

COMMENTS BY CLAUDE S. BRINEGAR, SECRETARY OF TRANSPORTATION,  
AT PRESS CONFERENCE, NOVEMBER 7, 1973.

For several months the Department of Transportation has been working hard to help find the proper long-term solution to the Northeast rail problem. Because of the enormous importance of adequate rail service to the Nation's economy, especially in this time of energy shortage, we have recognized the need for public financial support in helping to untangle this mess.

H.R. 9142, which is now before the full House, provides a framework for finding the needed solution that is structurally sound in most respects, and I wish to commend the House Commerce Committee for its diligence. The complexity of the Bill, which

is nearly 80 pages long, can be seen in this key-event flow chart (#1) that we have laid out. As you can see, it requires nearly two years for all the necessary actions to take place.

But along with its strengths this Bill has a serious flaw that I must call to the attention of the Nation's taxpayers. It's damned expensive. And unnecessarily so, in our opinion.

We have shown in this chart (#2) a summary of the public costs that the Bill calls for. The upper half shows direct, specified costs of over \$400 million. Some of these costs--most of which are to help displaced labor--are reasonable social costs to save and streamline Northeast rail service.

But some of them, and all the possible additional costs that are shown in the lower half--which could exceed \$4 billion in the worst set of circumstances--are not reasonable. The Nation's taxpayers should not be expected to shoulder such a heavy burden to protect what must eventually be looked upon as a private sector responsibility.

We are recommending some fairly simple but important corrective amendments that we believe are essential to avoiding the risk of these unnecessary extra taxpayer costs.

These amendments (1) will help increase the economic viability of the new system so that it can avoid future bankruptcy and loan defaults, (2) they will limit the term of labor protective payments to six years, as in the AMTRAK settlement, rather than the protection to age 65 that is now provided, as well as providing for a process to resolve local work-rule disputes, (3) they will limit local-service Federal rail subsidies, (4) they will make the \$200 million of FNRA obligations available to acquire rail properties from any railroad in the region, not just those actually in reorganization, (5) they will clarify that the consolidated Court is sitting as a reorganization Court, and (6) they will limit the likelihood of a future deficiency judgment by the Courts that would, in effect, require that inflated cash values be paid by the Federal government for the acquired assets.

Finally, I would note that I believe we are at last on the track to a decent solution to this rail problem. But the yellow light of caution is still required. H.R. 9142 still needs work if it is to be the long-lasting and successful vehicle that its authors--and all of us in the Administration--

want it to be. It needs changes to keep from simply building another Penn Central and it needs changes to protect the Nation's taxpayers from a rooking. We urge Congress to make these needed changes.

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PUBLIC COSTS OF NORTHEAST RAIL BILL H.R. 9142  
(Millions of dollars)

SPECIFIED IN BILL:

- Interim working capital for bankrupts	\$ 85
- Planning, organizational & start-up expenses	35
- Employee protection	250
- Local rail service subsidies (1 year mandatory)	<u>50</u>
	420

POSSIBLE ADDITIONAL PUBLIC COSTS:

- Loan guarantees (if default)	\$ 1,000
- Employee protection, open-ended provisions	100-250
- Local rail subsidies, additional years	50-150
- Payments to creditors for inflated value of assets	1,000-3,000

11-7-73

TIMETABLES OF MAJOR EVENTS

UNDER

H. R. 9142

"REGIONAL RAIL REORGANIZATION ACT OF 1973"

11-7-73

PLANNING PROCESS

<u>Event</u>	<u>Action By</u>	<u>Days After Enactment</u>
A. Preliminary Core Report	DOT	30
Complete Public Hearings on Core Report	ICC	60
Final Core Report	ICC	120
Approval of Core	FNRA Board	150
B. Preliminary System Plan	FNRA Exec. Comm.	300
Complete Public Hearings and Recommendations	ICC	360
Complete Final System Plan	FNRA Exec. Comm.	420
Final System Plan to Congress	FNRA Board	450
Approval or rejection of Plan *	Congress	510

\* If rejected, FNRA Board must submit revised plan; Congress then has 60 more days to review.

