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10AM - Presidential Meeting with
Northeast and Midwest Governors
(Railroads) - Cabinet Room
(60 minutes)
Saturday, June 7, 1975



THE WHITE HOUSE

WASHINGTON

June 6, 1975

MEETING WITH NORTHEAST AND MIDWEST GOVERNORS

Saturday, June 7, 1975
10:00 a.m. (60 minutes)
The Cabinet Room

From: Jim Cannon

I. PURPOSE

This meeting was requested by Governor Milliken to discuss with you the problems and proposed solutions concerning bankrupt railroads in the Northeast and Midwest.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. Background: Eight railroads, including the Penn Central, in seventeen Northeast and Midwest States are bankrupt. (See Tab B for list of States and railroads involved.)

These railroads are being reorganized pursuant to special legislation, the Regional Rail Reorganization Act of 1973. Under this Act, a quasi-government corporation, the United States Railway Association, has been formed. USRA has issued a plan to reorganize the railroads, which will be sent to the Congress on June 26.

You have recently taken action to help all the railroads of the country by submitting to Congress on May 19, your proposed Railroad Revitalization Act of 1975. This Act would remove unnecessary regulatory restraints on the railroads (a key to any ultimate solution in the Northeast, as well as other areas of the country) and would provide \$2 billion in loan guarantee authority which would be available to any railroad.

On April 12, you met with twenty railroad presidents.

Next week, you will be meeting with the Economic Policy Board to discuss the Administration's position concerning the bankrupt Northeast and Midwest railroads.

The following are the major positions which are likely to be discussed at today's meeting with the governors:

- USRA Final System Plan - This Plan, known as "Three Carriers East", envisions the creation of a Federally assisted new railroad called ConRail (which would be made up of 90% of the existing bankrupt railroads) in competition with two other private solvent railroads (perhaps the Chessie and Norfolk & Western which would receive the remaining 10% of the bankrupt railroad properties).

Preliminary work by the Economic Policy Board Task Force, chaired by Secretary Coleman, indicates that such a plan would require about \$4 billion in loan guarantees or \$1.6 billion in direct grants between now and 1985. Even with this level of Federal involvement, ConRail will not be financially viable at any foreseeable time in the future.

- Control Transfer - The EPB Task Force has considered, as an alternative, transferring the properties of all the bankrupt railroads to existing solvent railroads. Although this will require the same near-term Federal financial assistance as the USRA Plan, it is more likely to result in a financially viable private railroad. There are, however, difficulties with this approach, including the need for new legislation. An analysis of these alternatives will be presented to you by the EPB next week.
- Governor Milliken Plan - In a press release, Governor Milliken has proposed a two-year moratorium on any restructuring. He also proposes that \$8 million be spent to upgrade the tracks by using public service jobs, funded under Title X of the Emergency Jobs and Unemployment Act of 1974.
- Governor Salmon Plan - (Chairman of New England Governors' Conference) - This Plan is designed to avoid the USRA proposal to abandon 7,000 miles of "excess" track (about 30% of total). It envisions a "national commitment" to acquire the rail rights-of-way, refurbish them and then lease them back to the railroads. It would be funded by imposing additional tax on all fuels.

This is essentially the same as a proposal considered by the USRA Board of Directors and several in Congress, called "ConFac". Secretary Coleman and many others in the Administration strongly oppose this as really being no solution at all and tending to encourage continuation of existing uneconomic operations.

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This Plan is criticized by many in the Administration as being useless without the regulatory reform you have proposed to Congress, and containing all the objections normally associated with trust fund financing.

See Tab A for a summary of the views of several of the governors attending today's meeting.

See Tab C for a memorandum to you from Secretary Coleman and its attached press clippings concerning today's meeting and a copy of a briefing book which the Secretary will distribute to each governor.

- B. Participants: See list of governors at Tab A.

