

STATEMENT OF BROCK ADAMS, SECRETARY, DEPARTMENT
OF TRANSPORTATION, BEFORE THE SURFACE TRANSPORTATION
SUBCOMMITTEE OF THE COMMITTEE ON COMMERCE, SCIENCE
AND TRANSPORTATION, UNITED STATES SENATE, JUNE 15, 1978.

Mr. Chairman and Members of the Committee:

It is my pleasure to appear today in support of S. 2981, the "Railroad Amendments Act of 1978". I believe that the objectives of this legislation are shared in large part by the Congress, the States, and the railroad industry. Passage of this bill will improve local rail freight service and aid in the restructuring of the nation's rail system contemplated in the 4R Act. It will enable the States to deal with marginal branch lines that are deteriorating toward total abandonment but which still provide essential local rail freight service. Although many of these lines show the promise of future viability if rehabilitated, their owners do not have the resources to perform the maintenance required to turn the lines around. The bill will provide one time public assistance to rehabilitate the lines, but the lines will remain in the private sector where operation and maintenance will be the responsibility of the railroad owners. Further, the bill will provide tools which, when used in concert with our 4R Act section 401 restructuring powers and our Title V financial assistance authority, will assist our efforts to alleviate the railroad problems of the Midwest.

Changes to the Branch Line Program

The present branch line program limits Federal assistance to branch lines which have been abandoned, either under authority of the Final System Plan or after the ICC has found that the public convenience and necessity no longer require their operation. These lines are generally in very poor physical condition and carry only a minute portion of the nation's rail freight traffic. In many cases their continued operation beyond the time needed for shippers to seek alternate transportation serves no valid purpose.

I believe that the public interest would be better served if the program were aimed at assisting the more valuable branch lines which are still owned and operated by the railroads but which continue to deteriorate because they are not profitable enough to attract private capital for their improvement.

This bill meets this problem. It will permit States to assist lines not yet abandoned that are included in State rail plans and that can satisfy public sector benefit/cost criteria established by DOT after consultation with the States. Such assistance would be available for rehabilitation, or for construction of alternate facilities, on lines which the railroads

have indicated they either plan to seek permission from the ICC to abandon, or intend to study for future abandonment. The railroads would be required to maintain the rehabilitated line for the useful life of the improvement. On the other hand, only lines which the ICC had permitted to be abandoned would be eligible for operating subsidies, and such assistance could continue for only two years. All presently eligible lines would remain eligible for operating subsidy assistance until September 30, 1981. This includes the former Title IV lines under the 3R Act and those which have become eligible as a result of ICC action between February 5, 1976, and the date of enactment of this amendment.

Under the existing program, the Federal share declines over four years from 100 percent to 70 percent. As part of the Department's effort to set a uniform Federal share for State transportation programs to induce rational allocation of scarce resources, the bill would set the Federal share at 80 percent for the life of the program. The 20 percent non-Federal share could be provided through "in-kind" benefits, which, however, would be limited to forgiveness of taxes or the provision of real property or tangible personal property for use in the program. These benefits

could be provided by the State or by others, such as shippers or localities, on the State's behalf.

The formula used to allocate funds among the States would be revised to reflect the proposed change in program emphasis. The revised formula would give eligible lines in the private sector two-thirds of the formula weight while lines eligible for post-abandonment aid are weighted at one-third. The present one percent minimum entitlement for each State would be eliminated and instead a minimum grant of \$100,000 for planning purposes only would be provided. I should note that we have received a number of comments from individual States on the elimination of the minimum entitlement. We proposed this change on the basis of the earlier recommendation by the National Conference of State Railway Officials. Some of the States have apparently reconsidered the earlier position, and have decided that it could result in their receiving insufficient funds for project purposes. We would not object to a minimum percentage entitlement if it were small enough (for example, one quarter of one percent) so that we do not waste money by sending it to States with no branch line problems. A portion of any guaranteed State grant should continue to be earmarked for planning.