CONVEYANCE OF ASSETS & START-UP

<u>Event</u>	<u>Action By</u>	<u>Days after Enactment</u>
1. Determination of Status of Railroads in Reorganization:	Bankruptcy Courts	60
(a) Reorganize on Income Basis		
(b) Reorganize under H. R. 9142		
(c) Entertain motions to dismiss (liquidate)		
<u>If(b):</u>		
2. Petition for Consolidation of Proceedings in Single Court	FNRA	315
3. Consolidation of Proceedings	Judicial Panel	345
4. Non-bankrupts Offer to Sell	Non-bankrupt Railroads	570
5. Offers Accepted & Agreements Made	Profitable Railroads	585
6. Final System Plan to Court with certification of properties and consideration	FNRA	600
7. Deposit Consideration with Court	FRC & Other acquiring Railroads	610
8. Conveyance of Properties & FRC Start-Up	Consolidated Court	620
9. Finding on Value or Deficiency Judgment *	Consolidated Court	after 620
10. Distribution of Consideration to Bankrupt Railroads	Consolidated Court	after 620
11. Distribution to Creditors	Bankruptcy Courts	after 620

\* Court Findings and Orders are appealable directly to the Supreme Court unless the Consolidated Court finds that such appeals would not be in the interest of an expeditious conclusion of the proceedings.



FINANCING

<u>Event</u>	<u>Action By</u>	<u>Days After Enactment</u>
1. Interim Working Capital Grants to Bankrupt Railroads (\$85M)	DOT	0-620
2. Appropriation for FNRA Expenses (\$26M)	Congress	0-620
3. Appropriation for ICC Expenses (\$0.5M)	Congress	0-360
4. Start-up Expenses for FRC (\$10M)	DOT	90-620
5. Approval of Interest on FNRA Obligations	DOT	360-450
6. Guarantee of FNRA Obligations (\$1B)	DOT	510-610

