IV. SPECIFIC PROPOSALS

A. Introduction

The earlier parts of this report were designed to provide a basic framework with which any proposed mechanism, or approach, for federal involvement in the rehabilitation of rail fixed plant can be examined. Part II discussed the components essential to any federal rail rehabilitation program as well as the important advantages and disadvantages of each component. Part III briefly summarized some of the key impacts in terms of which the proposed mechanisms must be assessed.

With Parts I through III as a foundation, selected specific proposed mechanisms are described below, using the framework developed in Part II, and highlighting some of the impacts of each proposal as viewed by the sources interviewed during this study. Each proposal is briefly introduced, with a reference made to the source document where full details of the proposal are presented. Individual Summaries of each of the alternative proposals, with the essential components briefly described, are also included. A composite of these individual exhibits appears in Exhibit XI (see Part V, below).

The selection of proposals was a joint effort of Harbridge House, Inc., The Office of Technology Assessment, and several Congressional Committee staff members. The proposals chosen were intended to embrace those proposals which are being widely discussed today and those which are interesting conceptually. Some valuable proposals have not been included here because they were either formulated or articulated in detail too late to be incorporated in the study.

The sequence in which the proposed mechanisms are addressed reflects no evaluation or preference. In general, the options not involving federal ownership are arranged, first, in rough order by softness (that is, the extent to which they represent new infusions of capital into the railroad industry), then by several ownership alternatives.

B. Selected Alternative Proposals

1. A United States Rail Trust Fund
(see Exhibit IV)

This proposal, presented by Governor Shapp of Pennsylvania, is intended to "enable privately-owned railroads to obtain sufficient funds to modernize and expand [their] facilities. " It provides for rehabilitation funding for all lines.

The amount of funds estimated to be required for this proposal is $12.9 billion over a six-year period. The funding source is a 5 percent surcharge on all rail freight revenues. A trust fund with bond issuing authority is used to translate the continuing income stream into the six-year rehabilitation program. Grants made from the trust fund carry no repayment obligations.

The government controls expenditures to the extent of approving railroad grant applications, but that control is not intended to force major system rationalization. No explicit control is gained over the railroad industry structure or railroad operations. Ninety percent of the trust fund distributions are made to the railroads, proportionate to the trust fund income they generate through the waybill surcharges. Ten percent of trust fund distributions are discretionary.

In addition to the provision of fixed plant rehabilitation, the proposal includes a $1 billion revolving fired to facilitate the purchase of rolling stock.

EXHIBIT IV
COMPONENTS OF "A UNITED STATES RAIL TRUST FUND"

Stated Objective	To enable privately owned railroads to obtain sufficient funds to modernize and expand all of their facilities in order to better serve the public.	
Scope		
Geographic	Nationwide	
Facility Types	All lines	
Government Funds		
Amount & Timing	$12.9 billion over 6 years*	
Source	5% surcharge on all rail freight revenues	
Form	Grants, no matching or repayment, from proceeds of bonds issued by trust fund	
cost	Commitment per $ billion	$1 billion
	Risk	None
	Administrative	
	Collection	Medium
	Distribution	Medium
	Acquisition	None
Government Control		
Route Structure	Railroads design projects and apply for grants based on their priorities; 90% of funds are allocated, proportionate to the surcharge	
Industry Structure	None specified	
Operations	None specified	
Other Control Aspects	None specified	
Related Actions	None specified	

*Rehabilitation – Road and Track, $6.9 billion; Electrification, $3.2 billion; Modernization – Road and Structure, $1.9 billion; Modernization – Yards, $0.9 billion.

Source: Pamphlet by Milton J. Shapp, Governor of Pennsylvania, Rev. December 1974.

2. Railroad Rehabilitation and Improvement Act of 1975 (see Exhibit V)

This proposal was developed in draft legislative form by the Union Pacific Railroad. Its stated objective is "improvement of the Nation's rail system through efficiency gains . . ., strengthened competition, and enhanced carrier profitability." Its scope is nationwide (including the Northeast), and it embraces all lines.

The proposed legislation calls for a $10 billion program spread evenly over a 10-year period, although the authors of the proposal ackmowledge the difficulty of estimating the amount required. The source of funds is a diesel and residual fuel tax on all railroads, trucks, and water carriers (except passenger, farm, and foreign commerce use).

