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THE WHITE HOUSE
WASHINGTON

January 6, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JAMES T. LYNN
FROM: JAMES E. CONNOR *JEB*
SUBJECT: Proposed Changes to Administration
Position on Omnibus Rail Bill
Financial Provisions

The President reviewed your memorandum of January 2 on the above subject and made the following decisions:

ConRail

The Administration's bill set aside \$250 million to be used for purchase of ConRail securities only under special adverse conditions. S. 2718 eliminates this contingency reserve, and simply merges it with other ConRail funding.

Decision: Approve elimination of contingency fund, provided we get control.

S. 2718 provides \$200 million in loan guarantees for electrification of ConRail mainlines. We recommend that this be deleted as a separate funding category, since this type of project is eligible under the rail freight assistance described later.

Decision: Approve deletion of this provision.

\$400 million in loan guarantees is provided for certain preconveyance expenses accruing to ConRail (such as labor and shipper claims). Estimates indicate that \$235 million would be sufficient for this purpose, and we therefore recommend this level.

Decision: Approve authorization at \$235 million.

Rail Passenger

S. 2718 provides \$2.6 billion for upgrading, acquiring, and managing this corridor, as opposed to the Administration's \$1.2 billion proposal. . . . By compromising at a level of between \$1.4 and \$1.7 billion and concentrating on speed-related improvements only, a program could be developed which compares favorably to the speeds cited in the initial target cited in the conference report.

Decision: Approve compromise of between \$1.4-1.7 billion.

Passenger improvements nationwide - \$200 million is provided for the vague purpose of improving intercity rail passenger service outside the Northeast Corridor. This directly conflicts with our AMTRAK policy, and we recommend that it be deleted. Nevertheless, Senator Pearson and Congressman Skubitz, who are valuable allies on other issues, strongly support this provision.

Decision: Disapprove, and include \$200 million.

Acquisition of passenger lines - Congressmen Rooney and Tip O'Neill insisted that \$20 million be provided for AMTRAK to acquire and improve line segments such as Philadelphia-Harrisburg and New Haven-Springfield-Boston. We recommend that, to attain negotiating leverage, this \$20 million be accepted.

Decision: Approve add-on of \$20 million.

Nationwide Rail Freight

The Administration's proposal included \$2 billion in loan guarantees to assist railroads nationwide, in making improvements to track equipment and other facilities. S. 2718 reduces this to \$800 million. In view of the estimated level of need for such assistance, and the minimal expected outlay impact, we recommend raising the loan guarantee total to \$1.3-1.4 billion.

Decision: Approve increase to \$1.3-1.4 billion

S. 2718 introduces \$600 million in complex low-interest balloon-type securities called "redeemable preference shares" as a supplement to the loan guarantees described above. We recommend deleting this provision, and substituting a more conventional and flexible package

of direct loans and grants, in the range of \$500-600 million.

Decision: Approve use of Controlled Transfer funds for a wider range of purposes, and raise level to \$500-600 million.

Continuation Subsidies

A new \$400 million funding program is included in S. 2718 to assist state and local interests throughout the country to subsidize, acquire, and modernize branchlines which would otherwise be abandoned.

Decision: Approve branchline subsidies at \$400 million.

Special grants of \$81 million are provided for turning abandoned rail rights-of-way into recreation facilities, and for preserving rail lines to coal fields.

Decision: Approve deletion, and merger with branchline subsidies.

\$125 million is authorized for special commuter rail subsidies, following the startup of ConRail. We recommend that this item be deleted because this function should be included under the \$11.8 billion already authorized in the Mass Transit Act, but the transit industry is fighting hard for an increase.

Decision: Approve inclusion of \$125 million within authorized UMTA funds.

Other Funding Issues

\$29 million in multi-year funds is included for administrative expenses, associated with the above programs. We have no objection to these authorizations, since they are controllable through normal appropriations process.

Decision: Approve authorization of \$29 million.

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE

WASHINGTON

January 6, 1976

MR PRESIDENT:

OMB indicates that John Barnum is testifying today and tomorrow on the Rail Bill and that he will need some Presidential guidance. The attached memorandum has been staffed to Messrs. Buchen, Marsh, Hartmann, Seidman, Friedersdorf and Greenspan. Comments have been received from Messrs. Buchen (Schmults), Seidman and Friedersdorf and they all concur with the recommendation of DOT, OMB and Domestic Council.

We have not yet received comments from Alan Greenspan, Jack Marsh and Bob Hartmann. You might wish however to give some guidance on which John Barnum could base his testimony for tomorrow.

