to acceptable standards. We do not propose that the Federal Government should fund all of the railroad maintenance and rehabilitation expenditures. The financial assistance provided through the Revitalization Act and the Public Works proposal, coupled with the regulatory reform, will provide the foundation for the industry to become self-financing. Thus while the Federal financial assistance is only a portion of the overall expenditures required, it is a critical prerequisite for the industry to become self-financing.

The ICC is a major impediment to this disinvestment and plant rationalization. The interest subsidy and the "ICC bypass" of the

Rail Revitalization Act provide incentives for the industry to rationalize the rail plant. The Act promotes this objective by encouraging railroads to come forward with restructuring proposals, thus meeting the Administration's goal of maximum reliance on private sector initiative.

Finally, another unifying principle running through the DOT program is the need for regulatory reform. The Act is designed to remove a number of regulatory restraints on carrier management. The present regulatory system has contributed enormously to the present railroad malaise. Regulatory reform and the restructuring provided for in the Act are essential to avoid the spread of that malaise and to assure that the railroads which emerge from the Northeast restructuring process and the Rail Revitalization Act restructuring process will be able to operate as viable private sector concerns.

Rail Revitalization Act Financial Assistance Provisions

Subsidizing the Interest Rates on Guaranteed Loans

OBJECTIVE: The proposal serves a twofold objective: (1) providing the railroads access to the private capital market for funds to rehabilitate and improve the essential portions of the national rail system, and (2) incorporating an incentive to the industry to consolidate and restructure duplicate trackage, yards, terminals, and other facilities to produce over time a more efficient and rational national rail system.

ALTERNATIVE APPROACHES

Alternative #1: Provides \$2 billion in loan guarantees for obligations incurred to modernize and rationalize rail facilities. Before making a guarantee, the Secretary would have to make certain findings which would ensure that the loans were properly secured and were used to create a more efficient national rail system. The Secretary would also have to ensure that the interest rate was reasonable, taking into consideration loans of comparable risk.

Alternative #2: Federally guaranteed loans with provision that the Secretary could pay whatever part of the interest he deems appropriate, within an authorization of \$200 million per year for three years. He would be required to make findings similar to those under the loan guarantee proposal in alternative #1. Further, as a condition for receiving either a guarantee or payment of interest, the Secretary could require applicant railroads to enter into joint agreements for

tracks, terminals, and other facilities and into agreements for purchase or sale of other assets and for mergers. Such agreements would not be subject to ICC approval, but the Secretary would be required to hold a hearing before approving such an agreement. In addition, the Secretary could not approve an agreement unless it achieved the transportation objective in the least anticompetitive way.

DOT RECOMMENDED APPROACH

Alternative #2 should be chosen for the following reasons:

1. Loan guarantees without incentive interest subsidies will not be used by the rail industry. The industry simply cannot absorb any more debt; it presently has \$4.4 billion in outstanding debt with current annual interest charges of approximately \$184 million. Very shortly this debt will have to be rolled over, and there will be an increase in the interest rate. As a result, the annual interest will rise to \$440 million with no added debt. This last interest figure is approximately equal to one year's earnings for the industry.
2. Without the financial incentive provided by the interest subsidy, little consolidation and restructuring of the duplicative physical plant can be achieved. Similarly, without a bypass of the ICC, there is little prospect for such rationalization occurring. The financial package produces a means whereby the Secretary can, with financial incentives, shape the future restructuring of the industry to produce a rational and efficient system which will remain financially viable in the long term.

3. The immediate financial difficulties of the industry (probably a large deficit for calendar year 1975) dictate the need for interest subsidy. Without such subsidy, railroads will not use the financial program and we lose the opportunity to encourage and participate in the needed restructuring. Without restructuring and additional investment, the rail system will continue to deteriorate at an accelerating rate, accidents will increase, and service efficiency will decline. Interest subsidy is the minimum required to prevent further financial decline of the industry which could lead to eventual nationalization of the entire system.

4. In the absence of an interest subsidy, the loan guarantee provision will be described as useless by railroad management and labor alike.

DRAFT: 3/24/75

Rail Rehabilitation and Employment Program

OBJECTIVES: Program has a twofold purpose, (1) to stimulate employment of maintenance-of-way workers on the rail system and (2) to begin immediately to rehabilitate the nation's rail system which is in a state of accelerating deterioration.

Alternative #1: Submit immediately the rail rehabilitation and employment program without relating it to other employment proposals.

Alternative #2: Hold submission of a rail rehabilitation and employment program until we can determine (1) how it relates to (or could be used to defeat or decrease) other proposed employment programs and (2) the impact of the Federal budget deficit.

Alternative #3: Do not submit a rail rehabilitation and employment proposal.

DOT RECOMMENDED APPROACH

Submit program proposal immediately to Congress as Administration's legislative initiative for the following reasons:

1. The program initiated by the Administration is a responsible alternative to the various public works type employment programs which may be initiated by the Congress to meet the unemployment problem; in fact, the Department's proposal ties closely to similar bills introduced by Republican Congressmen recently and can serve as a rallying

point for the Administration and the Republican members of Congress in presenting an imaginative and effective approach to the unemployment problem.

2. The program will add 20,000 direct jobs and 35,000 indirect jobs to the work force during 1975, and 40,000 direct jobs and 70,000 indirect jobs during 1976.

3. Even without the national unemployment problem, there is a desperate need for an immediate program to rehabilitate the main line tracks and essential yards of the nation's rail system. The rail system is in a state of accelerating deterioration which is crippling its ability to provide essential rail services. Because of the industry's inadequate earnings, it has been unable to make needed improvements and maintenance in the rail plant. Approximately \$1.1 billion of annual catch-up maintenance is required simply to arrest further deterioration. An additional \$1 billion per year annually is required to bring the system back to efficient operating condition.

4. To fail to take action at this time simply ignores the desperate need for rail rehabilitation and the present unemployment problems, leaving the initiative to forces outside the Administration.

## FACTS

Because of Preliminary System Plan <sup>issued</sup> Feb 26  
Rail Service in Dowagiac Mich <sup>making line available</sup>  
was resumed by subsidizing ~~under~~ Title IV ~~( )~~ of the  
Regional Rail Reorganization Act. of  
1973. The Act is a 20 year program  
and is 70% Fed 30% State.

## BACKGROUND

Line between Buchanan/Dowagiac was  
divided

- (1) Portion betw/Niles & Dowagiac - included in ConRail
- (2) Freight service betw Buchanan & Niles - <sup>dependent</sup> on AMTRAK
- (3) Shippers in Dowagiac will receive freight service by rerouting routes for sorting freight. Operationally it's better overall service.
- (4) Continuation of passenger service up to AMTRAK

## SPECIAL NOTE

Prelim System Plan makes more rail mileage  
"available for subsidy" in Mich. than in any other state.  
Response of the States to subsidy program is uneven  
Proposals to change the program.



MEMORANDUM

April 3, 1975

To: James Cannon

From: Allan Schimmel *AS*

Subject: Dowagiac Rail Service

Under the Preliminary System Plan USRA issued on February 26th, rail service in Dowagiac would have been ended unless subsidized under Title IV of the Regional Rail Reorganization Act of 1973. As the Duval memo indicates, this is a 70/30 Federal/State split. The Act provides for a two year subsidy program.

At the request of shippers and Michigan DOT the line between Buchanan and Dowagiac was subsegmented. On March 14, USRA announced that the portion of the line between Niles and Dowagiac was economically viable and would be included in ConRail. Continuation of freight service between Buchanan and Niles is dependent on Amtrak taking over the line and bearing the primary rehabilitation and maintenance cost.

These factors must be taken into account:

First: This so-called Chicago-Detroit Penn Central line has not been a freight main line for several years. It has had only local freight service. Because of the location of the efficient Elkhart, Indiana classification yards, efficient operational requirements are such to make resumption of mainline freight service uneconomical.