Several States also have expressed a concern that the consolidated planning provision of the bill would result in money for branch line planning, a basically rural issue, being made directly available to Metropolitan Planning Organizations, which operate in urbanized areas. We agree that rail planning can generally be performed more effectively at the State level. Under our consolidated planning fund proposals, the major portion of funds now allocated to States for rail planning would remain with the States for multi-modal transportation planning, including rail planning. States also will be able to use money now earmarked for highway and mass transit planning for rail planning if they so choose. We firmly believe that States and Metropolitan Planning Organizations should have the flexibility to use their planning resources on priority needs, regardless of mode.

Another important provision of the bill is section 109. It would give States the option, in connection with the rehabilitation or improvement of eligible lines, to provide funds to the carrier in the form of either a grant or a loan. If funds were loaned, the State would establish all of the financial terms (including the interest rate, if any, and the conditions for repayment) without Federal control. Repaid funds, together with any interest earned, would remain in the program to be used for further program loans

or grants. Funds remaining at the end of the program must be returned to the Government.

We believe the requirement that the Secretary, in consultation with the States, develop a public sector benefit/cost methodology for use in evaluating capital projects is a very important feature of the bill. It not only will ensure uniform treatment of all State applications but it will also guarantee that the funds invested in private corporations provide public benefits and do not simply increase railroad profits. We envision that the criteria will address tangible quantifiable public benefits (including benefits to the local economy such as added or retained employment) and will not be limited to savings to the railroads.

I must emphasize the importance of this bill in dealing with the severe railroad problems we are facing in the Midwest. Our ongoing discussions in that area under the authority of section 401 of the 4R Act have emphasized the need for active State participation in the railroad restructuring process. As I see the expanded branch line program, it will go hand in hand with the Midwestern railroad restructuring process. By giving the States a role in determining which rail services are essential

and therefore should be retained, the combined process will ensure the best expenditure of private and public funds. It may be possible to provide the States even greater ability to aid in the restructuring process, through use of program funds for projects which will facilitate a merger, consolidation or coordination proposal of mutual benefit to the carriers and the public.

Railroad Restructuring Under Section 401

I would like to report to you on our progress in implementing section 401 and Title V of the 4R Act. A significant amount of activity is under way and a lot is about to happen.

We must understand that dealing with uneconomical rail branch lines falls short of solving the serious problems which affect the railroad industry. One way to improve the industry's cost structure is to restructure the system. Section 401 of the 4R Act encourages solutions to the basic problems of the railroad industry by allowing the Secretary of Transportation to assist the industry in self-help measures. The section permits the Secretary to convene meetings and conferences, both public and private, with railroads, shippers, public officials and other interested parties.

After the Milwaukee Railroad bankruptcy in December, I initiated the first 401 process to address some of the problems

which have caused two Midwestern railroads to go bankrupt. In the last six months, extensive public and private meetings have been held with interested parties, including railroads, State and local officials, shippers, and rail labor. We have discussed the problems besetting the railroads serving the Midwest and we have jointly considered the range of possible solutions. The single most frequently cited problem has been the overbuilding of the rail network in that region of the country. We are investigating changes such as coordinated main line operations, new trackage rights agreements, coordinated yard and terminal operations, and coordinated abandonments. We feel these are all appropriate ways of reducing duplicate rail facilities, while still providing essential rail service.

This Subcommittee will be glad to know that the 401 process is working; agreement has been reached on the first set of restructuring proposals. These proposals involve the withdrawal of one of two carriers from certain markets in which they now compete but where there is insufficient traffic to support the profitable operation of both railroads. They also include trackage-rights agreements which will permit one carrier to abandon a section of track without abandoning service to its shippers. Of course the ICC must approve these agreements.

Both railroads will benefit greatly from reduced operating costs and elimination of the need to rehabilitate the abandoned track. While some cities will experience a reduction in railroad competition, rail service will not suffer and the remaining carrier will be stronger. Indeed, the market will become more attractive to the remaining carrier because it will have a larger traffic base in these communities. Of course competition from other modes will continue.

While these projects by themselves might not be of startling magnitude, they will be breaking new ground in addressing critical issues which face the railroad industry. I believe that the planning process we have undertaken in the Midwest can, and will, succeed in dealing effectively with the need to reduce redundant facilities by decisions made in the private sector while providing improved railroad service to this important area of our country.

