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[March 1975]

INFORMATION

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE VICE PRESIDENT

FROM : JIM CANNON *Jim*

SUBJECT : RAILROAD MEETING

Attached is a decision memorandum, prepared by the Office of Management and Budget, on the proposals by Secretary Coleman for a major railroad initiative. The memorandum was completed on Thursday, March 27, for use at a meeting with the President last Friday on economic matters. However, because of the absence of Secretary Coleman, the President did not take up the substantive issues involved, and instead, asked the Domestic Council to follow up on them with Secretary Coleman, Secretary Simon, Jim Lynn, Frank Zarb, and Bill Seidman.

The OMB memo, which was written in coordination with Secretary Coleman, takes up three major issues:

1. Should the Federal Government pay for payments incurred by railroads borrowing the \$2 billion of guaranteed loans, which will be provided under legislation soon to be submitted by the Administration?
2. Should the Administration propose legislation to bypass the ICC in certain cases involving joint use of track, mergers, etc., and require DOT approval instead?
3. Should the Administration propose a major program to reduce unemployment and help the rail industry, consisting of \$3 billion over two years?

We have already agreed on two elements of railroad legislation:

- a) reform of the economic regulation of railroads, and
- b) \$2 billion in loan guarantees to revitalize the capital assets of all the Nation's railroads.

Attachment



MEMORANDUM FOR: The President

From: James T. Lynn

Subject: Revitalization and Job Stimulation Proposals for
the Nation's Rail Freight System

Background

- The problems of the U.S. rail freight system are serious, and growing worse as a result of the recent economic slump. Current estimates indicate that the industry will show that the first quarter 1975 loss will be the largest in its history. Roughly 50% of rail track is restricted to below-normal speeds due to poor maintenance. On 15-20% of mainline track speeds are restricted to 10 miles per hour.
- Nevertheless, the rail system remains an essential national asset. It carries 32% of all freight (in ton-miles) and over 75% of all coal shipments.
- For this reason, several proposals are now being considered by the Administration which would help the freight railroads through financial assistance, reorganization, and regulatory reform. In addition to the rail passenger service programs (AMTRAK and Northeast Corridor), the freight related programs include:
 - Restructuring of Northeast bankrupt railroads (primarily Penn Central)
 - ...U.S. Railway Association has completed preliminary plans; final submission to Congress by July 26.
 - ...Federal cost estimated at more than \$4 billion over 10 years, of which \$2.6 billion is already authorized.
 - ...Administration position being developed by late April.



- This plan, the Rail Employment proposal, and the Rail Revitalization Act, will each have a major track rehabilitation component.
- They should therefore be designed to complement each other, and avoid duplication, especially on a geographic basis.

RAIL REVITALIZATION ACT OF 1975

On March 22 you agreed to send to Congress the Administration's rail regulatory reform bill, including a \$2 billion loan guarantee financial assistance package. Subsequently, DOT has concluded that two additional provisions should be included in the bill. We request your decision on whether to include these provisions, as described below.

Issue #1: Interest Subsidies

The Act would authorize the Secretary of Transportation to pay (i.e., subsidize) some or all of the interest payments incurred by railroads in borrowing \$2 billion of guaranteed loans under the Act. Provides up to \$650 million through 1978. The Secretary may require applicants to use tracks and other facilities jointly or to acquire or sell assets to achieve greater system efficiency as one of the conditions for providing financial assistance. (See issue #2),

Should the provision of \$650 million for interest payments be included in the Rail Revitalization Act of 1975?

Pros

- DOT believes that these funds, and associated conditions, will enable the Federal government to bring about a more rational geographic structure for the rail freight system. This would, in turn, improve the financial viability of the railroads.
- Without the \$650 million interest provision, DOT anticipates that very few railroads would have sufficient incentive to participate in the loan program. This would tend to undermine the value of the loan program as a sweetener to the regulatory reform package.
- DOT believes the subsidy is necessary to deal with the railroads' serious cash flow problem.

Cons

- This would set a potentially costly precedent for other Federal



loan programs, and particularly for the new rail program.

- It is not clear that this is the best way to create the desired incentive for participation. An alternative might be to relax the criteria for use of the \$2 billion in loan guarantees. For instance, a portion of the funds could be made available to help pay interest during the first few years.
- By staying within the \$2 billion funding level in this way, there would be no violation of your "no new spending program" policy, whereas a \$650 million add-on would require an exemption from this policy.
- The guarantee itself would provide a significant savings in the interest cost, which should in itself be an incentive for participation.

Decision

Option A: Provide interest subsidy grants _____
(supported by DOT)

Option B: Allow loan guarantees to pay interest during first few
years _____
(supported by OMB)

Issue #2: Mergers

Permits "by-pass" of ICC authority for joint use of track, purchase/sale of assets, and mergers. Opportunity for informal public hearings provided, before DOT approval. "Least anticompetitive" options must be approved. Such joint use and mergers may be required, to qualify for financial assistance in the bill.

Pros

- Would avoid onerous and drawn out merger procedures currently imposed by ICC, and thereby permit streamlining of the rail system.
- DOT sees this as an integral feature of the financial package in the bill.



Cons

- This provision would inject DOT into a very controversial role, without a clear understanding of how it would exercise its authority, in terms of procedures or criteria for analyzing merger applications.
- Although DOT indicates labor support for this provision, shippers and local communities would oppose it because of the downgrading of service on certain lines which would result. This could jeopardize passage of the bill.
- An interagency working group is presently developing a more thorough proposal to reform rail merger laws and standards. Pending their recommendations, this proposal appears to be premature.

Decision

- Option C: Permit "by-pass" of ICC merger authority _____
(supported by Coleman)
- Option D: Further study to develop more complete merger laws and standards _____
(supported by Lynn)

RAIL REHABILITATION AND EMPLOYMENT PROGRAM

Issue #3: Whether to support such a proposal immediately, not at all, or subject it to further comparison with employment proposals in other areas.

DOT proposes a two-year program to assist the rail industry in expanding its maintenance program. Total \$3 billion two-year authorization (\$1 billion in grants, \$2 billion in loans). Direct employment impact over life of program optimistically estimated at 60,000 man-years; indirect employment estimated at 105,000 man-years. Federal government would provide grants for labor cost, and income debentures for material and equipment cost. (see Attachments II and III for details).

Pros

- Aimed at two major problems: unemployment and rail deterioration. DOT believes the proposal would have



a significant impact on each area. Improved roadbed is considered critical to a viable rail system.

- Funding package designed to insure maximum railroad participation. Without labor grants, DOT believes that railroads could not afford to take advantage of the program.
- Strong support for this program by rail management, labor, and Congress.

Cons

- Not in accord with your policy of "no new spending programs".
- If considered, should be compared with other job creating programs to determine relative employment impact.
- Need more analysis of relationship to other pending rail assistance programs, to insure coordinated approach. Need to further assess overall impact on Federal involvement with railroads.
- Direct payroll subsidy for private firms is an unprecedented practice in the U.S.; to violate this boundary between the private and public sectors could open up a host of similar proposals from other financially troubled industries.

Decision

- Option E: Support DOT concept. Direct Secretary to prepare legislation for Executive Branch clearance. _____
(supported by DOT)
- Option F: Consider later in relation to other actions to stimulate the economy, and in the framework of overall approach to railroad industry. _____
(supported by OMB)
- Option G: Basically disagree with this proposal, and so inform the Secretary. Do not pursue further. _____

Attachments

cc: DO Records, Director, Director's Chron, Deputy Director, Mr. Scott, Mr. Bray, Return to Mr. Johanson

EGD AJohanson:vt 3/27/75



Breakout of Federal Funds for
Pending Rail Freight Proposals

	<u>Authorized</u>	(\$ millions) <u>Under</u> <u>Consideration</u>	<u>Total</u>
I. Northeast Rail			
• Planning and interim cash assistance	340	-	340
• Interim maintenance and improvement of plant	300	-	300
• Labor protection and branch line subsidies	430	-	430
• Financial assistance to new rail system, AMTRAK, and other connecting railroads	<u>1,500</u>	<u>2,000</u>	<u>3,500</u>
	2,570	2,000	4,570
II. Rail Revitalization Act*			
• Loan guarantees	-	2,000	2,000
• Interest subsidies	<u>-</u>	<u>650</u>	<u>650</u>
	-	2,650	2,650
III. Rail Employment*			
• Grants	-	1,000	1,000
• Loan Guarantees	<u>-</u>	<u>2,000</u>	<u>2,000</u>
	-	3,000	3,000
Totals	<u>2,570</u>	<u>7,650</u>	<u>10,220</u>

* Expected to substitute for some of Northeast rail funding requirement.



THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

March 21, 1975

MEMORANDUM FOR HONORABLE JAMES T. LYNN

Director of Management and Budget

SUBJECT: Stimulating Employment Through a Federally Supported
Rail Rehabilitation Program

During the current economic downturn, railroad industry revenues have declined sharply as car loadings (level of freight traffic) dropped 15 percent below last year's level. This, in turn, has forced the industry to reduce substantially its maintenance efforts. The result is that the industry is experiencing both a high rate of unemployment and a more rapid deterioration of its physical plant.