Second: Shippers in Dowagiac will receive freight service as the result of the March 14 decision. Freight moving from Dowagiac will move to Niles, then south to Elkhart for sorting going East or West. Operationally, this will provide better service. Today, all freight moving West from Dowagiac is already going to Elkhart to be sorted. Freight going East from Dowagiac will move faster going back to Niles, then South to Elkhart. Why? Because, if it went to Kalamazoo, it would then go South to Elkhart to be sorted, taking another day.

As a result, our operations people believe that Dowagiac will have adequate rail service. They contend that the absence of service between Dowagiac and Kalamazoo will not diminish the quality of freight service being received today. In addition, service on the Kalamazoo-Dowagiac line could also be continued under the subsidy provisions of the Act. The continuation of passenger service is up to Amtrak.



In 1973, the Dowagiac-Kalamazoo line lost \$207,699.

Let me add one final thought. Regrettably, but true, the Association's Preliminary System Plan makes more rail mileage "available for subsidy" in Michigan than in any other State. Continued service on the nearly 1,250 miles of track so designated in Michigan is dependent on the State's willingness to participate in the subsidy program. Of course, the State would set its own priorities and might not choose to subsidize all of those miles. If it did, however, the total subsidy cost would be \$7,593,895. The Federal share would be \$5,315,726 - the State share, \$2,278,169.

There are proposals to change the subsidy program. The New England Caucus has suggested a 90% Federal/10% State split as well as an extension to 5 or 8 years of the program. A group of large shippers has proposed that the Federal government pick up the entire subsidy cost for the first two years and that a sliding scale of Federal support be provided thereafter. The total cost of the subsidy program for the first year is about \$40 million. Peanuts, really. It is quite true that the response of the States to the subsidy program is uneven. The States are not anxious to start funding a new program, especially since so many in the Region are "broke." One State, Ohio, has a constitutional problem. Therefore, the obvious rationale for 100% Federal subsidy for two years, according to its proponents, is to give the States additional time to step up to their responsibilities, particularly in light of the relatively "small" dollars involved.

Hope this is helpful.

P.S. A more complete description of the subsidy program is enclosed.



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P.S. A more complete description of the subsidy program is enclosed.



THE WHITE HOUSE

WASHINGTON

March 20, 1975

MEMORANDUM FOR

JIM CANNON

FROM:

MIKE DUVAL

D

SUBJECT:

RAIL SERVICE IN DOWAGIAC, MICHIGAN

This is in response to the inquiry by Herbert Phillipson, Jr.

The section of track between Dowagiac and Buchanan (20.9 miles) is part of the Chicago to Detroit line and is intersected near its middle, at Niles, Michigan, by the South Bend Secondary track between South Bend, Indiana and Benton Harbor, Michigan. (See attached map.)

Rail service in this area is covered by the United States Railway Association Preliminary System Plan, which was issued on February 26. These railroads are in bankruptcy (Penn Central plus six others) and under the applicable statutes, certain low-density, uneconomical lines should be dropped. In its Plan, USRA excluded the entire Dowagiac to Buchanan segment. Subsequently, however, they added the Dowagiac to Niles segment after rerunning the traffic numbers through their computer. As a result, the only segment that would not be included in the new railroad service (called CONRAIL) would be the segment between Niles and Michigan City via Buchanan.

This is under continued review and should the line appear profitable, it will be recommended for inclusion in CONRAIL. If Amtrak retains the route for passenger service and assumes responsibility for track maintenance, that will also result in its inclusion. If the line does not appear profitable and Amtrak does not pay for the maintenance, then under Title IV of the Regional Rail Reorganization Act, the line would be made "...available for subsidy..." by the State of Michigan. If the State elects to provide such subsidy, it can get Federal assistance up to 70 percent for two years. Thereafter, the State or the users would have to pay for the subsidy.

also  
Dowagiac-  
Kalamazoo  
is not  
included



No Train  
but service  
at present

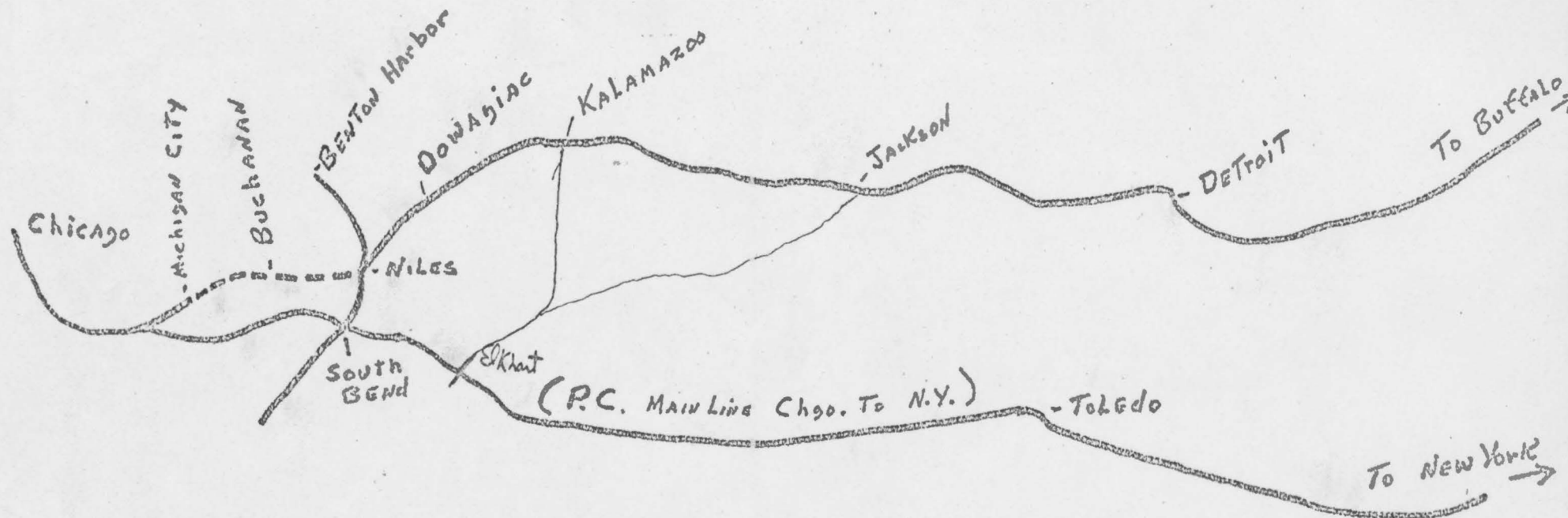
If the line is dropped, then through freight and passenger service can be routed south at Niles to South Bend (7.1 miles) to the present Penn Central main line between Chicago and New York.

The Rail Services Planning Office of the Interstate Commerce Commission has scheduled public hearings on the USRA Preliminary System Plan in Lansing, Michigan, from March 17 to 21. The hearings will be held in the City Council Chambers at City Hall.

Ultimately, of course, Congress must approve the System's Plan as a result of the process referred to above. Based on the merits of the case, I think there is a fairly good chance that the segment will be included, and thus I recommend we let the existing procedures run their course. I will keep you advised as decisions are made.



PRESENT PENN CENTRAL ROUTES



———— Included in Con. Rail  
----- Undergoing Further Analysis



The Rail Service Continuation Subsidy Program  
Title IV, Regional Rail Reorganization Act

The Interstate and Foreign Commerce Committee Report on the  
Regional Rail Reorganization Act of 1973 states:

"The Committee recognized the necessity for slimming down the system - allowing the Northeast system to throw off the excess track in an effort to become profitable. It recognized the need for safeguards for small areas, to be able to continue essential service which is not economical to the carrier. This was recognized as a social cost to be borne by the government." (House Report 93-620, pp 28-29.)

Under Title IV the means through which the "social cost borne by the government," to continue "essential service" is provided. Calling for joint Federal/State cost sharing, a mechanism is provided whereby service can, at the option of the State, be continued on light density lines not included in the restructured system.

Rail Service continuation subsidies can be used to cover the "costs of operating adequate and efficient rail service, including, where necessary improvement and maintenance of track and related facilities" (Section 402(j)). The Federal government share of the subsidy for any light density line is 70%, with State and/or local government shippers putting up the remaining 30% of the cost.