The form of financial assistance is purchase from the railroads of preferred stock which is subordinate to secured debt and preferred stock currently outstanding. No principal or interest payments are required during the first 10 years after issuance of the preferred stock. Level interest and principal payments are required over the subsequent 20 years, at an effective 2 percent interest rate. This is equivalent to a 75 percent grant with 25 percent of the principal amount covered by a loan to the railroad at 10 percent interest. A trust fund with bond issuing authority is used to translate the 20-year stream of receipts of the fuel tax into a 10-year outflow for rehabilitation.

The proposal provides for designation by the U.S. Department of Transportation of a national system composed of main and branch lines. Applications by the railroads for rehabilitation funds are approved or rejected by the DOT in accordance with loose guidelines included in the act. The DOT can set terms and conditions to ensure that the rehabilitation is performed as represented in the application.

This proposal gives the government no explicit control over industry structure or rail operations; however, if a railroad fails to meet the repayment provisions, the DOT may appoint two members of the carrier's board of directors to represent the government's interests.

EXHIBIT V
COMPONENTS OF
"RAILROAD REHABILITATION AND IMPROVEMENT ACT OF 1975"

Stated Objective	To improve the nation's rail system through efficiency gains ... , strengthened competition, and enhanced carrier profitability.	
Scope		
Geographic	Nationwide	
Facility Types	All lines	
Government Funds		
Amount & Timing	$10 billion over 10 years	
Source	Diesel and residual fuel tax of approximately 5¢/gallon for 20 years	
Form	Preferred stock, interest and principal deferred for 10 years; repaid in 30 years at effective interest rate of 2%; trust fund, issuing bonds to accelerate rehabilitation payments	
cost	Commitment per $ billion	$754 million
	Risk	Medium
	Administrative	
	Collection	Medium
	Distribution	High
	Acquisition	None
Government Control		
Route Structure	Railroads apply; DOT designates main and branch lines and approves specific projects	
Industry Structure	None specified*	
Operations	None specified*	
Other Control Aspects	DOT sets terms and conditions	
Related Actions	None specified	

*Government has minority representation on railroad's board of directors in the event of default.

Source: Preliminary draft for discussion purposes only, developed by Union Pacific Railroad, 14 July 1975.

3. National Transportation Rehabilitation and Modernization Act of 1975 (see Exhibit VI)

This proposed legislation was developed by the Rail Services Planning Office of the Interstate Commerce Commission. Its objective is to provide "Federal funding for the rehabilitation and modernization of railroad properties." It is national in scope and it applies to all types of facilities, although it calls for the designation of interstate, secondary, and branch line systems.

The proposal suggests a $6.25 billion program over a five-year period, based on a fuel tax over the same period. The source of funds is a 2¢ per gallon tax on all liquid fuels for highway, rail, and waterway uses (except buses, government vehicles, and farm use). Expenditures are in the form of matching grants, with a provision for soft loans to railroads which are not able to provide matching funds.

Extensive control, through a central planning process, is envisioned over the route structure and over joint use of rehabilitated facilities.

EXHIBIT VI
COMPONENTS OF "NATIONAL TRANSPORTATION REHABILITATION AND MODERNIZATION ACT OF 1975"

Stated Objective	To provide for employment, conservation of resources, sound economic conditions in rail transportation, and improved services.	
Scope		
Geographic	Nationwide	
Facility Types	All Lines	
Government Funds		
Amount & Timing	$6.25 billion over 5 years	
Source	2¢/gallon tax on fuel + .014¢/KWH of electricity used by rail and water carriers and road vehicles (except buses)	
Form	Matching grants, plus "soft loans"	
cost	Commitment per $ billion	$500 million +
	Risk	Low
	Administrative	
	Collection	Medium
	Distribution	High
	Acquisition	None
Government Control		
Route Structure	Extensive control by Secretary of Transportation	
Industry Structure	None specified	
Operations	Joint use may be directed by ICC	
Other Control Aspects	None specified	
Related Actions	Improved accounting system	

Source: Rail Services Planning Office, ICC, undated draft.