The total amount of deferred maintenance in the industry is not known exactly but conservative estimates put the figure in the range of \$5.5 to \$7.5 billion. Even at the 1974 level of maintenance effort, which involved the employment of 92,000 workers, the backlog of deferred maintenance was increasing annually. It is estimated that 10,000 maintenance-of-way workers have already been laid off this year and that an additional 20,000 workers may be furloughed by June 1975.

Rail's rapidly eroding physical plant may soon result in a situation where it would become a positive drag on the whole economy. The only alternatives then would be massive amounts of direct Federal assistance or Federal ownership.

We believe that the present situation constitutes a unique opportunity to undertake a Federally-assisted but industry managed effort to provide more jobs while raising the industry's currently planned level of maintenance. Such an effort would not only produce additional jobs in the railroad industry, it would also have a substantial indirect job creating effect in the supporting industries (e.g., steel, lumber, equipment, etc.). Such a program will meet urgent national needs in a vital industry while stimulating employment, and this would be far more productive than the public sector job programs. This is a view that seems to be shared by many in the Congress, as evidenced by the several bills introduced by Senator Buckley, Congressman Heinz, and others to authorize such a program. We strongly urge that the Administration develop a better program of its own as a response to Congressional initiative.



attached to this memorandum are the specifications for such a program. In summary, this Department recommends the following:

1. A two-year program to assist the industry in expanding its planned maintenance program;
2. For railroads in reorganization under the Regional Rail Reorganization Act, Federal financial assistance would be in the form of a grant for the costs of labor, material, and equipment with a proviso that the benefits must accrue to ConRail. These funds then would simply substitute for funds which the Federal Government would be providing later to ConRail anyway;
3. For all other railroads grants would be available for the labor portion of the costs associated with the Federal assisted incremental maintenance program with loans available for the related materials and equipment;
4. The loan provisions would be in the form of income related debentures and would provide a flexible repayment scheme for both interest and principal, based on the earnings performance of the individual railroads during the repayment period;
5. The program anticipates a total authorization of \$3 billion for both the grant and the loan elements, with a \$1 billion effort in the first year and with \$2 billion in the second year;
6. In order to ensure that the program is truly additive, i. e., over and above that which the railroads would do with their own resources, a maintenance of effort provision would be required for participation.
7. To emphasize that the program is geared basically to the current unemployment situation and is not a permanent assumption by the Federal Government of a role in normal program maintenance, a "trigger" is employed which would keep the program in effect only during periods when the national unemployment rate exceeds 6% (or some other appropriate figure);
8. Two-thirds of the funds would be apportioned among the railroads on a formula basis and one-third would be left to the discretion of the Secretary; and
9. The program envisions project approval by the Secretary.



In addition, the proposal includes \$95 million to accelerate efforts to maintain and improve current passenger service on the Northeast Corridor. This effort is envisioned as a continuation of the program recently authorized as part of the Penn Central emergency legislation. The additional \$95 million will not in any way preempt decisions related to the long term improvements required in the Northeast Corridor.

In total, this program should create 20,000 additional jobs in the railroad industry and 35,000 jobs in related industries during the first year. The second year job effect would be roughly double that of the first year.

I recognize that this program will have an effect on the budget but the total impact over the long run will be significantly smaller than the total dollar amount because of loan repayment and the substitution of ConRail assistance. Moreover, it is my judgment that the social dividends resulting from whatever net cost is involved will be worth the cost. It will help avert further layoffs and, indeed, should increase the employment within the industry. It will foster much needed rehabilitation and improvement in the physical facilities of the industry and ensure that the nation's rail transportation system will not deteriorate further during this economic downturn.

A viable rail transportation system is fuel efficient and is needed to ensure that the transport of bulk commodities and other resources can be efficiently executed. The program should improve the safety record of the industry. The program, itself, is temporary, but it also sets the stage for and dovetails well with the financial assistance program included in the Administration's proposed Railroad Transportation Improvement Act. Finally, we sense a great deal of interest for such a program in the Congress and, in the absence of a Administration proposal, we will undoubtedly be forced into a reactive posture.

My staff and I are prepared to discuss this proposal with you in greater detail as soon as possible.

William T. Coleman, Jr.
William T. Coleman, Jr.

Attachment





THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

ATTACHMENT

III

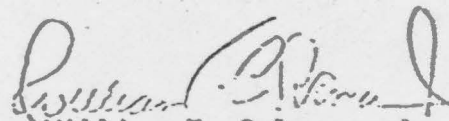
March 24, 1975

MEMORANDUM FOR HONORABLE JAMES T. LYNN
; DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Subject: Stimulating Employment Through a Federally Supported
Rail Rehabilitation Program: Rationale for Grants
to Solvent Railroads

In a memorandum of March 21 outlining the above program, we recommended that the funding of the entire program for bankrupt railroads and the labor portion of the program for solvent railroads be effected through Federal grants. The bankrupt railroads account for approximately 16% of the track miles that would be eligible for rehabilitation. The labor element of the program would be approximately one-third of the total program. Thus, in a \$3 billion program, the bankrupts might be expected to receive approximately \$500 million in grants and the solvent carriers approximately \$800 million in grants.

In the attached memorandum we give the reasons why, in our judgment, it is desirable to fund the labor portion of the program for solvent railroads with Federal grants, rather than loans.


William T. Coleman, Jr.

Attachment

cc: Honorable L. William Seidman
Honorable James M. Cannon



The Critical Role of Grants in a Federally Supported Rail Maintenance and Rehabilitation Program

The Department of Transportation has proposed for consideration a temporary program to stimulate employment in the railroad industry, specifically in the vital areas of track and plant maintenance and rehabilitation. This program would cover the entire industry, i. e., both solvent and bankrupt companies, and would employ a combination of Federal grant and loan financial assistance. The program's underlying rationale and specifics have been covered in another paper. This paper addresses the critical role of grants for the labor cost component in ensuring the program's acceptance and success.

Summary

Powerful arguments can be made that any Federal financial assistance designed to stimulate employment could be directed to no better purpose than the maintenance and rehabilitation of the nation's railroads. To realize the full potential of this opportunity, especially in light of the current state of railroad finances, a grant component (for the direct labor costs involved) in the Federal financial assistance program would be essential.

- Federal grant assistance for at least the labor component of such a program appears critical to obtaining the participation of "solvent", albeit current money losing, railroads which constitute the bulk of the nation's rail system.
- A Federal program of financial assistance to the railroads must treat both "solvent" and "financially distressed" (including bankrupt) railroads equitably, lest it unfairly disadvantage the former.
- The truly vital nature of the work to be supported by this program -- affecting directly the economic efficiency of the nation's rail system as well as the safety of its operation -- must be given appropriate weight in any consideration of this proposal's merit.
- Any "grant" assistance given in this program would be truly "additive" in terms of its ultimate economic impact, providing a significant multiplier effect.



Discussion

Central to an understanding of this real nature of the rail maintenance and rehabilitation problem is a recognition that: (1) it is pervasive, affecting all parts of the rail industry -- both solvent and bankrupt companies -- albeit in somewhat different ways and degrees; and (2) the costs of a rundown, inefficient national rail plant will be paid for by society one way or the other. It will be paid:

either in terms of increasing accidents and derailments, more "slow orders" and train delays and the higher freight rates and impaired service inherent in the foregoing,

or in terms of a positive effort to arrest the deterioration of the rail plant, to rebuild and rehabilitate that plant (especially the vital mainline links), and to put presently furloughed maintenance-of-way employees (now receiving Federal unemployment pay) and other idle workers back into truly productive employment in an industry vital to the nation's economic health.

The reality for rail industry finances of the recent sharp drop in revenues stemming from the depressed economy and the poor prospects for an early revenue recovery means that virtually no railroad, solvent or bankrupt, will earn a profit this year and few, if any, will do so in 1976. Across the industry, rail managements have almost uniformly cut back sharply on maintenance activities in an effort to husband cash. In this situation, the management imperatives to curb deferrable expenditures are as real and sharp for the normally "healthy", solvent railroad as they are for the financially shaky or bankrupt company.

Given the foregoing, several powerful arguments can be advanced for including a strong grant component in any Federal employment support program oriented to the national rail maintenance and rehabilitation problem.

1. Encourage Maximum Participation

As noted above, any railroad facing the prospect of depressed revenues and an uncertain traffic outlook will be very reluctant to take on additional indebtedness for the materials, supplies and equipment needed for maintenance and rehabilitation unless there is a strong financial incentive for them to do so. Federal grant financing for the labor component of the maintenance and rehabilitation projects approved under this program will ensure that all major railroads will participate. A pure loan program would almost certainly be shunned by most, if not all of the solvent roads under present circumstances.

2. Provide a Measure of Equity As Between the Solvent and Bankrupt Railroads

Within the overall national railroad system, carriers -- solvent carriers, financially periled carriers, and bankrupt carriers -- compete with one another not simply for traffic but for profit, and; in a very real sense, for economic advantage and even survival. While acknowledging government's responsibility for ensuring the provision of vital transport services, including substantial direct financial assistance, government's programs and policies should not work to penalize the well-managed, relatively efficient, "successful" carrier vis-a-vis his bankrupt competitors. The effects of the present recession, which gives rise to both the unemployment and rail maintenance problems, fall equally heavily on all parts of the industry. In a program such as the one being considered here, Federal financial assistance should be provided evenhandedly across the entire industry.