The following are attending for the Administration:

Secretary Coleman
Deputy Secretary John Barnum
Jim Cannon
Bill Seidman
Alan Greenspan
Jim Lynn
Mike Duval
Jim Falk

- C. Press Plan: Meeting has been announced, there will be a press photograph, and Secretary Coleman and Governor Milliken are scheduled to brief afterwards.

III. AGENDA AND TALKING POINTS

- THE PRESIDENT: I very much appreciate all of you coming down here, at the suggestion of Governor Milliken, to meet with me and my principal advisers concerning the very serious bankrupt railroads situation.

The railroads are absolutely vital to the economic well-being of the Nation, and I fully recognize that their health must be restored. The railroads carry more freight (38% of ton-miles transported) than any other carriers, and they will have a critical role in our efforts to achieve energy independence. The railroads transport 70% of the coal produced, and if coal production doubles in accordance with my energy goals, the railroads will have to triple the ton-miles of coal they carry because of increases in the need for western coal.

In recognition of the national problem we have concerning railroads, I submitted to Congress on May 19, the Rail Revitalization Act of 1975, which will remove unnecessary regulatory restraints and provide \$2 billion in loan guarantee authority.

Passage of this regulatory reform will be critical to any solution concerning the bankrupt railroads in the seventeen Northeast and Midwest States. However, there are additional and very serious problems concerning these railroads. We will soon be making our position known to the Congress concerning the Plan presented by the United States Railway Association, and I'd like to hear your views before we reach our final conclusions.

Bill (Milliken), I understand you have some introductory remarks.

- GOVERNOR MILLIKEN: [The Governor will briefly cover their concerns about proposals to abandon "light density" track and the various alternatives being considered by the governors.]
- THE PRESIDENT: [If appropriate, Secretary Coleman is prepared to respond to Governor Milliken's opening comments.]

I'd like to hear from the other governors. Bill, why don't we follow whatever order you have worked out.

- GOVERNOR MILLIKEN will call on the other governors.
- THE PRESIDENT: I appreciate hearing your views and I will carefully consider them as we make our final decisions concerning the bankrupt railroads. I hope you will give me your support in passing my proposed Railroad Revitalization Act. Regardless of what decisions we make concerning the financial condition of the bankrupt railroads, it is clear that ultimate success for all the railroads must be predicated on reform of these economic regulations.

Tab A

PARTICIPANTS

GOVERNORS

Honorable William Milliken (R) , Michigan
Honorable Otis R. Bowen (R) , Indiana
Honorable Ella Grasso (D) , Connecticut
Honorable Marvin Mandel (D) , Maryland
Honorable Mills E. Godwin (R) , Virginia
Honorable Milton Shapp (D) , Pennsylvania
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NOTE: Other Governors in the bankrupt railroad region were invited,
but are unable to attend.

STATE BY STATE SUMMARY

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- His concerns are related in large part to branch lines to be abandoned or declared available for subsidy and a concern that Michigan is being disproportionately affected. He stated that "although there are 17 States in the affected region, Michigan has been asked to bear 22 percent of the total mileage to be subsidized or abandoned."
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- Connecticut - Governor Grasso is concerned about light density lines, freight flows through Connecticut, and the specific impact of prospective abandonments in Eastern Connecticut.
- Maryland - Governor Mandel is very concerned about the future of rail service on the Delaware Peninsula. What Maryland, Virginia and Delaware want is the acquisition of track in Delaware and Maryland as well as the Cape Charles Ferry between Maryland and Virginia by the Southern Railroad.
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Maine - Maine does not have any track of the seven bankrupt railroads that are USRA's responsibility. The Governor is concerned about competitive rail service out of New England.

The New England Regional Commission and Congressional Caucus are supporting a proposal that calls for Government ownership and rehabilitation of railroad right-of-way. We understand that Longley of Maine and Thomson of New Hampshire do not completely support the New England position.

The Administration has clearly stated its opposition to this approach. The USRA Board of Directors has stated it will not recommend it in the Final System Plan. There is, nevertheless, considerable Congressional interest in this approach. Congressman Joe Skubitz, ranking Republican on the Transportation Subcommittee of the House Interstate Foreign Commerce Committee made this abundantly clear during hearings held recently by that Subcommittee.