The Act (Section 401(a)) states that rail service continuation subsidies should be used where "the cost to the taxpayer of rail continuation subsidies would be less than the cost of abandonment of rail service in terms of lost jobs, energy shortage, and degradation of services."

Of the nearly 9,800 estimated miles of active lines under study it appears that 4,000 miles will be recommended for inclusion in the restructured system. This means that about 5,800 miles are available for

participation in the rail service continuation subsidy program.

The Act authorizes \$90 million for each of two years to meet the Federal share of the 70% subsidy cost. If matched completely by the State, nearly \$130 million would be available for the subsidy program.

It appears now, however, that the total cost of continuing service on all of the light density lines not included in ConRail will not exceed \$70 million. It could be lower. This means that the Federal share would not exceed \$49 million, with the States' share for the entire region standing at \$21 million.

Under the Act, the Rail Services Planning Office (RSPO) has the responsibility as outlined in Section 205(d)(4) to:

"...assist State and local and regional transportation authorities in making determinations whether to provide rail service continuation subsidies to maintain in operation particular rail properties by establishing criteria for determining whether particular rail properties are suitable for rail service continuation subsidies. Such criteria should include the following considerations: Rail properties are suitable if the cost of the required subsidy per year to the taxpayers is less than the cost of termination of rail service over such properties measured by increased fuel consumption and operational cost for alternative modes of transportation; the cost to the gross national product in terms of reduced output of goods and services; the cost of relocating or assisting through unemployment, retraining, and welfare benefits to individuals and firms adversely affected thereby, and the cost to the environment measured by damage caused by increased pollution."

The rail service continuation subsidy program is to be administered by the Department of Transportation. In order to become eligible a State must undertake to meet the requirements Congress set forth in Section 402(c) of the Act. They are:

"...(1) The State has established a State plan for rail transportation and local rail services which is administered or coordinated by a designated State agency, and such plan provides for the equitable distribution of such subsidies among State, local, and regional transportation authorities;



(2) the State agency has the authority and administrative jurisdiction to develop, promote, supervise, and support safe, adequate, and efficient rail services; employs or will employ, directly or indirectly, sufficient trained or qualified personnel; and maintains or will maintain adequate programs of investigation, research, promotion, and development with provision for public participation;

(3) the State provides satisfactory assurance that such fiscal control and fund accounting procedures will be adopted as may be necessary to assure proper disbursement of, and accounting for, Federal funds paid under this Title to the State; and

(4) the State complies with the regulations of the Secretary issued under this Section.

Under this Act, the Association does not have a role in determining which lines should be subsidized. Indeed, the needed planning and decision making process is clearly in the hands of the State. Nevertheless, the Association has taken certain steps which may provide assistance to the State and local governments.

A handbook has been prepared for use by State and local agencies which describes detailed procedures which can be used to estimate the effects of the removal of a branch line on the community so as to help it reach a conclusion as to whether or not a line should be subsidized. The manual is being distributed throughout the region.

Although Congress initially limited the subsidy program to two years, legislation may be introduced this year to extend that time period. In addition, the response from the States to the subsidy program to this point has been uneven, to say the least. Through the RSPO hearings and other comments and evaluations of the Preliminary System Plan, Congress may want to consider changes in the subsidy program to ensure that needed, but uneconomic service can be provided to fulfill the purpose of Title IV of the Act.

THE WHITE HOUSE

WASHINGTON

April 12, 1975

MEETING WITH AMERICAN RAILROADS  
ASSOCIATION BOARD OF DIRECTORS

Monday, April 14, 1975

2:00 p.m. (30 minutes)

Cabinet Room

From: Jim Cannon *Jim*

I. PURPOSE

The meeting was requested by the Railroad Association and Secretary Coleman so that the railroad presidents can brief you on the critical condition of American railroads. They will present specific recommended programs to correct the problems they face.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

On February 18, you met with two of the railroad presidents present at this meeting (Ben Biaggini, Southern Pacific, and Graham Claytor, Southern Railroad) at a meeting here in the Cabinet Room with six transportation industry leaders on the subject of your energy program.

Critical Need for the Railroads

- Most freight is transported by the railroads. The following is a breakdown for all freight in ton miles transported:

Railroads	38%
Motor carrier	23%
Inland waterways	16%
Pipelines	22%
Air	1%

- Railroads carry the following amounts of selected products produced in this country:

Lumber and wood	78%
Pulp and paper	71%
Automobiles	70%
Food	66%
Primary metals	60%

- Railroads transport 70 percent of the coal produced, utilizing 81 percent of the Nation's mainline tracks. If coal production doubles, the railroads will have to triple the ton miles of coal they carry because of increases in the need for western coal. This will involve over 90 percent of the railroad mainline network.

### Critical Problems

- Over one-half of the trackage in the country is unfit for high-speed operations. For safety reasons, trains are operating under Federal "slow orders" on nearly 50 percent of their tracks and at speeds under 10 mph for 20 percent of the tracks.
- Accidents and derailments have nearly doubled since 1967.
- Because of inefficient equipment and operating methods, a typical freight car moves loaded only 23 days a year.
- The railroads are in very bad financial condition. Eight Northeast and Midwest railroads are bankrupt (including Penn Central), the so-called Granger roads in the Plains States are in precarious financial condition; average, industry-wide rates of return are 3 percent or less; and, they just had the largest quarterly deficit in rail history. This dismal financial condition is the result of:
  - 1) Outdated government regulation
  - 2) Archaic work rules
  - 3) Government subsidies to competing modes

These have resulted in the critical problem of redundant facilities and excess competition.

### Congressional Reaction

- Senators Hartke and Weicker have introduced legislation to nationalize the railroad rights-of-way. Humphrey and Brock Adams have indicated interest in this approach.
- Senator Randolph plans to introduce a bill to provide \$1 billion to upgrade the rail rights-of-way and there are similar bills (e.g., Buckley -- \$2 billion) which have already been introduced.



### Administration Plans and Proposals

- The Regional Rail Reorganization Act is being implemented by DOT, ICC and the United States Railway Association (USRA). This is designed to salvage the Penn Central and the other bankrupt railroads.
- You will soon send to the Congress the Rail Revitalization and Energy Transportation Act of 1975. This proposal is in your FY 1976 budget and only a few details need to be resolved. It is nearly identical to legislation proposed last year which nearly passed. It contains:
  - \$2 billion in loan guarantees for streamlining and plant improvements.
  - significant regulatory reform.
- Secretary Coleman has proposed a \$1.2 billion railroad rehabilitation program. This is under active review by Domestic Council and OMB. A decision paper should be ready for you in about a week.

See Tab A for additional background provided by Secretary Coleman.

#### B. Participants

Twenty railroad presidents, comprising the Board of Directors of the American Railroads Association. Secretary Coleman will be present. See Tab B for list of participants. Secretary Coleman, Mr. Lynn & Cannon.

#### C. Press Plan

Meeting to be announced; press photo.

### III. AGENDA AND TALKING POINTS

- After thanking the railroad presidents for coming, you may wish to turn the meeting over to Secretary Coleman.
- Secretary Coleman will also welcome the railroad presidents and will then ask Ben Biaggini to present their recommendations.

Biaggini will cover the problems and potential remedies for the railroads. This will include



the costs imposed on the railroads by government regulation and policies. He will seek financial assistance, tax and regulatory reform.

- We recommend that you advise them that you will soon be sending to the Congress the Rail Revitalization and Energy Transportation Act, containing the \$2 billion in loan guarantees and regulatory reform. We recommend that you make no commitment at this time on the \$1.2 billion railroad rehabilitation program under consideration within the Administration.