3. The Vital Nature of the Work To Be Supported

The physical condition of the rail network bears directly on the system's overall economic effectiveness and on the safety of those who work in railroading and those who ride on trains. It is the principal determinant of the real value of a vital national transportation asset and one of the most important factors in the overall efficiency and productivity of the national economy. To put it bluntly, rail maintenance employment is about as far from "leaf raking" as you can get in terms of true social and economic value to the country.

4. The Incremental Nature of the Federally Assisted Program

The Federally assisted program will be a true net addition to what would otherwise be invested in maintaining and improving the nation's rail system. Safeguards are built into the program to ensure this. Thus, Federal grant assistance for the employment component of the program will not only reduce unemployment payments and add to the employed rolls in the railroad industry, it will also leverage very significant additional employment and economic activity among suppliers and vendors of materials and equipment.

5. The Threat of Disruptive Litigation . The Program Is Confined to the Bankrupts or Discriminates Against the Solvents in a Way to Affect the Competitive Balance

If a Federally assisted program were to benefit solely the bankrupts or were to discriminate against the solvents, the latter would almost



certainly bring suit on the grounds that they were being unfairly disadvantaged vis-a-vis their competitors. While it is believed that such suits would not ultimately prevail, in light of the clear public interest objectives involved, the hurt to the solvents would be real. Being real, they would likely elicit much sympathy from the Congress, and, perhaps, from the courts.

* * * * *

TPI-30
March 23, 1975



[March 1975]

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[March 1975]

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[March 1975]

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[March 1975]

DRAFT PRESIDENTIAL STATEMENT ON THE
REVITALIZATION OF THE RAILROADS

The rail industry in the United States is in a deeply troubled state. Large parts of the rail plant are in a state of physical deterioration. Some railroads are in bankruptcy and others are on the brink of financial collapse.

The country has neglected the rail problem too long and the desperate condition of the industry is testimony of this neglect. We must begin at once a major and massive initiative to restore the vitality of this essential industry. I have established for this Administration a goal that calls for the complete revitalization of the Nation's railroad system so it can serve the needs of modern America. We are moving forward with a program to assure a healthy, progressive rail system. I have directed the Secretary of Transportation, William T. Coleman, Jr., to lead this effort and to make it one of his prime concerns.

As an essential part of this program I am today sending to the Congress the Railroad Revitalization Act (RRA). This legislation is the result of several years of study and consultation with industry and Congressional authorities.

There has been extensive work in the 93rd Congress on rail regulatory legislation and I am confident that the 94th Congress can and will act decisively. A good base has been developed for prompt action.

-more-

The Railroad Revitalization Act has two primary functions -- to improve the regulatory climate under which railroads operate and to provide critically needed financial assistance for railroads throughout the country. A major problem faced by the railroad industry is an overabundance of Federal regulation. Much Federal regulation, originally imposed to prevent monopoly abuses and regulate development in the western States, has long since outlived its original purposes. Indeed, Federal regulation has grown so cumbersome that it retards technical innovation, economic growth and improved consumer services. The legislation I am proposing is designed to improve significantly the regulatory climate under which all railroads operate by lifting unnecessary and excessive regulatory constraints.

The proposed bill addresses rail regulatory problems by amending the Interstate Commerce Act to:

1. Permit increased pricing flexibility.
2. Expedite rate-making procedures.
3. Outlaw anticompetitive rate bureau practices.
4. Improve the procedures for dealing with intrastate rail rates.

In addition, RRA makes available to the rail industry financial assistance which it must have to accomplish necessary modernization of outdated plant and equipment. This assistance is provided in two forms. First, the bill will make available \$2 billion of long-term loan guarantees (20 years or less) so that the Nation's railroads



can obtain badly needed modern equipment and facilities, and repair deteriorating roadways at reasonable financing costs. If necessary, the Secretary of Transportation would be authorized to pay varying amounts of interest on these loans. Up to \$200 million a year for three years would be made available to the Secretary for this purpose.

This financing will be available when funds cannot be obtained in private capital markets. It is one of the purposes of the program that the financial condition of the rail industry be restored to the point where the private sector will once again make capital available.

The bill also authorizes the Secretary to conduct research into the design of a national rolling stock scheduling and control system which would be capable of expediting the movement and improving the utilization of freight cars and locomotives. Funding of \$15 million to conduct this study and initiate implementation of the system is authorized.

In view of the rail system's role in our Nation's economy, I am urging the Congress to give this measure immediate consideration. The importance of regulatory reform to the efficiency of our transportation system cannot be over-emphasized. While special interests may resist these necessary changes, I am confident that the benefits to the American people are so great and so clear that the Congress will act quickly.

While we are working with the Congress on this legislative package we have a parallel responsibility to deal with the Northeast rail problem which has already reached crisis proportions.

I consider the restructuring and rehabilitation of our northeast rail system to be of the highest national priority. As required by the Regional Rail Reorganization Act, the United States Railway Association has developed and published a Preliminary System Plan for the restructuring of the railroad system in that region. Under the chairmanship of Secretary Coleman, I have established a task force of the Economic Policy Board to review and assess this plan so that I can move quickly to make informed and comprehensive decisions on a Federal program for the northeast railroads. The task before us is large. The need for success is enormous. We will not shrink from recommending to the Congress substantial Federal investment and bold restructuring measures to put the region's railroads on a sound and enduring base.

As we grapple with the complexities of our rail freight problems, we must deal with the interlocking concerns of a presently inadequate rail passenger system. In this regard, the Department of Transportation is nearing completion of detailed plans for significant upgrading of the passenger service along the heavily traveled Washington-Boston line.

This project will include substantial right-of-way improvement so that true high-speed passenger service can be put into operation in this very densely populated and heavily traveled corridor.

As another part of our commitment to revitalizing passenger service on the Nation's railroads, we have already submitted major legislation to reform Amtrak. Much has been accomplished since Amtrak began operations almost four years ago. On-board services have been improved. New routes and equipment have been added, and during last year's energy crisis, we found that many Americans used Amtrak trains as an alternative to using their automobiles. However, much still needs to be done to shape a viable system of inter-city rail passenger service.

Amtrak must have firm, long-term funding commitments from the Congress and the Executive Branch so that it can develop long-range operating and capital plans. To this end, the Administration has proposed a four-year authorization of \$2 billion to meet Amtrak's operating and capital requirements. If this long-term funding commitment to rail passenger service is to be effective in developing and promoting inter-city passenger service, Amtrak must have the necessary flexibility and management discretion to implement efficient service. At the present time, the responsibility for the promotion of passenger service is fragmented among a host of Federal agencies. Reducing regulatory and political control over Amtrak's management system is essential. The Administration proposal is designed to achieve this result. In addition, the bill will provide a more efficient mechanism for States to initiate inter-city rail passenger service. I believe this proposal will provide a sound basis for increasing the effectiveness and efficiency of Amtrak operations.

The current economic downturn is having a very serious adverse effect on employment in the railroad industry. Earnings have declined by more than 15% and the industry has been forced to lay off large numbers of employees. At the same time, railroads have substantially reduced the maintenance of their physical plant. This, of course, contributes to a further deterioration in rail facilities. In order to arrest this physical deterioration and to provide job opportunities, I intend to propose special legislation which will create a Federal assistance program to provide jobs in the rail industry. I recognize that this proposal will have an effect on the budget but it is my judgment that the social dividends resulting from it are well worth the cost. This program will avert further layoffs and, indeed, increase employment within the rail industry. It will foster much needed rehabilitation and improvement in the physical facilities of the industry and effectively combat the further deterioration of the Nation's rail transportation system.

While the Railroad Revitalization Act is a significant part of our rail revitalization program, it is also a very important first phase of my overall program to seek fundamental reform of the regulatory practices which govern the economics of the entire transportation industry. Such regulation, established long ago, in many instances no longer serves to meet America's transportation or economic needs. Consumers, too, often bear the costs of inefficient regulation in the form of inadequate service and excessive cost. Therefore, I will soon

be submitting proposed legislative reforms for motor carrier, domestic water carrier, and airline regulation. Taken together, these proposals, could save consumers billions of dollars annually while improving efficiency and conserve scarce energy resources.

America must have a modern, revitalized and efficient transportation system to meet the needs and demands of our Nation's commerce. Secretary Coleman and I stand ready to work closely with the Congress to secure passage of legislation to achieve this objective.

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THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

March 21, 1975

MEMORANDUM FOR HONORABLE JAMES T. LYNN
Director of Management and Budget

SUBJECT: Stimulating Employment Through a Federally Supported
Rail Rehabilitation Program

During the current economic downturn, railroad industry revenues have declined sharply as car loadings (level of freight traffic) dropped 15 percent below last year's level. This, in turn, has forced the industry to reduce substantially its maintenance efforts. The result is that the industry is experiencing both a high rate of unemployment and a more rapid deterioration of its physical plant.

The total amount of deferred maintenance in the industry is not known exactly but conservative estimates put the figure in the range of \$5.5 to \$7.5 billion. Even at the 1974 level of maintenance effort, which involved the employment of 92,000 workers, the backlog of deferred maintenance was increasing annually. It is estimated that 10,000 maintenance-of-way workers have already been laid off this year and that an additional 20,000 workers may be furloughed by June 1975.

Rail's rapidly eroding physical plant may soon result in a situation where it would become a positive drag on the whole economy. The only alternatives then would be massive amounts of direct Federal assistance or Federal ownership.