Title V Assistance

I would like to report to you on the progress which has been made in the Title V programs for financial assistance to the railroads. To date, \$62 million has been obligated under section 505, the low-cost preference share program, and \$42 million has been obligated in loan guarantees. We are close to approving several new agreements which will amount to more

than \$250 million. These funds will be used to start some new projects and to continue track work which was begun in 1977. By the end of the calendar year we hope to be able to sign additional agreements which will bring total obligations to over \$450 million.

Railroads which have received assistance are: the Missouri-Kansas-Texas, the Milwaukee, the Illinois Central Gulf (ICG), the Chicago & North Western (C&NW) and the Columbus and Greenville. Requests are pending from the Milwaukee for \$50 million, the C&NW for \$120 million, the ICG for \$140 million, and the Boston and Maine (B&M) for \$25 million. In addition, the Louisville and Nashville Railway has advised FRA that it will, by July 1, apply for \$25 million in an initial request for track improvement work and will apply for additional assistance later this year.

The C&NW project is especially important to our restructuring effort because it will combine the benefits of a major rehabilitation of an important east-west mainline system with the savings to be generated by separate coordinations with two other railroads. The project will involve traffic coordination and track consolidations with the Milwaukee Railroad over a 135 mile stretch between Clinton and Tama, Iowa, and with the ICG between Council Bluffs and Denison, Iowa. The line will carry substantial traffic density and

result in significant service improvements and cost savings for the three railroads involved. The C&NW has actually started work on the project under an arrangement which permits the costs now being incurred to be reimbursed once a formal agreement has been signed.

We are in the final stages of detailed project specific negotiations and security arrangement discussions with the B&M Railroad. Assuming that we can find adequate security and that the B&M receives bankruptcy court approval of the arrangement, we expect to sign an agreement shortly.

I am pleased to say that we have also reached agreement in principle with the Milwaukee on \$50 million for car and locomotive repair and track rehabilitation. The Trustee has asked the bankruptcy court to approve the financing and a hearing is scheduled for July 3. Processing of the ICG application for major track rehabilitation is following slightly behind the others, but we hope to sign an agreement with that railroad by the end of the fiscal year. The agreement will provide funding over the next few years to continue the track rehabilitation work which we are funding during this work season.

In addition to these agreements and pending applications, we have offered the Rock Island up to \$50 million for track work

to stimulate a major trackage consolidation, and \$32 million for equipment rehabilitation. We anticipate the \$32 million loan guarantee will be consummated soon, but the Rock Island's Trustee has rejected our offer with respect to his application for track work.

As you know, we have sought to develop a security arrangement which will protect the Federal Government and will also be acceptable to the bankruptcy court. Because of anticipated continuing annual deficits, we thought it necessary to propose a special approach to the security problem. One of the options we proposed to the Trustee was that segments of the Rock Island's track system linking Kansas City with the Quad Cities, and possibly adjoining properties, be separated from the estate into a new joint corporation. This would facilitate the consolidation of the operation of two or three railroads into a single rehabilitated trackage system.

It may still be possible to find a way to reach an agreement with the Rock Island within the statutory goal of the Title V program, but this will not be easy. I believe it is important to have a rehabilitated line linking the grain belt and the Chicago Gateway with Kansas City, line linking the grain belt and the Chicago Gateway with Kansas City,

but I will continue to insist on adequate security for the Government's investment (as required by the 4R Act).

It is also essential that a rehabilitated property in this market be open to use by other carriers operating in the area. I am increasingly convinced that consolidated and improved yards at Des Moines and Kansas City should be part of a rehabilitation plan. The FRA staff is working with the Rock Island and other railroads on this issue.

Track consolidation and traffic coordination projects such as those I've just discussed are one facet of our total rail assistance effort. The Title V programs, the section 401 restructuring authority, and the expanded branch line program proposed in the bill before the Committee are complementary. Each will contribute to the physical restructuring of the rail industry and thus serve the goal of safe, efficient, and profitable rail service in the private sector. The branch line assistance program, in particular, should provide the flexibility needed by State governments to aid the rehabilitation of valuable local freight lines before they deteriorate to the point of abandonment. Careful selection of lines to be upgraded on the one hand, coupled with abandonment of

nonessential lines on the other, will be an important part of future rail restructuring efforts.

This concludes my prepared statement, Mr. Chairman.

I would be pleased to answer any questions.