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

April 11, 1975

The President  
The White House  
Washington, D. C. 20500

Dear Mr. President:

Attached in this package is material intended to help you prepare for our meeting with the 20 railroad presidents who comprise the Association of American Railroads and their president, Stephen Ailes. Included in this package are:

1. The Outline for Discussion prepared by the staff of the Association of American Railroads. Mr. Ben Biaggini, President, Southern Pacific Railroad, will talk from the points outlined here.
2. Questions intended to stimulate discussion. However, I doubt seriously that you will have to use them.
3. A backgrounder which I call "The Crisis of the Nation's Railroads" which briefly brings us up to the present time in our current initiatives.

Respectfully,

*Bill*

Attachments

OUTLINE FOR DISCUSSION OF THE PRESIDENT  
WITH THE RAILROAD PRESIDENTS  
MONDAY, APRIL 14, 1975

This discussion paper was developed by the Staff of the American Association of Railroads.

I. The railroad freight system has an important role to play in the long-term future. The basic technology remains relevant and is improving rapidly; in an unbiased economic environment, it can survive and prosper. Expansion of rail capacity to meet expanding national needs is much cheaper than is the case with trucks and water carriers. Finally, energy, environmental, safety and land use considerations strongly argue for a national policy of increased reliance on rail in the years ahead.

II. The rail system will be with us -- the issue is will it continue in private operation or will it have to be nationalized to be preserved. The costs of nationalization are so large, the administrative burdens on government are so severe, and the probability that operating efficiency would seriously decline is so great that almost everyone agrees that the system should remain as a private enterprise.

III. Railroads face one major overriding problem -- inadequate earnings. The earnings are depressed by:

A. The main burdens placed on the railroad system by the government include:

- (1) Cost of rate regulation (\$500 million per year)
- (2) Losing branch line operations (\$130 million a year)
- (3) Remaining passenger deficit (\$107 million a year)
- (4) Property taxes paid on rights-of-way (\$203 million a year)
- (5) Grade crossing costs (\$173 million a year)

(Estimated rail revenue losses -- \$1.1 billion  
per year)

B. Effects of subsidy to rail competitors

- (1) Inadequate user charges on large trucks (\$2 billion a year)
- (2) No user charges on water carriers (\$500-\$750 million a year)

(Estimated rail revenue losses -- \$2.5-\$2.75 billion per year)

IV. Inadequate earnings over a long period have meant deferral of railroad expenditures for track maintenance, new equipment and plant modernization. These deferrals, in turn, have meant a deterioration of service, a decline in the ability to compete, and a further decline in earnings -- a vicious circle.

V. Remedy --

a. Immediate

- (1) Usable financial assistance to break the vicious circle and improve plant, improve service and improve the ability to compete.
- (2) Regulatory reform - particularly in ICC rate powers.
- (3) Termination of state taxation of rights-of-way with Federal payments to states to replace revenues lost this way.
- (4) Effective abandonment machinery, except where subsidy is available to keep branch lines in operation.
- (5) Immediate initiation of independent analyses to determine extent of subsidy to rail competition, plus measures to lessen subsidy in interim -- at least to halt its increase.
- (6) More favorable Federal tax policies on investment tax credits, accelerated amortization and depreciation of existing rail grading and tunnel bores.

b. Longer Range

- (1) Correction of the competitive imbalance -- by imposition of adequate user charges or by offsetting subsidy or both.

Questions Concerning Railroads' Materials  
for Meeting With President Ford, April 14, 1975

1. The Administration proposed a regulatory reform bill in the last Congress, and the House passed a comprehensive measure. The Senate failed to act on the bill, in part, because of a lack of interest by the railroad industry. Will the railroad industry actively support the Administration in an effort for regulatory reform?
2. A request is made for "usable financial assistance" to improve plant and service. What type of assistance is usable, i.e., grants, loans, loan guarantees, deferred interest?
3. Can you detail the revisions in tax policies requested and the revenue cost to the Government?
4. To correct "competative imbalance", what are the scope and extent of user charges that should be imposed?
5. Will the railroad industry cooperate in a program to lessen unnecessary capacity in the industry through joint use of facilities and mergers?

6. Present subsidies to competing modes are for public facilities. For direct subsidies to the railroad industry, is it necessary that the government own and maintain the railroad right-of-way?
7. If Federal tax policies are made more favorable, how can we insure that the resulting monies are put into rail property investments?
8. Should user charges be designed to promote intermodal transportation services such as piggy-back services?
9. Should user charges be tied to intercity freight service such as long haul trucking and waterways services.

VI. Once, with Federal assistance, present difficulties are overcome, once the regulatory climate is made conducive to successful operation, once the competitive situation is brought in balance, the railroad system, privately owned and operated, already the world's most efficient, will play an increasingly important role in the national transportation system.



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

MEMORANDUM FOR THE PRESIDENT

SUBJECT: The Crisis of the Nation's Railroads

Mr. President, as your principal advisor on transportation matters, I feel compelled to convey to you my sense of the desperate plight of the Nation's railroads. The state of the rail industry today not only endangers any prospect of economic growth in this country but also imperils our important national objective of energy independence. There is a growing mood in Congress that the only answer to the crisis of the railroads is some form of nationalization. I believe that a private sector solution is possible -- if we move quickly. There is an urgent need for action. Therefore, I respectfully urge you to undertake a dramatic, coordinated program to revitalize the Nation's private enterprise railroad system.

The crisis of the American railroad industry presents this Administration not only with a grave problem but also with a great opportunity. If you can put into effect, Mr. President, a program to save the railroads, it will have an historic significance equal to that of any other endeavor upon the domestic scene. From a political standpoint, I believe it provides an unparalleled opportunity for the Administration to seize the initiative from Congress.

The Importance of the Railroad Industry

For more than a century the railroads have been the backbone of this Nation's transportation system. Even after years of decline, railroads still carry 38 percent of all freight (in ton miles), easily exceeding the 23 percent transported by motor carrier and the 16 percent moved via inland waterway. Railroads carry 70 percent of the automobiles produced in this country, 66 percent of the food, 78 percent of the lumber and wood, 60 percent of the chemicals, 60 percent of the

primary metal products, and 71 percent of the pulp and paper. If the Nation is to realize its economic growth potential during the remainder of the twentieth century, the railroads must be in a condition to move quickly and safely significantly increased freight volumes.

Moreover, a healthy railroad industry is crucial to the energy needs of this country. The railroads must play the predominant role in supplying the Nation with coal during the remainder of this century. The railroad industry transports 70 percent of the coal produced in this country, a task involving approximately 81 percent of its mainline network. Your Project Independence, to make the Nation self-sufficient in energy, envisions a doubling of domestic coal production by 1985. To meet this goal, railroads will be required to double their coal-carrying capacity. Actual ton miles of coal carried by rail, however, must triple due to changes in origin from eastern coal to low-sulphur western coal. This would necessitate coal shipments over 90 percent of the railroad mainline network. Greatly improved railroad service is, therefore, essential to the development and use of coal for energy. In addition, rail transportation is the most energy efficient of all the modes, both freight and passenger. With regard to freight transportation, our research indicates that railways are significantly more energy efficient than trucks, their ubiquitous competitor, or airlines, and slightly more efficient than even barge movement. As for passenger service, our research indicates that railroads, when properly utilized, are substantially more energy efficient than either autos or airlines in moving passengers and are approached in efficiency only by intercity bus. In summation, a healthy, progressive, strengthened railroad system is absolutely essential to our national objective of energy independence.

### The Problem Facing the Railroad Industry

Given the paramount importance of the railways in both the past and future of this country, it has been alarming for me, during my first month on the job, to discover the dilapidated state of the railroad industry. The facts are startling. Over one half of the present rail track in the country is unfit for high-speed operations. It is not uncommon for train operations on mainline tracks to be limited to speeds of 10 to 20 miles per hour. Accidents and derailments have nearly doubled since 1967. Because of outdated equipment and methods

and the resultant inefficiency, a typical freight car moves loaded only 23 days a year. It is becoming increasingly apparent that the rail industry, as presently constituted, will be manifestly unable either to support the traffic our economy generates or to meet the challenge of increased coal carriage which energy independence demands.