We believe that the present situation constitutes a unique opportunity to undertake a Federally-assisted but industry managed effort to provide more jobs while raising the industry's currently planned level of maintenance. Such an effort would not only produce additional jobs in the railroad industry, it would also have a substantial indirect job creating effect in the supporting industries (e.g., steel, lumber, equipment, etc.). Such a program will meet urgent national needs in a vital industry while stimulating employment, and this would be far more productive than the public sector job programs. This is a view that seems to be shared by many in the Congress, as evidenced by the several bills introduced by Senator Buckley, Congressman Heinz, and others to authorize such a program. We strongly urge that the Administration develop a better program of its own as a response to Congressional initiative.

Attached to this memorandum are the specifications for such a program. In summary, this Department recommends the following:

1. A two-year program to assist the industry in expanding its planned maintenance program;
2. For railroads in reorganization under the Regional Rail Reorganization Act, Federal financial assistance would be in the form of a grant for the costs of labor, material, and equipment with a proviso that the benefits must accrue to ConRail. These funds then would simply substitute for funds which the Federal Government would be providing later to ConRail anyway;
3. For all other railroads grants would be available for the labor portion of the costs associated with the Federal assisted incremental maintenance program with loans available for the related materials and equipment;
4. The loan provisions would be in the form of income related debentures and would provide a flexible repayment scheme for both interest and principal, based on the earnings performance of the individual railroads during the repayment period;
5. The program anticipates a total authorization of \$3 billion for both the grant and the loan elements, with a \$1 billion effort in the first year and with \$2 billion in the second year;
6. In order to ensure that the program is truly additive, i. e., over and above that which the railroads would do with their own resources, a maintenance of effort provision would be required for participation.
7. To emphasize that the program is geared basically to the current unemployment situation and is not a permanent assumption by the Federal Government of a role in normal program maintenance, a "trigger" is employed which would keep the program in effect only during periods when the national unemployment rate exceeds 6% (or some other appropriate figure);
8. Two-thirds of the funds would be apportioned among the railroads on a formula basis and one-third would be left to the discretion of the Secretary; and
9. The program envisions project approval by the Secretary.

In addition, the proposal includes \$95 million to accelerate efforts to maintain and improve current passenger service on the Northeast Corridor. This effort is envisioned as a continuation of the program recently authorized as part of the Penn Central emergency legislation. The additional \$95 million will not in any way preempt decisions related to the long term improvements required in the Northeast Corridor.

In total, this program should create 20,000 additional jobs in the railroad industry and 35,000 jobs in related industries during the first year. The second year job effect would be roughly double that of the first year.

I recognize that this program will have an effect on the budget but the total impact over the long run will be significantly smaller than the total dollar amount because of loan repayment and the substitution of ConRail assistance. Moreover, it is my judgment that the social dividends resulting from whatever net cost is involved will be worth the cost. It will help avert further layoffs and, indeed, should increase the employment within the industry. It will foster much needed rehabilitation and improvement in the physical facilities of the industry and ensure that the nation's rail transportation system will not deteriorate further during this economic downturn.

A viable rail transportation system is fuel efficient and is needed to ensure that the transport of bulk commodities and other resources can be efficiently executed. The program should improve the safety record of the industry. The program, itself, is temporary, but it also sets the stage for and dovetails well with the financial assistance program included in the Administration's proposed Railroad Transportation Improvement Act. Finally, we sense a great deal of interest for such a program in the Congress and, in the absence of an Administration proposal, we will undoubtedly be forced into a reactive posture.

My staff and I are prepared to discuss this proposal with you in greater detail as soon as possible.

SIGNED BY
WILLIAM T. COLEMAN, JR.

William T. Coleman, Jr.

Attachment

Prep by: TPI-30:RFWalsh:gms:3-21-75
cc: S-1, 2, 10
TGC, TCI, FRA
TPI-1, 2, 3, 5, 30



THE DEPUTY SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

March 24, 1975

MEMORANDUM FOR HONORABLE WALTER D. SCOTT
ASSOCIATE DIRECTOR, ECONOMICS & GOVERNMENT
OFFICE OF MANAGEMENT AND BUDGET

Subject: Administration's Rail Program

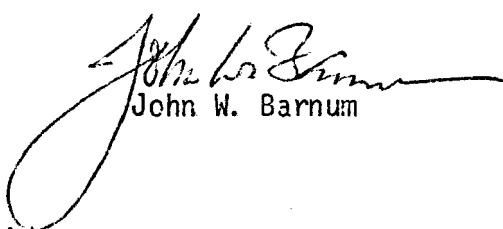
*File
James*

In accordance with our discussions this morning, herewith the following:

- (1) Proposed inserts for the draft Presidential Message.
- (2) An analysis of rail industry problems and the principles of our program.
- (3) Position papers on the two immediate issues:
 - (a) subsidizing the interest rates on guaranteed loans; and
 - (b) the proposed rail rehabilitation and employment program.

With respect to the third issue of this morning, the rolling stock management information system, if OMB insists on deleting that provision from the RRA on the ground that it is a new money program, we will not press the issue for Presidential decision. We would suggest instead that we delete the specific authorization of \$15 million, but retain the language authorizing the program, which we would then fund under the regular DOT authorization.

Let me know if you have any suggestions or need anything more.


John W. Barnum

Attachments

cc: Honorable L. William Seidman
Honorable James M. Cannon
Honorable Michael Raoul-Duval

DRAFT: 3/24/75

Proposed Inserts for Draft Presidential Message

"The rail industry in the United States is in a deeply troubled state. Large parts of the rail plant are in a state of physical deterioration. Some rails are in bankruptcy and others are on the brink of financial collapse."

The facts are startling. Over one half of the rail track is unfit for normal operations. At any given time between 15 to 20% of a typical railroad's main line tracks is subject to slow orders limiting the maximum speed to 5 to 10 miles per hour. Deterioration of the rail plant is spreading at an accelerated rate and this is calling into question the ability of the rail industry to provide essential services.

Track deterioration delays the safe shipment of both people and goods. During the first ten months of 1974 there were nearly 7,000 train derailments, a 15% increase over the same period in 1973. The slow transit times and unreliability of service is causing the erosion of the rail industry's share of intercity traffic.

A crucial problem is the grossly inefficient use of the freight car fleet. A typical freight car moves loaded only 23 days a year. Rail cars represent over 50% of the rail industry's net capital investment. No other industry has such an inefficient utilization of its capital investment.

Rails are a vital national asset essential to the commerce and defense of the country. Today railroads are being called on to play

a key role in our energy conservation program. Railroads are a very energy-efficient means of moving freight. Moreover, if we are to achieve the goals of PROJECT INDEPENDENCE, there must be a greater use of coal. More than three quarters of all coal shipped from the U.S. mines moves by rail. PROJECT INDEPENDENCE calls for the doubling of coal production by 1985. As this goal is met, the railroads must double their coal-carrying capacity. The present financial condition of the rail industry will not permit that needed capital expansion.

Rail Industry Problems and the Principles of Our Program

The rail industry in the United States is in a deeply troubled financial and physical condition. Rate of return on investment for the industry as a whole in a "good" year (such as 1974) is less than 4%. Excluding the bankrupts, rate of return rises to only 5%. The industry will show a loss for the first quarter of 1975.

Because of its low earnings, the rail industry is unable to generate sufficient funds for an adequate program of plant maintenance and rehabilitation. Funds from outside sources are virtually unavailable. As a consequence of its perilous financial condition, the railroad industry has not been able to put sufficient funds into its plant and the rail plant is in a badly deteriorated condition. Over 50% of the rail plant is operating under so-called slow orders. During the first ten months of 1974 there were a total of 6,961 derailments, up 15% above the same period in the previous year.

The plant deterioration which characterizes the Northeast is spreading to the rest of the country at an accelerating rate. Because of inflation, a dollar's worth of improvement today will cost much more in the future. Moreover, failure to do necessary repairs now will necessitate total rebuilding of lines in the future. Despite their deteriorating condition and financial troubles, railroads remain the backbone of the nation's freight transportation system, handling about 38% of the ton-miles. In addition, the rail industry is an absolutely essential part of the solution to our environmental and energy problems. Rails themselves are an energy-efficient mode of transportation.

Moreover, rails handle over 75% of all coal movements in this country. If we are to lessen our dependence on imported oil, it is essential to have an adequate and efficient rail plant. Because of its deteriorating condition, we are reaching a point where the rail industry's ability to provide adequate service is increasingly being called into question. In addition, due to the disrepair of the rail system, much of the long-haul traffic which should be moving by rail is now moving by truck. A major rebuilding program of the rail system would move much of this long-haul traffic from less energy-efficient trucks to more energy-efficient rails.

Congress is becoming increasingly disturbed about the rail industry's problem and there is a growing feeling in Congress that the only answer lies in nationalization or creation of a Rail Trust Fund. Legislation to nationalize the railroad rights-of-way has been introduced by Senators Hartke and Weicker. Brock Adams, a leading spokesman on rail matters in the House, has publicly stated that serious consideration should be given to such a proposal. Privately, many congressmen are saying that the only solution to the rail industry problems lies in nationalization. They see themselves increasingly vulnerable to attack for not solving the problem and for having applied band-aids in the form of emergency financial assistance to deal with it. Faced with the prospect of continuing financial crises in the railroad industry and the need to pour more Federal money "down the rathole," and in the absence of a constructive alternative, Congress could seize nationalization as an easy out.

