

1/23/75

THE WHITE HOUSE
WASHINGTON

January 27, 1975

MR. PRESIDENT:

The attached memorandum has been
staffed and Areeda, Cole, Marsh and
Seidman concur.

Don

OK
SPK-7

THE PRESIDENT HAS SEEN *fy*

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

INFORMATION

JAN 23 1975

MEMORANDUM FOR THE PRESIDENT

THROUGH: Roy L. Ash

FROM: Walter D. Scott *Walter D. Scott*SUBJECT: Emergency Financing for the Midwest and Northeast
Bankrupt Railroads

On January 2, 1974, the Regional Rail Reorganization Act of 1973 was enacted to restructure the bankrupt railroads in the Midwest and Northeast. The act established a two-year planning process, which is being conducted by a new Federal Agency, the U.S. Railway Association (USRA). The resulting plan will define a streamlined rail system to be created out of six bankrupt railroads, including the Nation's largest one, the Penn Central. After approval of USRA's final system plan by Congress, a new private corporation, ConRail, will begin to operate the new system in January of 1976 at the earliest.

In the meantime, the act provides for two kinds of interim financial assistance:

1. Emergency assistance (Section 213) \$85 million in grants to the bankrupt lines, to ensure that sufficient cash is available to maintain essential rail service during the planning period.
2. Maintenance and improvement of plant (Section 215) \$150 million in loan guarantees to begin improving key rail facilities that will be in the final system plan, and to begin purchasing equipment and materials which must be ordered a long time before delivery.

Although at the time of enactment these sums were considered adequate, recent economic conditions have greatly increased the level of need, and the outflow of available funds. Recognizing that Federal grants would be exhausted by the end of January, Penn Central began planning in late December to lay off more than 7,000 employees, primarily in the maintenance area.

The Department of Transportation has closely monitored this situation, and has concluded that: (a) Penn Central has already made a conscientious effort to trim operating costs;

(b) the proposed cutback would threaten essential rail service in the short run, and would lead to greater Federal rehabilitation costs in the long run; (c) the dollars invested now would significantly improve the likelihood of a viable ConRail in the future; and (d) therefore, that additional Federal funding should be made available.

Consequently, on January 17, the Department submitted to Congress a set of amendments to the Regional Rail Reorganization Act of 1973, providing for the minimum estimated cash needs of the railroad through March, 1976.

According to this proposal, the Section 213 grant authorization would be increased by \$100 million, to a total of \$185 million. A request for a supplemental appropriation of this \$100 million will be included in your 1976 budget. In addition, the Section 215 loan guarantee ceiling of \$150 million would be raised to \$300 million. This latter provision would be used for certain ongoing railroad maintenance functions, and thereby free up internal cash resources to meet emergency needs.

This represents expanded funding of the existing program. As a result, the "no new spending program" limitation of your State of the Union Message would not apply.

STAFFING

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: January 24, 1975

Time:

FOR ACTION: Phil Buchen
Ken Cole
Jack Marsh
Bill Seidman

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Monday, January 27, 1975

Time: cob

SUBJECT:

Scott/Ash memo (1/23/75) re: Emergency
Financing for the Midwest and Northeast
Bankrupt Railroads

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

REMARKS:

1/27 - Per Carol, Carol ok
1/27 w/p

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

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

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Copy to R. Portz
1/25

ACTION MEMORANDUM

LOG NO.:

Date: January 24, 1975

Time:

FOR ACTION: Phil Buchen
Ken Cole
Jack Marsh
✓ Bill Seidman

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Monday, January 27, 1975

Time: cob

SUBJECT:

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Bankrupt Railroads

ACTION REQUESTED:

_____ For Necessary Action

X For Your Recommendations

_____ Prepare Agenda and Brief

_____ Draft Reply

X For Your Comments

_____ Draft Remarks

REMARKS:

Agree with D.O.T.

JWS

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Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

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due mon. 1-27
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REMARKS:

Concur
JH

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REMARKS:

No objection
P. Ash

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Jerry H. Jones
Staff Secretary