4. Financial Procedures to Assist Conrail's Viability (see Exhibit VII)

This proposal, as its title suggests, focuses on the rehabilitation and other needs of Conrail only. Essentially a financing mechanism, it is not concerned with control aspects. It was proposed by Mr. Richard Dicker, Chairman of the Penn Central Institutional Creditors Group, and is described in a statement made by John Ingraham of the First National City Bank before the Surface Transportation Subcommittee of the Senate Commerce Committee on 15 May 1975.

The proposal calls for the U.S. Railway Association to borrow with federal guarantees. The proceeds are advanced to Conrail in the form of grants, or through the purchase of Conrail preferred stock. The stock would have a dividend rate set 1 percent higher than the USRA borrowing cost. Dividends are cumulative, if earned, but are not paid during the first eight years of Conrail's operation.

EXHIBIT VII
COMPONENTS OF
"FINANCIAL PROCEDURES TO ASSIST CONRAIL'S VIABILITY"

Stated Objective	To assist Conrail's viability, during the first 8 years of its operation, by virtually eliminating debt service in that period on capital required for rehabilitation.	
Scope		
Geographic	Northeast and Midwest	
Facility Types	All lines	
Government Funds		
Amount & Timing	$2 billion or more over 8 years	
Source	Loan guarantees; default covered out of general revenues	
Form	U.S. guarantees USRA borrowing; USRA advances the proceeds to Conrail either in the form of grants or through the purchase of Conrail preferred stock (dividend rate 1% above USRA borrowing rate; dividend cumulative, if earned, but deferred 8 years)	
cost	Commitment per $ billion' –	
	Risk	High
	Administrative	
	Collection	Low
	Distribution	—
	Acquisition* *	—
Government Control		
Route Structure	Not addressed since this is a financing mechanism for Conrail	
Industry Structure		
Operations		
Other Control Aspects		
Related Actions	None specified	

*Cannot be calculated with available data; estimated to be fairly low due to interest rate at 1 % above market for guaranteed loan.

**Not addressed.

Source: Annex B of letter from Richard Dicker to Art Lewis, 25 April 1975.

5. Railroad Revitalization Act
(see Exhibit VIII)

This legislation, proposed by the U.S. Department of Transportation, is intended, among other things, to "provide needed financial assistance to the railroad industry" and to "encourage rationalization and restructuring." It is nationwide in scope, and it does not distinguish between main, secondary, and branch lines.

In terms of funding, this proposal provides a revolving-loan guarantee program over a 10-year period with a maximum government exposure of $2 billion at any time. Coverage of defaults, if any, on guaranteed loans are paid from general revenues. The deferral of interest and principal (through the Federal Financing Bank) is permitted, but eventual repayment is mandatory.

The proposed government control is extensive. The routes for rehabilitation can be approved or rejected, based on loose guidelines which include "efficiency of rail operation." The DOT can require, as a condition of the loan, that the applicant railroad participate in a merger, consolidation, joint use, or the purchase or sale of assets. No operational control is specified, but loans may be conditioned on the railroad's carrying out its common carrier obligations satisfactorily.

In addition to the rehabilitation program, the act provides for rate reform, expedites restructuring procedures, prohibits discriminatory taxation of rail property, and provides for a uniform accounting system.

EXHIBIT VIII
COMPONENTS OF "RAILROAD REVITALIZATION ACT"

Stated Objective	To provide needed financial assistance to the railroad industry, and to encourage rationalization and restructuring.	
Scope		
Geographic	Nationwide	
Facility Types	All lines	
Government Funds		
Amount & Timing	About $2 billion over 10 years (includes terminals, rolling stock, and data systems)	
Source	General revenues	
Form	Loan guarantees (loans through federal financing bank); allows deferral of principal and interest	
cost	Commitment per $ billion	Low
	Risk	High
	Administrative	
	Collection	Low
	Distribution	High
	Acquisition	None
Government Control		
Route Structure	Railroads initiate and Transportation Secretary approves, subject to guidelines which include ability to repay, efficiency of rail operations, and management's fulfillment of its "obligations" as a common carrier	
Industry Structure	Transportation Secretary can require applicant railroad to participate in merger, consolidation, joint use, or purchase or sale of assets as condition of loan guarantee	
Operations	Satisfactory operations can be a factor in decision to guarantee loans	
Other Control Aspects	None specified	
Related Actions	Rate reform; expedited procedures for restructuring; prohibition of discriminatory taxation; uniform accounting system	

Source: Proposed by the U.S. DOT, undated draft.