The Department of Transportation has a program which we believe will meet the railroad industry's problems with minimum Federal involvement and will assure a viable private sector rail system in the United States capable of meeting the commerce, energy and defense needs of the country. The overall program we are proposing involves:

1. Removal of a number of outmoded and inequitable regulations on railroads. Changes in the regulatory system are an essential condition to preventing future Penn Centrals and restoring the vitality of the railroad industry. They are also essential to assuring the viability of the railroad or railroads which emerge from the Northeast rail restructuring process.

2. A consolidation and restructuring of the national rail system utilizing financial incentives and a new mechanism to bypass the regulatory impediments to rail acquisitions and joint use of facilities.

3. Financial assistance to rehabilitate the essential elements of the national rail system including the Northeast.

4. Bringing the Northeast rail restructuring planning process to a successful solution consistent with the national program. This will result in a paring down and rehabilitation of the bankrupt railroads in the Northeast.

5. Recognition of the need for rail passenger service in certain corridors and the public (and congressional) demand for such service in other markets.

This program is built on a number of unifying principles. First, running through the program is the notion that railroads are a vital

national asset which are being poorly utilized. The first principle then is the essentiality of recreating a healthy, progressive rail system.

A second unifying element of the program is the recognition that rail plant deterioration is a major problem which the industry is unable to solve fully alone. The cost of rehabilitating the six bankrupt railroads in the Northeast could be as much as \$3 billion. The cost of rehabilitating a rationalized rail plant for the nation as a whole to a minimum level of adequate service is estimated at \$7-9 billion. The rail industry is simply incapable of generating either from internal or external sources all of the funds required to upgrade the plant to even minimal acceptable standards. The Regional Rail Reorganization Act, the financial assistance package of the Rail Revitalization Act, and the proposed Public Works Rail Employment Program are designed to assist the industry in rebuilding the plant to acceptable standards. We do not propose that the Federal Government should fund all of the railroad maintenance and rehabilitation expenditures. The financial assistance provided through the Revitalization Act and the Public Works proposal, coupled with the regulatory reform, will provide the foundation for the industry to become self-financing. Thus while the Federal financial assistance is only a portion of the overall expenditures required, it is a critical prerequisite for the industry to become self-financing.

The ICC is a major impediment to this disinvestment and plant rationalization. The interest subsidy and the "ICC bypass" of the

Rail Revitalization Act provide incentives for the industry to rationalize the rail plant. The Act promotes this objective by encouraging railroads to come forward with restructuring proposals, thus meeting the Administration's goal of maximum reliance on private sector initiative.

Finally, another unifying principle running through the DOT program is the need for regulatory reform. The Act is designed to remove a number of regulatory restraints on carrier management. The present regulatory system has contributed enormously to the present railroad malaise. Regulatory reform and the restructuring provided for in the Act are essential to avoid the spread of that malaise and to assure that the railroads which emerge from the Northeast restructuring process and the Rail Revitalization Act restructuring process will be able to operate as viable private sector concerns.

Rail Revitalization Act Financial Assistance Provisions

Subsidizing the Interest Rates on Guaranteed Loans

OBJECTIVE: The proposal serves a twofold objective: (1) providing the railroads access to the private capital market for funds to rehabilitate and improve the essential portions of the national rail system, and (2) incorporating an incentive to the industry to consolidate and restructure duplicate trackage, yards, terminals, and other facilities to produce over time a more efficient and rational national rail system.

ALTERNATIVE APPROACHES

Alternative #1: Provides \$2 billion in loan guarantees for obligations incurred to modernize and rationalize rail facilities. Before making a guarantee, the Secretary would have to make certain findings which would ensure that the loans were properly secured and were used to create a more efficient national rail system. The Secretary would also have to ensure that the interest rate was reasonable, taking into consideration loans of comparable risk.

Alternative #2: Federally guaranteed loans with provision that the Secretary could pay whatever part of the interest he deems appropriate, within an authorization of \$200 million per year for three years. He would be required to make findings similar to those under the loan guarantee proposal in alternative #1. Further, as a condition for receiving either a guarantee or payment of interest, the Secretary could require applicant railroads to enter into joint agreements for

tracks, terminals, and other facilities and into agreements for purchase or sale of other assets and for mergers. Such agreements would not be subject to ICC approval, but the Secretary would be required to hold a hearing before approving such an agreement. In addition, the Secretary could not approve an agreement unless it achieved the transportation objective in the least anticompetitive way.

DOT RECOMMENDED APPROACH

Alternative #2 should be chosen for the following reasons:

1. Loan guarantees without incentive interest subsidies will not be used by the rail industry. The industry simply cannot absorb any more debt; it presently has \$4.4 billion in outstanding debt with current annual interest charges of approximately \$184 million. Very shortly this debt will have to be rolled over, and there will be an increase in the interest rate. As a result, the annual interest will rise to \$440 million with no added debt. This last interest figure is approximately equal to one year's earnings for the industry.

2. Without the financial incentive provided by the interest subsidy, little consolidation and restructuring of the duplicative physical plant can be achieved. Similarly, without a bypass of the ICC, there is little prospect for such rationalization occurring. The financial package produces a means whereby the Secretary can, with financial incentives, shape the future restructuring of the industry to produce a rational and efficient system which will remain financially viable in the long term.

3. The immediate financial difficulties of the industry (probably a large deficit for calendar year 1975) dictate the need for interest subsidy. Without such subsidy, railroads will not use the financial program and we lose the opportunity to encourage and participate in the needed restructuring. Without restructuring and additional investment, the rail system will continue to deteriorate at an accelerating rate, accidents will increase, and service efficiency will decline. Interest subsidy is the minimum required to prevent further financial decline of the industry which could lead to eventual nationalization of the entire system.

4. In the absence of an interest subsidy, the loan guarantee provision will be described as useless by railroad management and labor alike.

DRAFT: 3/24/75

Rail Rehabilitation and Employment Program

OBJECTIVES: Program has a twofold purpose, (1) to stimulate employment of maintenance-of-way workers on the rail system and (2) to begin immediately to rehabilitate the nation's rail system which is in a state of accelerating deterioration.

Alternative #1: Submit immediately the rail rehabilitation and employment program without relating it to other employment proposals.

Alternative #2: Hold submission of a rail rehabilitation and employment program until we can determine (1) how it relates to (or could be used to defeat or decrease) other proposed employment programs and (2) the impact of the Federal budget deficit.

Alternative #3: Do not submit a rail rehabilitation and employment proposal.

DOT RECOMMENDED APPROACH

Submit program proposal immediately to Congress as Administration's legislative initiative for the following reasons:

1. The program initiated by the Administration is a responsible alternative to the various public works type employment programs which may be initiated by the Congress to meet the unemployment problem; in fact, the Department's proposal ties closely to similar bills introduced by Republican Congressmen recently and can serve as a rallying

point for the Administration and the Republican members of Congress in presenting an imaginative and effective approach to the unemployment problem.

2. The program will add 20,000 direct jobs and 35,000 indirect jobs to the work force during 1975, and 40,000 direct jobs and 70,000 indirect jobs during 1976.

3. Even without the national unemployment problem, there is a desperate need for an immediate program to rehabilitate the main line tracks and essential yards of the nation's rail system. The rail system is in a state of accelerating deterioration which is crippling its ability to provide essential rail services. Because of the industry's inadequate earnings, it has been unable to make needed improvements and maintenance in the rail plant. Approximately \$1.1 billion of annual catch-up maintenance is required simply to arrest further deterioration. An additional \$1 billion per year annually is required to bring the system back to efficient operating condition.

4. To fail to take action at this time simply ignores the desperate need for rail rehabilitation and the present unemployment problems, leaving the initiative to forces outside the Administration.

[April 1975]

RAILROAD PROPOSAL

As a part of our consideration of the proposal to revitalize the Nation's railroads prepared by the Department of Transportation, the President should focus on the near-term and long-range implications of additional Federal involvement with the railroads. The following questions are intended to apply to all freight railroad operations (including the bankrupt railroads of the Northeast Corridor but excluding passenger rail service).

1. What is the nature of the railroad problem?

A. Short-term

- Define dependency of Nation's commerce on the railroads.
- State with particularity their current financial problems, with emphasis on their ability to raise capital.
- Other aspects of short-term

B. Long-term

- Detail the competitive impact of other modes which are Federally subsidized.
- Detail impact of Federally economic regulations
- Detail impact of archaic work rules

2. What is the proper Federal role?

- Define Federal role in supporting competing modes
- Can the Federal government allow the railroads to be liquidated?
- What are the risks of nationalization or partial nationalization (e.g., Federal ownership of rights-of-way)?
- What are the proper State and local government roles?
- Can we rationalize Federal aid to private corporations?
- What will the impact be of additional government involvement on the Federal budget?

3. What will be the condition of the railroads if Congress enacts the following additional railroad legislation:
 - A. Regulatory reform
 - B. \$2 million loan guarantee
 - C. User charges on other modes to equalize impact of taxes on competition
 - motor carriers
 - barges
4. Assuming Congress enacts the above listed additional legislation, is there still a need for additional Federal help?
 - If yes, what are the options? (See options paper being prepared by DOT.)