Jim Connor



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 2 1976

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JAMES T. LYNN and WILLIAM T. COLEMAN

SUBJECT:

Proposed Changes to Administration
Position on Omnibus Rail Bill
Financial Provisions

Background

S. 2718 was passed by both houses of Congress on December 19, in spite of strong Administration veto threats. A few days later, Senate leadership decided not to enroll the bill, presumably to avoid a veto, and indicated a willingness to pursue a compromise with the Administration. Consequently, House and Senate members and staff are scheduled to begin negotiations with DOT officials on January 2. If an agreement can be reached, implementing amendments would be introduced for joint resolution shortly after recess.

There are two areas of major disagreement which must be resolved, if a veto threat is to be averted. The first concerns our ability to control and protect the massive Federal investments being contemplated. S. 2718 would place control of funding for both ConRail and the Northeast Corridor project in the U.S. Railway Association, which is not part of the executive branch. Secondly, the level and mix of funding is presently unacceptable. This matter is discussed in the following section. Failure to reach a workable compromise in either of these areas would be clear grounds for veto.

In addition, your advisors are currently discussing whether to explore certain changes in the regulatory provisions of S. 2718 with the committees. While the legislation does contain major regulatory reform, shortfalls in some areas (railroad rate bureau price fixing activities) may warrant further attention.

Overall Funding Level Issue

As shown in the attached table, S. 2718 contains \$7.6 billion in new authorizations, compared with the Administration's original proposal of \$5.6 billion. The current over-run of \$2.0 billion is clearly

excessive, and we have publicly identified this as a major basis for veto. However, in the interest of reaching a quick accord on this urgent legislation, we recommend compromising in the range of \$6.0-6.5 billion. Assuming full funding at the higher figure, this could lead to an increase above 1977 outlay estimates, somewhere in the range of \$0-160 million. Fortunately the potential add-ons are relatively controllable by the executive branch, and are longer-range efforts which can be stretched through the appropriation process and management controls.

Individual Funding Issues to be Negotiated

Specific changes from our current base are proposed in the funding programs described below. Note that the excessive level of overall funding obscures the fact that some areas are too low (e.g., nationwide rail freight rehabilitation), while others are too high (e.g., Northeast Corridor passenger improvements).

On the following issues there is complete agreement among DOT, OMB and the Domestic Council on the proposed recommendation.

ConRail

- . The Administration's bill set aside \$250 million to be used for purchase of ConRail securities only under special adverse conditions. S. 2718 eliminates this contingency reserve, and simply merges it with other ConRail funding. While we would prefer to keep it separate, we would be willing to concede this point if control over all ConRail funding were given to the executive branch.

Decision

Approve elimination of contingency fund, provided
we get control
Disapprove, and keep separate

- . S. 2718 provides \$200 million in loan guarantees for electrification of ConRail mainlines. We recommend that this be deleted as a separate funding category, since this type of project is eligible under the rail freight assistance described later.

Decision

Approve deletion of this provision
Disapprove, and include provision

- . \$400 million in loan guarantees is provided for certain preconveyance expenses accruing to ConRail (such as labor and shipper claims). Estimates indicate that \$235 million would be sufficient for this purpose, and we therefore recommend this level. Since ConRail will, in turn, have a legal claim against the bankrupt estates for this amount, no outlay impact is expected.

Decision

Approve authorization at \$235 million
Disapprove, and provide no authorization for
this purpose

MC7

Rail Passenger

- . Northeast Corridor - Senators Hartke, Pastore and Weicker are strong advocates of a very high-speed system in the Boston-Washington corridor. S. 2718 provides \$2.6 billion for upgrading, acquiring, and managing this corridor, as opposed to the Administration's \$1.2 billion proposal. The difference is mainly one of trip time targets. The conference report set initial trip time goals of 2 hours, 45 minutes Washington-New York, and 3 hours, 30 minutes New York-Boston, a reduction of 15 minutes and 20 minutes, respectively, from the Administration's program. The bill cites as an eventual goal even further trip time reductions which would require amounts far in excess of the \$2.6 billion provided. By compromising at a level of between \$1.4 and \$1.7 billion and concentrating on speed-related improvements only, a program could be developed which compares favorably to the speeds cited in the initial target cited in the conference report. In exchange, the Administration would gain control over these funds and reduce the authorization by \$700-\$1 billion.

Decision

Approve compromise of between \$1.4-1.7 billion
Disapprove, and remain at \$1.2 billion

MC7

- . Passenger improvements nationwide - \$200 million is provided for the vague purpose of improving intercity rail passenger service outside the Northeast Corridor. This directly conflicts with our AMTRAK policy, and we recommend that it be deleted. Nevertheless, Senator Pearson and Congressman Skubitz, who are valuable allies on other issues, strongly support this provision.