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Tab B

NORTHEAST AND MIDWEST STATES

Maine
Vermont
New Hampshire
Massachusetts
Rhode Island
Connecticut
New York
New Jersey
Pennsylvania
Delaware
Maryland
Virginia
West Virginia
Ohio
Michigan
Indiana
Illinois
District of Columbia

BANKRUPT RAILROADS UNDER
RAIL REORGANIZATION ACT

Ann Arbor
Central of New Jersey
Erie Lackawanna
Lehigh & Hudson River
Lehigh Valley
Penn Central
Reading

Other bankrupt railroad in
region, but not being reor-
ganized under the Regional
Rail Reorganization Act:

Boston and Maine

Tab C



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

5 JUN 1975

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

Dear Mr. President:

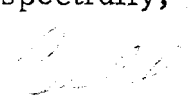
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Respectfully,


William T. Coleman, Jr.

Enclosures

June 5, 1975

Washington Star

Governors Have Rail Plan for NE

MONTPELIER, Vt. (UPI) — The New England
mendations" which call for
abandonment of 7,000 miles

The Post

New England Governors Set Rail Plan

MONTPELIER, Vt., June

June 3, 1975

Washington Star

Rep. Adams Asks U.S. Takeover Of N.E. Tracks

and Chessie System Inc. government-created, privately owned Consolidated Rail Corp. (Conrail).

The three-system plan would so that Conrail would be controlled by shippers, not by the government. The plan would also place the Northeast at the mercy of a monopoly, already has...

June 2, 1975

Wall Street Journal

N&W Head Says Sale of Northeast Lines To Profitable Roads Won't Solve Crisis

By a WALL STREET JOURNAL Staff Reporter

ROANOKE, Va. — The federal govern- He Doesn't See How

track repair.

years.)

Seeks

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two ad

June 1, 1975
Washington Star

Business Profile

He Tackles Rail Woe

By Stephen M. Aug
Washington Star Staff Writer

Fishwick said, though, that "the one thing we would be interested in

May 30, 1975

Washington Post

Chessie Expresses Interest in Acquiring At Least Half of Northeast Lines' Track

By ALBERT R. KARR

lowed to balance its mainly summer-service
U.S. operation by merging with a domesti

May 30, 1975

Wall Street Journal

3-System Rail Reorganization Approved

USRA Votes For Proposal Made Earlier

By William H. Jones
Washington Post Staff Writer

transportation of General Mills and a spokesman for large shippers.

Although the basic preliminary system plan won renewed support yesterday, the rail association's board did emphasize—for the first time in a public statement—that U.S. taxpayers will

tail on a one-system rail monopoly for the region, which has been favored by some members of Congress as the only way to guarantee economic success for the currently rundown rail network.

In addition, the board said

"We are hopeful of reaching quick agreement with USRA on the specific terms and conditions required to carry out the three-system concept," Watkins said. "We continue to believe that this is the only plan that conforms to the Congressional mandate to create a fi-

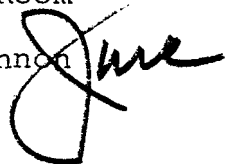
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BANKRUPT RAILROADS UNDER
RAIL REORGANIZATION ACT

Ann Arbor
Central of New Jersey
Erie Lackawanna
Lehigh & Hudson River
Lehigh Valley
Penn Central
Reading

Other bankrupt railroad in
region, but not being reor-
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Rail Reorganization Act:

Boston and Maine



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WASHINGTON, D.C. 20590

5 JUN 1975

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William T. Coleman, Jr.

Enclosures

[6/7/75]

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WASHINGTON

MANDEL

DUVAL

LUCEY

SHAPP

GREENSPAN

GODWIN

BARNUM

BYRNE

COLEMAN

MILLIKEN

PRESIDENT

GRASSO

CANNON

BOWEN

SEIDMAN

LOW SALMON

LYNN

LONGLEY

FALK

WALKER

O'NEILL