For many years now the income generated by the American railroads has been insufficient to meet the requirements of plant maintenance and rehabilitation, and with rates of return of 3 percent or less, funds from outside sources are virtually unavailable. The deferred maintenance in the industry is now estimated to range as high as \$7.5 billion. Although the problems of railroads are most severe in the Northeast and Midwest (where eight carriers are bankrupt), numerous other railroads, especially the so-called Granger roads that operate in the Plains states, are in precarious financial condition. The massive problems of the railroad industry are most recently aggravated by the largest quarterly deficit in rail history. Today the United States is confronted with the grim reality that a major breakdown of our rail freight system is a distinct possibility.

It is important that the underlying causes of the railroad problem be clearly understood. A great deal of the discussion on this subject is focused on the poor condition of mainline track and on the bankruptcies. These are symptoms but not the underlying causes of railroad difficulty. The principal factors underlying railroad difficulty are: (1) Redundant facilities and excess competition; (2) Outmoded regulation; (3) Archaic work rules; (4) Lack of capital to finance rehabilitation; and (5) Preferential treatment of other modes.

Perhaps the principal factor underlying railroad problems is the redundancy of plant and the excess competition which exists within the industry. This is especially true in the Northeast and Midwest and, as a result, these are the areas where railroad problems are the worst. There are simply more facilities of all types -- yards, mainline tracks, and branch lines -- than are required to provide economical and efficient service. In many instances, two or more railroads compete for traffic sufficient only for the survival of one carrier.

Secondly, slow and cumbersome regulatory procedures impede responses to competition and changes in market conditions and at times result in traffic being handled at non-compensatory rates. These procedures also have created a serious impediment to needed

restructuring. Regulation that was necessary when it was enacted decades ago is simply unresponsive to today's needs. This inflexibility stemming from Interstate Commerce Commission procedures and rules is a major deterrent to railroad efficiency and viability. For instance, after 12 years, the attempt to restructure the Rock Island Railroad through merger with other carriers is still incomplete.

Third, the existing work rules in the industry are a major obstacle to achievement of economic potential in the railroad system. Archaic arrangements regarding the size of the crews that man trains and providing for crew payment on an illogical basis weigh heavily upon the industry and severely limit productivity.

Fourth, lack of capital and the resultant deferred maintenance has caused widespread deterioration of mainline track and other parts of the railroads' physical plant. Clearly there is a need to rehabilitate the essential portions of the industry's physical plant -- but that rehabilitation will be effective in revitalizing the railroads only if the burdens of redundant facilities, regulatory constraints, and costly work rules are also alleviated.

Finally, there has been, over the years, preferential treatment of the other transportation modes by the Federal Government. Only the railroads (with the exception of the pipeline companies) own their own rights-of-way and have to carry the fixed charges of ownership and maintenance of this extensive plant.

### The Congressional Reaction

There is a great deal of pressure building in Congress for a solution to the railroad problem, and there is growing feeling on the Hill that the only answer lies in some form of nationalization. Faced with the prospect of continuing crises and the necessity of providing more and more Federal money, there is an understandable desire to ensure that the American public receives something in return for its heavy investment. In the absence of a constructive alternative, Congress may indeed turn to nationalization. Senators Hartke and Weicker have introduced legislation to nationalize the railroad rights-of-way, as has Senator Humphrey, and Brock Adams, a leading spokesman on rail matters in the House, has publicly stated that serious consideration should be given to such a proposal. Privately, many other Congressmen and Senators are

saying that the only solution to rail industry problems lies in nationalization. In any event, Congress has already seized upon the obvious problem of deteriorating track and roadbed as an interim means of improving the railroad situation as well as an opportunity to take the political initiative. Senator Randolph intends to introduce a bill to provide for a \$1 billion program for upgrading rail rights-of-way. Congressman Heinz and Senator Buckley have each introduced separate bills to spend \$2.5 billion and \$2.0 billion, respectively, to upgrade deteriorating trackage through employment programs.

It is highly unfortunate that Congress has been allowed to take the initiative on the railroads. It is even more unfortunate that some solutions receiving serious consideration in Congress are excessively expensive, inappropriate responses to the real problem, and bad for the country. The Congressional proposal of nationalization of the industry, or, at least, of the rights-of-way, would mean not only an injection of unnecessary Federal control into another area of our national life but also unnecessary rehabilitation and maintenance expenditures on excess railroad plant. Total physical rehabilitation of the existing rail system is not only prohibitively expensive but also undesirable. What is needed is a major rationalization of the rail facilities of the country and an elimination of redundant capacity through mergers and joint use of facilities. Only the components of a rationalized rail plant should be rehabilitated. Moreover, rehabilitation of track will be of little benefit to the railroads or to the Nation unless the other difficulties of the railroads can be overcome as well. A track rehabilitation program should only be commenced as a part of a broader program to overcome other industry problems such as regulatory restraints and work rules.

### A Program to Rebuild the Railroad Industry

The Department of Transportation has a comprehensive program which I believe will assure the United States of a viable private enterprise rail system capable of meeting the commerce and energy needs of this country. Moreover, it provides the Administration with the means of seizing the political initiative. The program involves: (1) A consolidation and streamlining of the national rail system utilizing financial incentives and relief from impediments to rail mergers and joint use of facilities; (2) Removal of a number of outmoded and inequitable regulations on railroads; (3) As an important first step to nationwide rail consolidation, the forging of a successful conclusion



to the current Northeastern rail restructuring process in a form consistent with the national program of consolidation; (4) Measures to reduce preferential treatment of competing modes and; (5) Recognition of the indispensability of rail passenger service in certain corridors and the public (and Congressional) demand for such service in other areas.

### Implementation of the Program

The cost of rehabilitating even the streamlined rail plant that I have proposed will be high. On the other hand, I am keenly aware, Mr. President, of your dedication to fiscal responsibility. Therefore, the Department of Transportation has already developed two concrete legislative proposals which will not only take great strides in furthering the program I have outlined but also be consonant with your opposition to any new spending programs.

First, we have proposed a bill called the Rail Revitalization and Energy Transportation Act of 1975 to provide \$2 billion in loan guarantees to railroads to finance the rationalization and streamlining facilities. The \$2 billion in the bill is already a part of your budget proposals, and the proposal is awaiting White House approval. As a condition of receiving assistance, the Secretary of Transportation will be able to require railroads to enter into agreements for the joint use of tracks, terminals, and other facilities and to enter into agreements for mergers to further rationalize the rail system. The proposed bill also provides significant regulatory reform by amending the Interstate Commerce Act to permit increased pricing flexibility, to expedite rate-making procedures, to outlaw anti-competitive rate bureau practices, and to improve the procedures for dealing with intrastate rates.

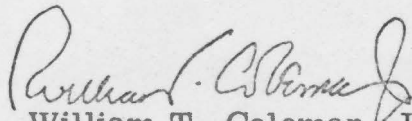
Second, I have proposed a \$1.2 billion Emergency Railroad Rehabilitation Program to attack forthwith the accelerating deterioration of the railroad physical plant. The proposal carries with it significant immediate benefits for employment in the country. The money for this bill could, as one alternative, come from rescinding \$1.2 billion of the \$9.1 billion for highways currently being impounded. As a result, it would not increase Federal funding authorizations but rather reallocate funds from lower priority to higher priority transportation programs. I believe that public reaction, except for the die-hard



supporters of expanded highway programs, would be positive. This proposal also is awaiting White House approval. The primary emphasis of the proposal is to rehabilitate and maintain mainline routes and major terminals that will be included in any restructured and streamlined railroad system. This legislation will significantly assist the Nation's energy goals by giving priority to those projects which will aid in the movement of coal.

The financial assistance provided through the proposed Rail revitalization and Energy Transportation Act and the Emergency Railroad Rehabilitation Program, coupled with the regulatory reform contained in the former, will provide the foundation for a viable private enterprise railroad industry. Moreover, these two legislative proposals will announce the Administration's determination to deal with urgent national problems even while simultaneously maintaining a commitment to fiscal responsibility. At the least, the Emergency Railroad Rehabilitation option of using highway money would put pressure on Congress to consider trade-offs rather than add-ons to the budget as the means for financing the railroad programs it is considering.