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on Tuesday, April 1, 1975

for meeting in Roosevelt Room Jim Cannon Domestic Council:
(Name of person to be visited) 11:45 AM (Agency)

The Vice President

Secretary Coleman
John Barnum
Asaph Hall
Robert Binder
Richard Walsh
Charles Swinburn
Eric Bershirs
Barrs Lewis
Rodney Eyster
John Snow
William Hamilton
Michael Browne
Lawrence McCaffrey Jr.
Lt. Commander W.T. Leland

James Cannon
Dick Dunham
Mike Duval

Bill Seidman
Frank Zarb
Secretary Lynn
Edward Schmults (Treasury)

Jack Marsh

MEETING LOCATION

Requested by Jeanne McLean

Building White House West Wing

Room No. _____ Telephone _____

Room No. _____

Date of request _____

Additions and/or changes made by telephone should be limited to three (3) names or less.

DO NOT DUPLICATE THIS FORM.

APPOINTMENTS CENTER: SIG/OEOB - 395-6046 or WHITE HOUSE - 456-6742



THE WHITE HOUSE

WASHINGTON

April 7, 1975

MEMORANDUM FOR JIM CANNON
VIA: DICK DUNHAM
JIM CAVANAUGH
FROM: MIKE DUVAL
SUBJECT: RAILROAD INITIATIVE

In following up with DOT staff on the meeting you chaired in the Roosevelt Room with Secretary Coleman, et al., I found out that you and the Vice President met with Coleman and his staff late last week.

According to DOT's staff, the Vice President and you indicated a strong desire to see if we could reprogram highway funds into rail rehabilitation projects. Because this approach is substantially different from the ideas discussed in the Roosevelt Room, I thought I'd better come back to you for additional guidance prior to moving forward with the memorandum to the President.

I hope to go over a draft memorandum tomorrow or Wednesday with DOT staff and would appreciate some guidance from you as soon as possible.

THE WHITE HOUSE

WASHINGTON

INFORMATION

April 9, 1975

MEMORANDUM FOR

JIM CANNON
DICK DUNHAM
WALLY SCOTT

FROM:

MIKE DUVAL *Mike*

SUBJECT:

COLEMAN'S RAILROAD PROPOSAL

I had a meeting in my office yesterday evening with the DOT staff to go over their draft decision memorandum to the President on the railroad issue. See the attached outline which lays out the alternatives they are considering.

I pointed out that, even under their Option 1, the railroad funding (\$1.2 billion) would constitute a net increase in expenditures in FY '76. Although these would come out of rescinded highway funds, it is an amount that the President did not include in his highway budget but instead, requested either rescission or deferral by Congress. In short, the DOT proposal (realistically) assumes that Congress will not buy the President's \$5.2 billion highway level for FY '76. Coleman's people are assuming that the Congress will defer and rescind a lesser amount than the President has requested, and that difference is the amount they hope to make up in railroad expenditures.

I felt it was important that the Department put before the President an honest option which would contain a new railroad grant program but not result in increased DOT expenditures over the President's FY '76 Budget. I also felt it was important that the Department consider a direct highway-railroad trade-off option.

Accordingly, the DOT staff is re-doing their paper with four options. They will include:

1. A \$1.2 billion railroad grant proposal which would come out of the \$5.2 billion highway funds proposed in the President's FY '76 Budget. This will result in no budgetary impact for FY '76 but one heck of a controversial proposal.

2. DOT's Option 1.
3. DOT's Option 2.
4. Flexible use of the current highway program funds.
(This is an idea that I have not had an opportunity to think through fully, but I will describe further on in this memo.)

Once the four options are put together, DOT will call a meeting of the following principals to discuss the ultimate decision paper for the President: Jim Cannon, Jim Lynn, Secretary Coleman, and appropriate staff.

A decision memorandum should be ready for the President early next week. I have asked Warren Rustand to see if there would be an hour on the President's schedule during the middle or end of next week to discuss the DOT decision paper once we get it.

Obviously, if the President goes to Congress with a proposal to spend \$1.2 billion (or any like amount) on railroads and rescind an equal amount from highways, this will be met with a stir of controversy and, in my judgment, a strong likelihood of failure. It might be better to simply attempt to modify the eligible uses of highway funds along the lines of the 1973 Federal-aid Highway Act, which permitted the use of some of the urban systems money for mass transit projects.

I would envision a proposal which will permit the States to use their highway apportioned funds for capital railroad projects. Interstate, urban or rural funds would be eligible. If the State is working on a main line (trunk trackage) it would be eligible for 90/10 funds and, for other lines, 70/30 money would be available. I would recommend consideration of a couple of incentives. First, to encourage the States to opt for railroad projects, perhaps we could state that, for every dollar apportioned to a State used for railroad projects, the State would actually get \$1.20, thereby increasing its State-wide apportionment. Second, there could be some arrangement whereby the Secretary of Transportation could allow 100% grants if the project selected is energy critical. This might encourage the rehabilitation of spurs into the coal mining areas, etc.

This proposal could be consistent with our highway legislative proposal because it would not matter whether the railroad project was liquidated out of Trust Fund revenues or general revenues.

This whole matter is on a very fast track (sorry!) and I think we should get together and discuss this today or tomorrow at the latest.



Options for a Railroad Unemployment Program

I. The Department's Original Proposal

- A. Amount - \$3 billion
- B. Length of Time - 27 months
- C. Energy Emphasis - Concentrates on mainline routes - 81% of which handle coal
- D. Rescission - None

II. Option 1

- A. Amount - \$1.2 billion
- B. Length of Time - 15 months
- C. Energy Emphasis - Concentrates on mainline routes plus gives priority to projects on mainline routes used for coal haul
- D. Rescission - \$1.2 billion of highway funds

1.2
- 1.2

1.2

III. Option 2

- A. Amount - \$1.2 billion
- B. Length of Time - 15 months
- C. Energy Emphasis - Same as Option 1
- D. Rescission - None

Options 1 and 2 above have been developed to meet the primary concerns expressed at the March 31 meeting. These were:

4/8/75

1. That the program would have a substantial budget impact and, therefore, violate the President's policy of no new initiatives;
2. That much of the employment effect of the proposal would come at a time when the additional job creation effect would not be needed because the economy would be on the road to recovery, and
3. That the proposal should result in actions to meet the nation's urgent need for moving ever increasing amounts of coal.

Option 1 has these advantages:

- (a) It offsets the new authorizations with an equal amount of existing authorizations and thus over the long term does not add to Federal spending. (There is, however, a short term increase in outlays.)
- (b) It permits the Administration to initiate an urgent national program by moving funds from a lower priority to a higher priority transportation program.
- (c) It is tied to three Administration objectives:
 - (1) assist the railroads;
 - (2) reduce unemployment, and
 - (3) meet our energy requirements.

The disadvantage of this option is that it will be difficult to sell a highway authorization rescission on the Hill.

Option 2 has all the advantages of Option 1 plus removes its principal Congressional obstacle. On the other hand Option 2 violates the President's dictum of no new spending programs.



THE WHITE HOUSE
WASHINGTON
April 12, 1975

95% of the service of the country.

MEETING WITH AMERICAN RAILROADS
ASSOCIATION BOARD OF DIRECTORS

Monday, April 14, 1975
2:00 p.m. (30 minutes)
Cabinet Room

From: Jim Cannon *Jim*

I. PURPOSE

The meeting was requested by the Railroad Association and Secretary Coleman so that the railroad presidents can brief you on the critical condition of American railroads. They will present specific recommended programs to correct the problems they face.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

On February 18, you met with two of the railroad presidents present at this meeting (Ben Biaggini, Southern Pacific, and Graham Claytor, Southern Railroad) at a meeting here in the Cabinet Room with six transportation industry leaders on the subject of your energy program.

Critical Need for the Railroads

- Most freight is transported by the railroads. The following is a breakdown for all freight in ton miles transported:

Railroads	38%
Motor carrier	23%
Inland waterways	16%
Pipelines	22%
Air	1%

- Railroads carry the following amounts of selected products produced in this country:

Lumber and wood	78%
Pulp and paper	71%
Automobiles	70%
Food	66%
Primary metals	60%

- Railroads transport 70 percent of the coal produced, utilizing 81 percent of the Nation's mainline tracks. If coal production doubles, the railroads will have to triple the ton miles of coal they carry because of increases in the need for western coal. This will involve over 90 percent of the railroad mainline network.

Critical Problems

- Over one-half of the trackage in the country is unfit for high-speed operations. For safety reasons, trains are operating under Federal "slow orders" on nearly 50 percent of their tracks and at speeds under 10 mph for 20 percent of the tracks.
- Accidents and derailments have nearly doubled since 1967.
- Because of inefficient equipment and operating methods, a typical freight car moves loaded only 23 days a year.
- The railroads are in very bad financial condition. Eight Northeast and Midwest railroads are bankrupt (including Penn Central), the so-called Granger roads in the Plains States are in precarious financial condition; average, industry-wide rates of return are 3 percent or less; and, they just had the largest quarterly deficit in rail history. This dismal financial condition is the result of:
 - 1) Outdated government regulation
 - 2) Archaic work rules
 - 3) Government subsidies to competing modes

These have resulted in the critical problem of redundant facilities and excess competition.