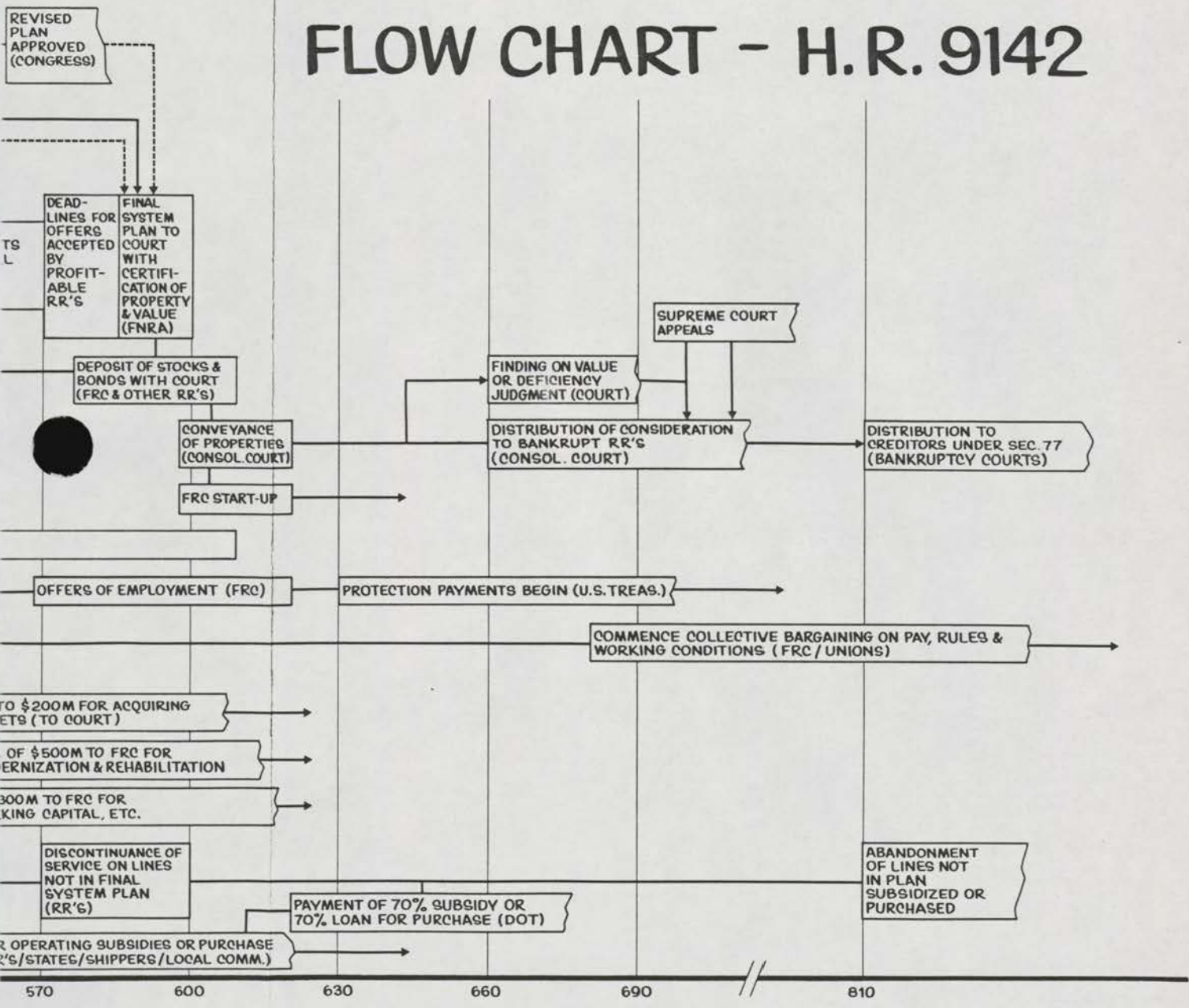
## ABANDONMENT AND LOCAL RAIL SERVICE SUBSIDIES

<u>Event</u>	<u>Action By</u>	<u>Days After Enactment</u>
1. Prescribe regulations on operating subsidies.	DOT	90
2. Complete public hearings and publish subsidy cost standards.	ICC	180
3. Notice of discontinuance of service to States, communities, and shippers.	Railroads in Reorganization.	510
4. Discontinue service on lines not in Final System Plan.	Railroads in Reorganization.	600
5. Agreements on operating subsidies or purchase of property	Shippers, States or local authorities with FRC or railroads in Reorganization.	510-810
6. Begin payments of 70% of subsidies or loans for 70% of purchase price and rehabilitation cost.	DOT	620
7. Abandonment of lines not in Final System Plan and not subsidized or purchased.	Railroads in Reorganization.	810

## EMPLOYEE PROTECTION

<u>Event</u>	<u>Action By</u>	<u>Days After Enactment</u>
1. Enactment of Act	All employees of railroads in reorganization under 65 become protected (also "adversely affected" employees of other acquiring railroads).	0
2. Offers of employment to some employees of bankrupts.	FNRA	0-300
3. Commence negotiation of single implementing agreements for each class or craft for employment procedures.	FRC/Unions	150-420
4. Mediation and arbitration of disputes on implementing agreements.	National Mediation Board	40 days after commencement of negotiations to not less than 10 days prior to conveyance of properties.
5. Offers of employment on lines conveyed.	FRC	570-620
6. Protection payments begin.	FRC/FNRA/Acquiring Railroads reimbursed by U. S. Treasury.	650
7. Commence collective bargaining on pay, rules, & working conditions.	FRC/Unions	680

# FLOW CHART - H.R. 9142



570      600      630      660      690      //      810