In conclusion, Mr. President, I believe that the two legislative proposals I have outlined are important initial steps in constructing a comprehensive program to save the American railroads. Of course, it is also essential that we deal appropriately with the Northeast rail restructuring problem. By the 26th of this month, the Economic Policy Board Task Group on Northeast Rail Restructuring, of which I am Chairman, will present you with its specific recommendations.

  
William T. Coleman, Jr.



hen Ailes

B. Aydelott

nk E. Barnett

rls E. Bertrand

amin F. Biaggini

S. Boyd

Graham Claytor, Jr.

P. Fishwick

ard C. Grayson

W. Ingram

is Langdon, Jr.

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gory W. Maxwell

s W. Menk

ard H. Murray

y S. Provo

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Chmn. of Board & Chief Exec. Officer, Burlington Northern Inc., 176 East Fifth St., St. Paul, Minnesota 55101

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THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

April 17, 1975

MEMORANDUM TO: Mr. James M. Cannon, Executive Director, Domestic Council

SUBJECT: Rail Legislative Initiative

In response to your request, this memorandum delineates the current status and outstanding issues regarding the Administration's rail legislative initiative.

Areas of agreement within the Administration

1. President should transmit major rail proposal in very near future to capture the initiative on this visible, pressing issue and because it is essential to both the national energy program and the health of the economy that the railroads be revitalized.
2. Legislative initiative should include both regulatory reform and financial assistance.
3. The regulatory reform proposal will include expanded rail rate flexibility, reduction in present anti-trust immunity of rail rate bureaus, and the elimination of discriminatory State taxation.
4. The financial assistance program will have a minimum of \$2B in Federal loan guarantees and will be used to stimulate rationalization of the current U. S. railroad system.
5. A direct Federal grant program to prevent further significant deterioration in the condition of key rail lines has merit.
6. Current time-consuming ICC regulatory procedures regarding rail merger and consolidations are a major obstacle to needed restructuring and a pressing need exists to obtain expedited action on rail restructuring proposals.

Questions yet to be resolved within the Administration

1. Relationship between Department of Justice and the Secretary of Transportation in the approval of rail mergers
  - Agreement exists on the need for some by-pass of ICC for restructuring proposals involving Federal financial assistance.



- DOT recommends that authority to approve such transactions be lodged in DOT and that DOT be required to consult with Justice prior to merger approval.
- Justice Department (DOJ) recommends that DOJ be given joint approval power with DOT.

2. Extent to which the \$2B loan guarantee financial assistance program will provide additional incentives to secure meaningful railroad support and participation in the program.

- Agreement exists that financial assistance package must be sufficiently attractive to gain railroad participation and the resultant system rationalization.
- To achieve this full participation, DOT recommends providing a full range of options, including subsidizing part of the loan interest rate and deferring debt service payments.
- OMB apparently believes Federal bank financing is sufficient incentive. DOT believes more flexibility is necessary and desirable.

3. Timing and financing of emergency rail rehabilitation grant program.

- DOT has proposed \$1.2B, 15-month program to help stabilize deteriorating rail roadbed, as well as to generate employment in productive tasks. Effective rail system is needed for energy transportation, particularly coal.
- To help offset budget impact of above program, DOT has proposed to rescind concurrently approximately \$1.2B in existing highway program funds.

Timing:

- OMB believes the transmittal of any such proposal should be deferred until the Administration transmits a policy recommendation regarding the PSP and the entire NE rail program. Reasons for OMB approach include their view that the proposal should be put in the context of the NE question and a full rail policy in order to maximize the effectiveness of the funds. OMB also points to the delay that may well occur anyway in Congressional enactment of the rail rehabilitation proposal.
- DOT believes a proposal is needed now to prevent adverse deterioration in rail roadbed. Given that the Administration proposal regarding the NE rail problem may well call for a



substantially reduced NE rail network -- a politically explosive issue -- we believe it would be advantageous for the President to have a positive nationwide program including rail rehabilitation grants on the Hill before submitting our proposals on the Northeast and Midwest. I believe my 4/11/75 memorandum to the President outlines the essential ingredients of a multifaceted, comprehensive approach to the national railroad problem.

Financing:

- DOT believes this program is consistent with the President's budgetary policy, given the Project Independence requirement that the railroads ~~have~~ *haul* a substantially increasing amount of coal each year.
- Furthermore, DOT believes the highway rescission approach could reduce the budget impact and show Presidential leadership in shifting budget resources from low priority to high priority activities.
- OMB believes rescission is not politically feasible and may jeopardize the Administration's highway proposal.

In view of OMB's final point, we would recommend approval of the rescission approach only after an assessment by the White House Congressional Affairs Office of whether this approach would seriously jeopardize the new highway bill.

I believe the issues have been thoroughly discussed between the Department and the Executive Office of the President, and we now need expeditious decisions to permit an Administration rail initiative to go forward in the very near future.

*Bill*

William T. Coleman, Jr.



JUNE 7, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE  
PRESS CONFERENCE  
OF  
WILLIAM MILLIKEN  
GOVERNOR, STATE OF MICHIGAN  
AND  
WILLIAM T. COLEMAN  
SECRETARY, DEPARTMENT OF TRANSPORTATION  
THE BRIEFING ROOM

*File*  
*Richards*

11:47 P.M. EDT

MR. HUSHEN: As you know, the President met this morning with Governors from the Northeast and Midwest. The meeting lasted about an hour and a half.

~~The~~ purpose of the meeting was to discuss problems of the railroads, and the meeting was requested by Governor Milliken of Michigan.

We have Secretary of Transportation Coleman and Governor Milliken here to brief you today, to give you a report on the meeting and answer your questions.

Gentlemen.

GOVERNOR MILLIKEN: We had, I felt, a very good meeting, as Mr. Hushen has said. It lasted about an hour and a half, which was a half an hour longer than we had anticipated.

There was no general agreement in the session among the Governors and with the Administration on how to deal with all of the problems, except we all agreed we had a serious problem in the question of transportation, the implementation of the Association plan, the question of the adoption of the plan or not by the Congress in July.

I indicated that I felt very strongly about the abandoned line issue. It means a great deal to Michigan and to many other States, and there was general discussion about the importance of the rehabilitation of roadbeds in the railway system throughout the country. It has a major impact, I think, on the future of the country, particularly in the light of the economic problems we have had, in the light of the energy crisis, which we have been going through and we will probably continue to face, so that there needs to be a comprehensive, overall Federal approach of some kind to deal with the problems which are faced in a very real sense by the States.

MORE

I was pleased with the President's willingness to be openminded in his approach -- the indication that he will be taking a position which has not yet fully been developed so far as the Congressional approval of the plan in July.

I was pleased with the obvious deep involvement and openmindedness of the Secretary and I felt the meeting was a very good and a very productive one, and I am hoping that we are going to be able to maintain, as I am sure we will, very close contact with the Secretary and with the President on this problem which obviously will not go away.

Mr. Secretary.

SECRETARY COLEMAN: At the request of Governor Milliken, the President met this morning with the Governors of all of the States in the Northeast and the Midwest. The only ones not there were those that from a telegram or other reasons said they could not be there. We had a free, frank and open discussion. Everyone agrees that the railroad problem is a serious problem. Everyone agrees that one of the causes is the deteriorating effect of the track and that has to be restored.

There was an exchange of ideas as to how best to bring that about and we in the Administration are going to continue to work at the problem, and we look forward to the cooperation of the Governors to see that we can reach a solution which is satisfactory and will solve the problem which is serious in this country.

Q Can you both deal with the question of where you are farthest apart, what the hangup is?

GOVERNOR MILLIKEN: I don't know at this point that we can really say that we are far apart. We recognize that it is going to take a great deal of money to rehabilitate the trackage in this country and that it is going to take a great deal of money to keep the branch lines going if, in fact, some of them should be kept going.