Congressional Reaction

- Senators Hartke and Weicker have introduced legislation to nationalize the railroad rights-of-way. Humphrey and Brock Adams have indicated interest in this approach.
- Senator Randolph plans to introduce a bill to provide \$1 billion to upgrade the rail rights-of-way and there are similar bills (e.g., Buckley -- \$2 billion) which have already been introduced.

Administration Plans and Proposals

- The Regional Rail Reorganization Act is being implemented by DOT, ICC and the United States Railway Association (USRA). This is designed to salvage the Penn Central and the other bankrupt railroads.
- You will soon send to the Congress the Rail Revitalization and Energy Transportation Act of 1975. This proposal is in your FY 1976 budget and only a few details need to be resolved. It is nearly identical to legislation proposed last year which nearly passed. It contains:
 - \$2 billion in loan guarantees for streamlining and plant improvements.
 - significant regulatory reform.
- Secretary Coleman has proposed a \$1.2 billion railroad rehabilitation program. This is under active review by Domestic Council and OMB. A decision paper should be ready for you in about a week.

See Tab A for additional background provided by Secretary Coleman.

B. Participants

Twenty railroad presidents, comprising the Board of Directors of the American Railroads Association. Secretary Coleman will be present. See Tab B for list of participants.

C. Press Plan

Meeting to be announced; press photo.

III. AGENDA AND TALKING POINTS

- After thanking the railroad presidents for coming, you may wish to turn the meeting over to Secretary Coleman.
- Secretary Coleman will also welcome the railroad presidents and will then ask Ben Biaggini to present their recommendations.

Biaggini will cover the problems and potential remedies for the railroads. This will include

the costs imposed on the railroads by government regulation and policies. He will seek financial assistance, tax and regulatory reform.

- We recommend that you advise them that you will soon be sending to the Congress the Rail Revitalization and Energy Transportation Act, containing the \$2 billion in loan guarantees and regulatory reform. We recommend that you make no commitment at this time on the \$1.2 billion railroad rehabilitation program under consideration within the Administration.



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

April 11, 1975

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

Attached in this package is material intended to help you prepare for our meeting with the 20 railroad presidents who comprise the Association of American Railroads and their president, Stephen Ailes. Included in this package are:

1. The Outline for Discussion prepared by the staff of the Association of American Railroads. Mr. Ben Biaggini, President, Southern Pacific Railroad, will talk from the points outlined here.
2. Questions intended to stimulate discussion. However, I doubt seriously that you will have to use them.
3. A backgrounder which I call "The Crisis of the Nation's Railroads" which briefly brings us up to the present time in our current initiatives.

Respectfully,

Bill

Attachments

OUTLINE FOR DISCUSSION OF THE PRESIDENT
WITH THE RAILROAD PRESIDENTS
MONDAY, APRIL 14, 1975

This discussion paper was developed by the Staff of the American Association of Railroads.

- I. The railroad freight system has an important role to play in the long-term future. The basic technology remains relevant and is improving rapidly; in an unbiased economic environment, it can survive and prosper. Expansion of rail capacity to meet expanding national needs is much cheaper than is the case with trucks and water carriers. Finally, energy, environmental, safety and land use considerations strongly argue for a national policy of increased reliance on rail in the years ahead.
- II. The rail system will be with us -- the issue is will it continue in private operation or will it have to be nationalized to be preserved. The costs of nationalization are so large, the administrative burdens on government are so severe, and the probability that operating efficiency would seriously decline is so great that almost everyone agrees that the system should remain as a private enterprise.
- III. Railroads face one major overriding problem -- inadequate earnings. The earnings are depressed by:
- A. The main burdens placed on the railroad system by the government include:
- (1) Cost of rate regulation (\$500 million per year)
 - (2) Losing branch line operations (\$130 million a year)
 - (3) Remaining passenger deficit (\$107 million a year)
 - (4) Property taxes paid on rights-of-way (\$203 million a year)
 - (5) Grade crossing costs (\$173 million a year)
- (Estimated rail revenue losses -- \$1.1 billion per year)

B. Effects of subsidy to rail competitors

- (1) Inadequate user charges on large trucks (\$2 billion a year)
- (2) No user charges on water carriers (\$500-\$750 million a year)

(Estimated rail revenue losses -- \$2.5-\$2.75 billion per year)

IV. Inadequate earnings over a long period have meant deferral of railroad expenditures for track maintenance, new equipment and plant modernization. These deferrals, in turn, have meant a deterioration of service, a decline in the ability to compete, and a further decline in earnings -- a vicious circle.

V. Remedy --

a. Immediate

- (1) Usable financial assistance to break the vicious circle and improve plant, improve service and improve the ability to compete.
- (2) Regulatory reform - particularly in ICC rate powers.
- (3) Termination of state taxation of rights-of-way with Federal payments to states to replace revenues lost this way.
- (4) Effective abandonment machinery, except where subsidy is available to keep branch lines in operation.
- (5) Immediate initiation of independent analyses to determine extent of subsidy to rail competition, plus measures to lessen subsidy in interim -- at least to halt its increase.
- (6) More favorable Federal tax policies on investment tax credits, accelerated amortization and depreciation of existing rail grading and tunnel bores.

b. Longer Range

- (1) Correction of the competitive imbalance -- by imposition of adequate user charges or by offsetting subsidy or both.

VI. Once, with Federal assistance, present difficulties are overcome, once the regulatory climate is made conducive to successful operation, once the competitive situation is brought in balance, the railroad system, privately owned and operated, already the world's most efficient, will play an increasingly important role in the national transportation system.

Questions Concerning Railroads' Materials
for Meeting With President Ford, April 14, 1975

1. The Administration proposed a regulatory reform bill in the last Congress, and the House passed a comprehensive measure. The Senate failed to act on the bill, in part, because of a lack of interest by the railroad industry. Will the railroad industry actively support the Administration in an effort for regulatory reform?
2. A request is made for "usable financial assistance" to improve plant and service. What type of assistance is usable, i.e., grants, loans, loan guarantees, deferred interest?
3. Can you detail the revisions in tax policies requested and the revenue cost to the Government?
4. To correct "competative imbalance", what are the scope and extent of user charges that should be imposed?
5. Will the railroad industry cooperate in a program to lessen unnecessary capacity in the industry through joint use of facilities and mergers?

6. Present subsidies to competing modes are for public facilities. For direct subsidies to the railroad industry, is it necessary that the government own and maintain the railroad right-of-way?
7. If Federal tax policies are made more favorable, how can we insure that the resulting monies are put into rail property investments?
8. Should user charges be designed to promote intermodal transportation services such as piggy-back services?
9. Should user charges be tied to intercity freight service such as long haul trucking and waterways services.



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

MEMORANDUM FOR THE PRESIDENT

SUBJECT: The Crisis of the Nation's Railroads

Mr. President, as your principal advisor on transportation matters, I feel compelled to convey to you my sense of the desperate plight of the Nation's railroads. The state of the rail industry today not only endangers any prospect of economic growth in this country but also imperils our important national objective of energy independence. There is a growing mood in Congress that the only answer to the crisis of the railroads is some form of nationalization. I believe that a private sector solution is possible -- if we move quickly. There is an urgent need for action. Therefore, I respectfully urge you to undertake a dramatic, coordinated program to revitalize the Nation's private enterprise railroad system.

The crisis of the American railroad industry presents this Administration not only with a grave problem but also with a great opportunity. If you can put into effect, Mr. President, a program to save the railroads, it will have an historic significance equal to that of any other endeavor upon the domestic scene. From a political standpoint, I believe it provides an unparalleled opportunity for the Administration to seize the initiative from Congress.

The Importance of the Railroad Industry

For more than a century the railroads have been the backbone of this Nation's transportation system. Even after years of decline, railroads still carry 38 percent of all freight (in ton miles), easily exceeding the 23 percent transported by motor carrier and the 16 percent moved via inland waterway. Railroads carry 70 percent of the automobiles produced in this country, 66 percent of the food, 78 percent of the lumber and wood, 60 percent of the chemicals, 60 percent of the

primary metal products, and 71 percent of the pulp and paper. If the Nation is to realize its economic growth potential during the remainder of the twentieth century, the railroads must be in a condition to move quickly and safely significantly increased freight volumes.

Moreover, a healthy railroad industry is crucial to the energy needs of this country. The railroads must play the predominant role in supplying the Nation with coal during the remainder of this century. The railroad industry transports 70 percent of the coal produced in this country, a task involving approximately 81 percent of its mainline network. Your Project Independence, to make the Nation self-sufficient in energy, envisions a doubling of domestic coal production by 1985. To meet this goal, railroads will be required to double their coal-carrying capacity. Actual ton miles of coal carried by rail, however, must triple due to changes in origin from eastern coal to low-sulphur western coal. This would necessitate coal shipments over 90 percent of the railroad mainline network. Greatly improved railroad service is, therefore, essential to the development and use of coal for energy. In addition, rail transportation is the most energy efficient of all the modes, both freight and passenger. With regard to freight transportation, our research indicates that railways are significantly more energy efficient than trucks, their ubiquitous competitor, or airlines, and slightly more efficient than even barge movement. As for passenger service, our research indicates that railroads, when properly utilized, are substantially more energy efficient than either autos or airlines in moving passengers and are approached in efficiency only by intercity bus. In summation, a healthy, progressive, strengthened railroad system is absolutely essential to our national objective of energy independence.