Decision

Approve deletion of this item
Disapprove, and include \$200 million

MC7

- . Acquisition of passenger lines - Congressmen Rooney and Tip O'Neill insisted that \$20 million be provided for AMTRAK to acquire and improve line segments such as Philadelphia-Harrisburg and New Haven-Springfield-Boston. We recommend that, to attain negotiating leverage, this \$20 million be accepted.

Decision

Approve add-on of \$20 million
Disapprove, and delete provision

RR 7

Nationwide Rail Freight

- . The Administration's proposal included \$2 billion in loan guarantees to assist railroads nationwide, in making improvements to track, equipment and other facilities. S. 2718 reduces this to \$800 million. In view of the estimated level of need for such assistance, and the minimal expected outlay impact, we recommend raising the loan guarantee total to \$1.3-1.4 billion.

Decision

Approve increase to \$1.3-1.4 billion
Disapprove, and stay at \$800 million

RR 7

- . S. 2718 introduces \$600 million in complex, low-interest balloon-type securities called "redeemable preference shares" as a supplement to the loan guarantees described above. We recommend deleting this provision, and substituting a more conventional and flexible package of direct loans and grants, in the range of \$500-600 million. Our figures already include \$400 million in grants to facilitate Controlled Transfer of ConRail assets, but S. 2718 does not include such funds. Thus, by expanding the scope of our Controlled Transfer funds to cover other rail freight purposes, we can propose to achieve the same purposes as S. 2718 with a relatively small increase in authorizations.

Decision

Approve use of Controlled Transfer funds
for a wider range of purposes, and
raise level to \$500-600 million
Disapprove, and limit funding to loan
guarantees

RR 7

Continuation Subsidies

- . A new \$400 million funding program is included in S. 2718, to assist

state and local interests throughout the country to subsidize, acquire, and modernize branchlines which would otherwise be abandoned. We believe that this would help to remove the burden of uneconomic lines from the rail industry. Although the authorization level is somewhat inflated, these funds are relatively controllable and slow-spending. As a bargaining tool, we would propose agreement to the \$400 million level, in return for concessions elsewhere.

Decision

Approve branchline subsidies at \$400 million
Disapprove, and delete this provision

NA 4

- Special grants of \$81 million are provided for turning abandoned rail rights-of-way into recreation facilities, and for preserving rail lines to coal fields. We recommend deletion of these special categories, in return for making these functions eligible under the \$400 million branchline subsidy program.

Decision

Approve deletion, and merger with branchline subsidies
Disapprove, and include \$81 million

NA 7

- \$125 million is authorized for special commuter rail subsidies, following the startup of ConRail. We recommend that this item be deleted because this function should be included under the \$11.8 billion already authorized in the Mass Transit Act, but the transit industry is fighting hard for an increase. Only two states would benefit (Pennsylvania and New Jersey).

Decision

Approve inclusion of \$125 million within authorized UMTA funds
Disapprove, and add \$125 million in new funds

NA 4

Other Funding Issues

- Controlled Transfer funds of \$400 million, supported by the Administration, are not included in S. 2718. See "Nationwide Freight" discussion for recommendation.
- \$29 million in multi-year funds is included for administrative expenses, associated with the above programs. We have no objection to these authorizations, since they are controllable through the normal appropriations process.

Decision

Approve authorization of \$29 million
Disapprove, and delete funding

ME7

Attachment

COMPARISON OF NEW AUTHORIZATIONS FOR RAIL FUNDING
(Dollars in Millions)

	<u>Administration Position</u>		<u>S. 2718</u>
	<u>Base</u>	<u>Revised</u>	
I. <u>ConRail</u>			
. Purchase of Securities	\$1,850	\$2,100	\$2,100
. Contingency	250	---	---
. Electrification (loan guarantees)	---	---	(200)
. Pre-conveyance claims (loop guarantees)	---	(235)	(400)
II. <u>Rail Passenger</u>			
. Northeast Corridor Project	1,080	1,400-1,680	2,400
. Passenger improvements nationwide	---	---	200
. Acquisition of passenger corridors by AMTRAK	---	20	20
III. <u>Nationwide Rail Freight</u>			
. (Loan guarantees)	(2,000)	(1,300)-(1,400)	(800)
. Loans/grants/redeemable preference shares	---	500-600	600
IV. <u>Continuation Subsidies</u>			
. Branchline	---	400	400
. Right-of-way for recreation, and for coal field access	---	---	81
. Commuter	---	---	125
V. <u>Other</u>			
. Controlled Transfer Assistance	400	(merged with III)	---
. Administrative expenses	---	29	29
	-----	-----	-----
TOTAL NEW AUTHORIZATIONS	\$5,580	\$5,984-6,464	\$7,591
TOTAL INCREASE IN 1977 OUTLAYS OVER PREVIOUS ESTIMATE	---	\$0-160	