I fully acknowledge that we will have to abandon some lines, but I think the plan calls for much more of a wholesale abandonment than I believe is necessary or desirable. We have not agreed on how the money will be forthcoming but there was a good deal of discussion about that possibility.

I don't think it would be accurate to say that we had a total disagreement on this subject because we start with the basic premise that a vital rail system in this country is essential for the future economic development of the United States, and certainly of the individual States.

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Q Governor, did other Governors present specific proposals for solving the rail problem in addition to your own?

GOVERNOR MILLIKEN: The New England Governors specifically recommended the take-over of the rail beds and the maintenance and rehabilitation of those beds as part of an overall plan. There certainly was not support for a Government take-over of the entire system, but a recognition that this might be, and probably would be, one good way to go.

So I would say that that constituted one of the major recommendations made by the Governors, and the other one would be on the question of rail abandonment, and my specific recommendation for a two-year moratorium with a branch line abandonment and a Federal-State match for up to 10 years. That problem gives us great concern in Michigan and I think that is reflected in many of the other States.

Q Mr. Secretary, what was the reaction of the President to these two proposals?

SECRETARY COLEMAN: The President listened and he gave serious consideration to the proposals. We have some problems with the proposals. One, we doubt seriously whether the public interest is best served by Government ownership of the roadbeds and other facilities.

Secondly, we always have the problem that you have to have in any system -- where the only way you raise money is by taxes from the people -- the extent to which there can be available Federal outlays for the program. We do feel that the USRA recommendation is that there are certain lines that are low density lines and what should happen there is that the States should have two years to make up their minds whether the line is sufficiently important that the State will undertake to subsidize that line.

In the interim, as you know, the proposal is that the Federal Government will put up 70 percent of the money; the State will put up 30 percent of the money. We can understand why the Governors would indicate that perhaps two years is not enough. On the other hand, we do think it is a period of time over which you can make a significant start and determination.

We did listen to the comments of the Governors and obviously we will take them into consideration, because they were seriously presented and we were dealing with an issue that everybody agrees on the end result; namely, that the railroad service is very important in the country.

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On the other hand, I think as far as the Administration is concerned we would like to resolve the problem within the private sector context rather than to have the Federal Government going into the business of owning the roadbed. We think that presents serious problems.

Just to give you two, for example, we think then it would mean every issue of a wage increase becomes a Federal issue which would have to be resolved in the White House. We don't think that is in the public interest.

Secondly, we would say every freight increase or every charge would then become a public interest which would have to be resolved in the White House. We don't think that is a proper way. We firmly still believe when you are dealing with freight that you ought to be able to operate a service which can pay its own way and what you need are intelligent programs which will permit the rehabilitation of the line, perhaps with Federal guarantee, but that basically it should be resolved in the private sector.

I think some of the Governors felt -- some of them agreed with our position -- others said we think the situation is going to the point that perhaps the Federal Government may have to step in more, and in Government today so many problems are matters of degree that we have to engage in consideration to see what is the best way to resolve it; but the President did pay attention. He was quite concerned and he indicated and he instructed me to continue talking with the Governors and attempt to come up with a program which will best serve the interests of the American people.

Q Do you have a deadline for that program? Does the President know when you are going to have to give an answer on this?

SECRETARY COLEMAN: Well, there are varying deadlines. With respect to the Northeast, we are operating under statute enacted by the Congress which says by July 26 USRA will have to submit a plan.

As you know, the Administration has on board two of the 11 directors. We expect by June 26 we would have to indicate in executive session as to what our position finally will be.

In addition, as you know, the President has sent up the Rail Revitalization Act. We do think that if the Congress would begin to act and pass on that Act it will help the railroad situation greatly because we call for more flexibility in rate regulation.

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We do provide for \$2 billion in loan guarantee, and we also provide for elimination of discriminatory tax by the local authority on the railroads. We think those things will make a great difference in the ability of the railroad to perform satisfactorily.

Q Secretary Coleman, your statement that the President instructed you to come up with something that will have something of interest to the Governors in terms of a plan indicates that the USRA plan is at least not sufficient to carry the day; that it is going to take something else besides that.

SECRETARY COLEMAN: If you got that from my reply, I did not mean to convey that. What I said was that the USRA submitted what was a preliminary plan. The statute called for public comment and reaction by all the persons involved. The Governors, some of them, showed certain things that they thought were objectionable in the plan. The USRA will then come up with the final plan, and the Administration, likewise, is attempting to come up with a final plan. The day by which it should be done is June 26.

More important, we realize that the railroad problem is a serious problem. We realize the Governors of the States are quite concerned and we are attempting to develop programs which the Governors will support and will solve the problem. We are not saying whether the USRA plan will be tremendously changed or not.

Q Mr. Secretary, I want to make sure I understand you concerning the question of the take-over of the roadbeds. The President's position has been he is against that?

SECRETARY COLEMAN: Yes.

Q And now you use the words "seriously consider" and things like that. Has his position changed any?

SECRETARY COLEMAN: Put it this way: I know my position has not changed and I don't think the President's position has changed.

Q Can you tell us a little bit about what the public service jobs would involve there? Did you discuss that in connection with the new bill that is pending on jobs and how they would help with the roadbeds?

SECRETARY COLEMAN: My understanding -- and you may have me at a disadvantage -- is that I know of no public bill which has been sponsored by the Administration which deals specifically with making jobs available for fixing up the roadbeds.

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Q No, I am talking about the general public service jobs bill, and won't that relate to this?

SECRETARY COLEMAN: That was vetoed and it was also my understanding that even before it was passed that the Senate or the House knocked out the provision which was in the bill at one time for public service jobs directed to the railroad.

Q Now, there is a new bill coming up and what I am asking is, is there going to be some effort to put this back into the bill?

SECRETARY COLEMAN: You better go and ask the Congressmen.

Q Was that discussed at all? Did you mention these public service jobs?

SECRETARY COLEMAN: Today, one Governor did mention public service. It is the Administration's position and the position of the Department of Transportation that the railroad problem is a separate and distinct problem and it ought to be resolved in the context of dealing with the railroads, and that is what we hope we can do.

Q Governor Milliken, one of the Governors emerging from the meeting said that all but one Governor opposed the USRA plan for abandonment. Is that a correct statement?

GOVERNOR MILLIKEN: I think probably that would be correct. On the question of public service jobs, that was not a discussion today, although I had raised the point very briefly in my remarks. I would hope that it would be possible in the future to have some public service job involvement in the rehabilitation of tracks within the States and perhaps a bill coming down would embody that concept. I would support that.

Q USRA has issued a preliminary report already, Governor. What is the stance of your group regarding that report? Do you think the Administration is heading in the right direction, or not?

GOVERNOR MILLIKEN: The Administration, I think, now is in the process of evaluating that report. So far as the Association recommendation, I can say personally that it would have a very serious negative impact in the State of Michigan and I think that is reflected in a number of other States.

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The proposal is that some 22 percent of the track abandonment would occur in the State of Michigan among all the 17 States. That would have serious economic repercussions and it is on that particular point that I, this morning, commented. I think we need -- and there is some disagreement on approach here -- I think we need a two-year moratorium and I think we need the Federal match which would be up to 10 years. That would enable us to do better and sounder planning, and frankly, support further the case we think can be made in our State.

There is no question that some lines will have to be abandoned. I acknowledge that for Michigan and any other State. But I think the criteria has been wrong in that we have been pretty much guided by the element of profitability. And I think we have ignored some of the economic repercussions which would be very negative and overall would have the kind of effect which I think could be disastrous to the economy.

Q Would you comment on the burden of the Railway Revitalization Act which, itself, involves some consolidation and abandonment of rail lines? That is, the Administration's position.

GOVERNOR MILLIKEN: I would repeat again, I think there will have to be some abandonment, and in the end the plan will clearly go in that direction, but I disagree -- and it is a matter of degree -- I disagree with the Association plan insofar as its impact in our State.

Q Governor, how did the President respond to your proposal on the abandoned lines, the moratorium and the 10-year match?