The Problem Facing the Railroad Industry

Given the paramount importance of the railways in both the past and future of this country, it has been alarming for me, during my first month on the job, to discover the dilapidated state of the railroad industry. The facts are startling. Over one half of the present rail track in the country is unfit for high-speed operations. It is not uncommon for train operations on mainline tracks to be limited to speeds of 10 to 20 miles per hour. Accidents and derailments have nearly doubled since 1967. Because of outdated equipment and methods

and the resultant inefficiency, a typical freight car moves loaded only 23 days a year. It is becoming increasingly apparent that the rail industry, as presently constituted, will be manifestly unable either to support the traffic our economy generates or to meet the challenge of increased coal carriage which energy independence demands.

For many years now the income generated by the American railroads has been insufficient to meet the requirements of plant maintenance and rehabilitation, and with rates of return of 3 percent or less, funds from outside sources are virtually unavailable. The deferred maintenance in the industry is now estimated to range as high as \$7.5 billion. Although the problems of railroads are most severe in the Northeast and Midwest (where eight carriers are bankrupt), numerous other railroads, especially the so-called Granger roads that operate in the Plains states, are in precarious financial condition. The massive problems of the railroad industry are most recently aggravated by the largest quarterly deficit in rail history. Today the United States is confronted with the grim reality that a major breakdown of our rail freight system is a distinct possibility.

It is important that the underlying causes of the railroad problem be clearly understood. A great deal of the discussion on this subject is focused on the poor condition of mainline track and on the bankruptcies. These are symptoms but not the underlying causes of railroad difficulty. The principal factors underlying railroad difficulty are: (1) Redundant facilities and excess competition; (2) Outmoded regulation; (3) Archaic work rules; (4) Lack of capital to finance rehabilitation; and (5) Preferential treatment of other modes.

Perhaps the principal factor underlying railroad problems is the redundancy of plant and the excess competition which exists within the industry. This is especially true in the Northeast and Midwest and, as a result, these are the areas where railroad problems are the worst. There are simply more facilities of all types -- yards, mainline tracks, and branch lines -- than are required to provide economical and efficient service. In many instances, two or more railroads compete for traffic sufficient only for the survival of one carrier.

Secondly, slow and cumbersome regulatory procedures impede responses to competition and changes in market conditions and at times result in traffic being handled at non-compensatory rates. These procedures also have created a serious impediment to needed

restructuring. Regulation that was necessary when it was enacted decades ago is simply unresponsive to today's needs. This inflexibility stemming from Interstate Commerce Commission procedures and rules is a major deterrent to railroad efficiency and viability. For instance, after 12 years, the attempt to restructure the Rock Island Railroad through merger with other carriers is still incomplete.

Third, the existing work rules in the industry are a major obstacle to achievement of economic potential in the railroad system. Archaic arrangements regarding the size of the crews that man trains and providing for crew payment on an illogical basis weigh heavily upon the industry and severely limit productivity.

Fourth, lack of capital and the resultant deferred maintenance has caused widespread deterioration of mainline track and other parts of the railroads' physical plant. Clearly there is a need to rehabilitate the essential portions of the industry's physical plant -- but that rehabilitation will be effective in revitalizing the railroads only if the burdens of redundant facilities, regulatory constraints, and costly work rules are also alleviated.

Finally, there has been, over the years, preferential treatment of the other transportation modes by the Federal Government. Only the railroads (with the exception of the pipeline companies) own their own rights-of-way and have to carry the fixed charges of ownership and maintenance of this extensive plant.

The Congressional Reaction

There is a great deal of pressure building in Congress for a solution to the railroad problem, and there is growing feeling on the Hill that the only answer lies in some form of nationalization. Faced with the prospect of continuing crises and the necessity of providing more and more Federal money, there is an understandable desire to ensure that the American public receives something in return for its heavy investment. In the absence of a constructive alternative, Congress may indeed turn to nationalization. Senators Hartke and Weicker have introduced legislation to nationalize the railroad rights-of-way, as has Senator Humphrey, and Brock Adams, a leading spokesman on rail matters in the House, has publicly stated that serious consideration should be given to such a proposal. Privately, many other Congressmen and Senators are

saying that the only solution to rail industry problems lies in nationalization. In any event, Congress has already seized upon the obvious problem of deteriorating track and roadbed as an interim means of improving the railroad situation as well as an opportunity to take the political initiative. Senator Randolph intends to introduce a bill to provide for a \$1 billion program for upgrading rail rights-of-way. Congressman Heinz and Senator Buckley have each introduced separate bills to spend \$2.5 billion and \$2.0 billion, respectively, to upgrade deteriorating trackage through employment programs.

It is highly unfortunate that Congress has been allowed to take the initiative on the railroads. It is even more unfortunate that some solutions receiving serious consideration in Congress are excessively expensive, inappropriate responses to the real problem, and bad for the country. The Congressional proposal of nationalization of the industry, or, at least, of the rights-of-way, would mean not only an injection of unnecessary Federal control into another area of our national life but also unnecessary rehabilitation and maintenance expenditures on excess railroad plant. Total physical rehabilitation of the existing rail system is not only prohibitively expensive but also undesirable. What is needed is a major rationalization of the rail facilities of the country and an elimination of redundant capacity through mergers and joint use of facilities. Only the components of a rationalized rail plant should be rehabilitated. Moreover, rehabilitation of track will be of little benefit to the railroads or to the Nation unless the other difficulties of the railroads can be overcome as well. A track rehabilitation program should only be commenced as a part of a broader program to overcome other industry problems such as regulatory restraints and work rules.

A Program to Rebuild the Railroad Industry

The Department of Transportation has a comprehensive program which I believe will assure the United States of a viable private enterprise rail system capable of meeting the commerce and energy needs of this country. Moreover, it provides the Administration with the means of seizing the political initiative. The program involves: (1) A consolidation and streamlining of the national rail system utilizing financial incentives and relief from impediments to rail mergers and joint use of facilities; (2) Removal of a number of outmoded and inequitable regulations on railroads; (3) As an important first step to nationwide rail consolidation, the forging of a successful conclusion

to the current Northeastern rail restructuring process in a form consistent with the national program of consolidation; (4) Measures to reduce preferential treatment of competing modes and; (5) Recognition of the indispensability of rail passenger service in certain corridors and the public (and Congressional) demand for such service in other areas.

Implementation of the Program

The cost of rehabilitating even the streamlined rail plant that I have proposed will be high. On the other hand, I am keenly aware, Mr. President, of your dedication to fiscal responsibility. Therefore, the Department of Transportation has already developed two concrete legislative proposals which will not only take great strides in furthering the program I have outlined but also be consonant with your opposition to any new spending programs.

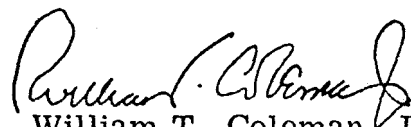
First, we have proposed a bill called the Rail Revitalization and Energy Transportation Act of 1975 to provide \$2 billion in loan guarantees to railroads to finance the rationalization and streamlining facilities. The \$2 billion in the bill is already a part of your budget proposals, and the proposal is awaiting White House approval. As a condition of receiving assistance, the Secretary of Transportation will be able to require railroads to enter into agreements for the joint use of tracks, terminals, and other facilities and to enter into agreements for mergers to further rationalize the rail system. The proposed bill also provides significant regulatory reform by amending the Interstate Commerce Act to permit increased pricing flexibility, to expedite rate-making procedures, to outlaw anti-competitive rate bureau practices, and to improve the procedures for dealing with intrastate rates.

Second, I have proposed a \$1.2 billion Emergency Railroad Rehabilitation Program to attack forthwith the accelerating deterioration of the railroad physical plant. The proposal carries with it significant immediate benefits for employment in the country. The money for this bill could, as one alternative, come from rescinding \$1.2 billion of the \$9.1 billion for highways currently being impounded. As a result, it would not increase Federal funding authorizations but rather reallocate funds from lower priority to higher priority transportation programs. I believe that public reaction, except for the die-hard

supporters of expanded highway programs, would be positive. This proposal also is awaiting White House approval. The primary emphasis of the proposal is to rehabilitate and maintain mainline routes and major terminals that will be included in any restructured and streamlined railroad system. This legislation will significantly assist the Nation's energy goals by giving priority to those projects which will aid in the movement of coal.

The financial assistance provided through the proposed Rail revitalization and Energy Transportation Act and the Emergency Railroad Rehabilitation Program, coupled with the regulatory reform contained in the former, will provide the foundation for a viable private enterprise railroad industry. Moreover, these two legislative proposals will announce the Administration's determination to deal with urgent national problems even while simultaneously maintaining a commitment to fiscal responsibility. At the least, the Emergency Railroad Rehabilitation option of using highway money would put pressure on Congress to consider trade-offs rather than add-ons to the budget as the means for financing the railroad programs it is considering.

In conclusion, Mr. President, I believe that the two legislative proposals I have outlined are important initial steps in constructing a comprehensive program to save the American railroads. Of course, it is also essential that we deal appropriately with the Northeast rail restructuring problem. By the 26th of this month, the Economic Policy Board Task Group on Northeast Rail Restructuring, of which I am Chairman, will present you with its specific recommendations.


William T. Coleman, Jr.