

**ISSUE CONCERNING TRANSFERS OF WEALTH  
AS A RESULT OF STATE RAIL FREIGHT  
ASSISTANCE PROGRAMS**

by

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ISSUE CONCERNING TRANSFERS OF WEALTH  
AS A RESULT OF IMPLEMENTATION OF STATE  
RAIL FREIGHT ASSISTANCE PROGRAMS

By

Gene C. Griffin and Gary Berreth

Section 803 of the *Railroad Revitalization and Regulatory Reform Act* of 1975 as amended in 1979 provides for public financial assistance to states on an 80/20 matching basis for state rail freight assistance programs. The program is a direct result of the financial condition of the railroad industry and the corresponding current disinvestment that is taking place in the form of abandonment of branch lines and occasionally main lines.

The scope of the program consists of a range of financial assistance services which includes the following:

1. Rail Service Continuation Assistance
  - a. Subsidy
2. Acquisition Assistance
  - a. Covers the cost of acquiring by purchase, lease, or in such other manner as State considers appropriate, a line of railroad or other rail properties, or any interest therein for existing or future rail freight service.
3. Rehabilitation or Improvement Assistance
  - a. Covers the cost of replacing or upgrading, to the extent necessary to permit adequate and efficient rail freight service, facilities needed to provide service on a line.

4. Substitute Service Assistance

- a. Cover the cost of reducing the costs of lost rail service in a manner less expensive than continuing rail service and includes the acquisition, construction, or improvement of facilities for the provision of substitute freight transportation services and relocation costs.

5. Rail Facility Construction Assistance

- a. Cover the cost of constructing rail or rail related facilities including new connections between two or more existing lines, intermodal freight terminals, sidings, a relocation of existing lines for the purpose of improving the quality and efficiency of rail freight service.

6. Planning Assistance

- a. Funds for establishing, implementing, revising, and updating the State Rail Plan. State is eligible to receive \$100,000 or 5 percent of its entitlement, whichever is greater.

7. Program Operations Assistance

- a. State is eligible to receive up to 5 percent of the total amount of funds granted to it each fiscal year.
- b. Fund granted to a state to cover those administrative costs allowable under Federal Management Circular 74-4.

Implementation of this program sometimes necessitates the expenditure of public funds for capital improvements of privately owned business entities or enhancement of real property values to achieve the goals of the program. An example of such expenditures might consist of improvement of a branch line which would result in increased stockholders' equity of the owning railroad or relocation of facilities for shippers. Such expenditures do result in a transfer of wealth from the public sector to the private sector. However, if the goals of the program are to be achieved transfers of wealth of this nature will be experienced.

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Thus, the fact that benefits accrue to private interests should not interfere with the implementation of the program because the principle of public policy which underlies the passage of the enabling legislature would be negated if it were allowed to do so. "A law may serve the public interest although it benefits certain individuals or classes more than others..."<sup>1</sup>

The overriding issue is one of the public interest and it should be the major criteria utilized in the selection of projects. A general criteria for selection should be an expenditure of funds on those projects which yield the greatest public benefit to shippers. Issues which arise concerning transfer of wealth to the public sector should be dealt with on a project by project basis and should only be a secondary concern relative to the main thrust of the program which is the assistance to rail freight shippers when it is in the best public interest. However, such transfers of wealth should be minimized whenever possible and when it does not conflict with achieving the objectives of the rail freight assistance program.

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<sup>1</sup>The Council of State Government, Railroad Rehabilitation. A Program to Upgrade Selected Branch Lines in Iowa, January 1976. Lexington, Kentucky.