GOVERNOR MILLIKEN: I can't say that he precisely responded. He certainly was open in his approach. The fact that he added another half-hour to the hour that we all were scheduled to be here was an indication of his interest, and I think his concern, and his desire in the end to make the right decision.

Q Governor, you had a statement in there. Did you spread out copies of that here? Could we have copies?

GOVERNOR MILLIKEN: It is available.

Q Could you tell us who was the one Governor who favored the USRA plan?

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SECRETARY COLEMAN: I would say the effect of that -- there were 10 Governors present and there was one Lieutenant Governor. I think it is not quite the disagreement that you perhaps may think. USRA's responsibility, given by Congress, was to develop a plan which would make a national railroad system viable. In the development of that plan they established certain criteria and said that when you have a rail line which is not a national line -- namely, going from State to State -- but is a branch line, and that the revenue from that line is much under the expenses, that that presents a separate problem.

Now all USRA said was, that that type of operation should not be in a national railroad system. That does not mean it should not be someplace else.

The Congress then said that with respect to those lines which USRA determines are not in the national system and are not profitable, but are losing money, that we think that the way to handle that problem is to say that those lines will not be part of a national system but will be part of a local system, and to give the locality time to make up its mind as to whether it will support it as a local system.

We think that the appropriate way to handle that problem is to say that for those two years the Federal Government will put up 70 percent of the money to operate the losing line and the localities will put up 30 percent.

Now as I understand the Governors, what has now come forward is really basically a criticism of what Congress did, not what USRA did, because USRA was acting within the context of the statute. Everyone agrees that those branch lines should not be part of the national system.

So what the Governors have said is, "In our judgment, we don't think two years is time enough to make that decision. Secondly, we think that within the two years instead of having a 70-30 percent match, it should be a different match." Now this just reflects the fact that the States don't have the money, but I think it is also true that the Federal Government is pushed for money so therefore there has to be discussion along this line.

But I do think that you escalate the difference in the problem too big if you think it is other than in terms of the issue of how long should someone, whether it be the Federal Government or the local government, support these losing branch lines until such point when the shippers and the localities make up a decision as to whether they will take them over completely.

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Q Governor Milliken, would you address yourself to the part of the Railway Revitalization Act that provides \$2 billion in loan guarantees to upgrade the railways as opposed to the federal ownership of rail beds or a much bigger subsidy, and does the Governors' Conference have any view on that?

GOVERNOR MILLIKEN: We did not discuss that in any great detail this morning. On the question of federal ownership of the railroad system, I think there is almost unanimous agreement that that should not come about. The President's proposal -- the \$2 billion proposal -- was discussed very briefly by him, but we were really centering our attention in our discussion this morning on the Association plan and on the proposal which will be before Congress on July 26th.

Q Mr. Secretary, I am a little confused about the July 26 and June 26. Could you straighten that out?

SECRETARY COLEMAN: The July 26th -- there is a statute which says that by July 26th USRA must submit the final plan to the Congress. It then lays over in the Congress for 60 legislative days, and at the end of that time Congress must vote the approval of the plan, or reject it. Now the June date comes about because to get the plan submitted to the Congress by the 26th of July, the Executive Committee of USRA will have a meeting -- and on that Executive Committee there is at least one or two members of the Administration -- and assuming that a vote is called for as to whether the final plan as revised, after the hearings on the preliminary plan, will be submitted to the Congress, at that time the Administration people will take a position.

MR. BARNUM: The statute specifically requires 30 days before the July 26 date the Executive Committee of USRA shall submit to the Board of Directors of USRA and to the ICC its proposal, namely the Executive Committee's proposal for the final system plan.

Q So the President has to make up his mind by the 26th of this month as to which direction he wants the Administration people to go?

MR. BARNUM: That is correct, and there is one member of the Administration, the Secretary of Transportation, who is a member of the Executive Committee of the United States Railway Association.

Q Mr. Secretary, did I understand you correctly? A moment ago you said you have not changed your position and as far as you know the President has not changed his. Is that on the abandonment issue?

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SECRETARY COLEMAN: I thought the issue I was asked about was as to whether it is in the public interest to have public ownership of the railroads, and on that I think all the Governors are in agreement; that there ought not to be public ownership of the entire railroad system. There are some people that talk in terms of public ownership of the roadbed, and it is my position that that is not in the public interest, and I think that is also the position of the President. I say that only because I think the President speaks for himself.

Q How about your position on the abandonment issue? Do you have one? As far as whether this idea of the two-year moratorium is good or whether it is bad?

SECRETARY COLEMAN: I have heard the argument, and I always listen to the argument. I think that I would rather reserve judgment although my initial reaction is I think it is probably better to start off with the two-year period and see whether the job can't be done in two years. I guess I still suffer from the fact that I came out of the background of a practicing lawyer where, if you knew you had to go to Court in the next year, you got something done. When the Judge says, "Oh, Gee, you have two years," then you really got nothing done.

I think you really have to come to the basic issue as to how you handle losing lines which are not part of a national system. I don't think it is in the public interest to handle that permanently by having a massive federal subsidy. On the other hand, I think it does require a lot of concern in the localities -- it is in keeping with the Administration's position in other areas -- that when you are dealing with something that affects the localities it is the locality that has to make the determination, and they have to make the judgment consistent with their ability to raise the money.

Now that does not mean that in a program -- as we have some time other places -- at times we do give some federal help. But basically when you are dealing with something which is not national in scope but is limited to a community, affects their economic welfare, I think basically the government should leave that to the locality. That does not mean there may not be instances where it is in the national interest to support it, and that is what I think the debate is about.

Q Will you tell us why neither New York nor Ohio were represented at the meeting?

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SECRETARY COLEMAN: I think you better check with them. As far as the Governor of New York, he sent a telegram. As you know New York City, the State of New York, has some serious budget problems, and that is the reason why I think Governor Carey was not there. There was another Governor that was not there, I know, because he had a death in the immediate family. There was a third Governor -- the Governor from Massachusetts was not there because he has an active session of the legislature, but he did send the Lieutenant Governor.

Q Can you tell us what the Governor's telegram said?

SECRETARY COLEMAN: Which one?

Q Carey.

SECRETARY COLEMAN: I have not seen the telegram, but I was informed he was not there and he did send a telegram.

GOVERNOR MILLIKEN: I did not know he did, but I am sure it was a friendly one.

SECRETARY COLEMAN: It was a friendly one. He indicated he had problems in New York, and with all due respect, he could not get down here today. He would have liked very much to have been here.

THE PRESS: Thank you.

END

(AT 12:10 P.M. EDT)

THE WHITE HOUSE

WASHINGTON

June 17, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR

PHIL BUCHEN

THROUGH:

JIM CANNON

FROM:

MIKE DUVAL

SUBJECT:

FEDERAL RAILROAD ADMINISTRATION,  
SOLE SOURCE CONTRACT MATTER

I received a call today (6:00 p.m.) from a lobbyist I know in town, concerning some sole source contracts let by the Federal Railroad Administration. He advised me that FRA has given four sole source contracts to a Virginia firm called ENSCO Company, totalling \$7 million.

The company was supposed to develop "track geometry instrumentation" to gather data for a computer when a train rides over the tracks. It is designed to indicate when, where and what repairs are needed. According to my caller, the company has failed on all four contracts.

I was also advised that the Administrator of FRA, Ace Hall, has decided today to award a fifth contract to ENSCO Company, again on a sole source basis.

According to the lobbyist, Senator Howard Baker has been strongly pushing ENSCO with FRA because of his close relationship with the company President. A competitor is expected to file complaint concerning the fifth contract with GAO tomorrow.

I was asked by the lobbyist if I would alert Ace Hall to the above information so that an embarrassing situation could be avoided. I told him that I would not pass on any information concerning a specific contract to the agency involved, but rather would pass it to the Counsel's Office here at the White House for whatever action they deemed appropriate.

COMMENT: I know Ace Hall well personally and have the highest regard for his integrity and competence.