6. Railroad Revenue Act of 1975
(see Exhibit IX)

This proposal, S. 1143, is a complex one. Its objective includes the promotion of modern and efficient rail service. It is national in scope, and it provides for federal ownership of a high-density mainline network and state ownership of the balance.

The amount and timing of rehabilitation funding is not specified in the act; however, the amount envisioned is clearly large. Sources of funds include a 1 percent tax on the value of all surface freight transportation, including private carriage, and a flat $1 per thousand gross ton miles user charge (adjusted for inflation).

The form of investment is ownership, as noted above, through voluntary dedication of rail property in exchange for relief from ownership expenses. If it is assumed (see Part II, above) that the non-compensatory nature of the user charge reflects the acquisition cost, then the commitment cost is virtually 100 percent of the rehabilitation program. The administrative costs, relative to other proposals, are estimated to be high.

The government control implied by ownership is very extensive, including total control over route structure, a significant impact on industry structure, and a deep involvement in operations.

EXHIBIT IX
COMPONENTS OF "RAILROAD REVENUE ACT OF 1975"

Stated Objective	To obtain modern and efficient rail service.	
Scope		
Geographic	Nationwide	
Facility Types	All lines	
Government Funds		
Amount & Timing	Not specified, but include major rehabilitation	
Source	1% tax on all freight surface transportation, private and for hire; appropriations from general revenues; user charges [$1 per thousand gross ton miles (adjusted for inflation)]	
Form	Government ownership (federal-interstate, state-intrastate); voluntary dedication of property; no compensatory user charges	
cost	Commitment per $ billion*	$1 billion
	Risk	None
	Administrative	
	Collection	High
	Distribution	Very High
	Acquisition* *	Very High
Government Control		
Route Structure	Total control	
Industry Structure	Carriers remain as operating companies; structure affected by control over joint use	
Operations	Extensive	
Other Control Aspects	None specified	
Related Actions	None specified	

*Assumes non-compensatory nature of user charge is part of acquisition cost.
**See Part I 1.

Source: S.1143

7. Transportation Development Act of 1975
(see Exhibit X)

This proposal, developed by the Illinois Department of Transportation, is directed at the efficient accomplishment of reconstruction and modernization of the rail system, and the achievement of healthier railroads and improved service. It is national in scope, and it covers all rail facilities.

Although the amount and timing of financial assistance depend on how discretionary funds are used as well as on decisions made at the end of an initial two-year program period, the proposal provides at least $4 billion over the first two years.

The source of funds includes a 5 percent tax on the value of all surface freight transportation, private and for hire, and non-compensatory user fees set at 75 percent of each carrier’s 1974 ownership cost.

The form of funding is ownership (by the states) through voluntary dedication in exchange for relief from some portion of the ownership costs. Grants (100 percent for capital projects, 70 percent for routine maintenance) are made to the states from the rail segment of a unified trust fund whose receipts derive from the freight surcharge.

As with the other approaches involving ownership, a great deal of government control is associated with this proposal. Route structure is designated by the federal (interstate) and state governments (intrastate). Some coordination is planned, although protection of the current service patterns is given to the carriers. State and federal government involvement in operations is extensive.

EXHIBIT X
COMPONENTS OF "TRANSPORTATION DEVELOPMENT ACT OF 1975"

Stated Objective	To efficiently accomplish the reconstruction and modernization of the rail system.	
Scope		
Geographic	Nationwide	
Facility Types	All lines (interstate system designated by U.S. DOT, intrastate system designated by state government)	
Government Funds		
Amount & Timing	$2 billion/year, plus $1 billion in discretionary funds (all modes); plus state inputs from user charges; subsequent funding unspecified	
Source	5% tax on all modes of freight (private and for hire); non-compensatory user charge set at 75% of 1974 ownership cost	
Form	Ownership (by state) Grants (100% for capital improvements, 70% federal/ - 30% state for 'routine maintenance)	
cost	Commitment per $ billion	$1 billion
	Risk	None
	Administrative	
	Collection	High
	Distribution	Very High
	Acquisition	Very High
Government Control		
Route Structure	Total control	
Industry Structure	Limited; some coordination, but protection of current carriers' service rights	
Operations	Extensive	
Other Control Aspects	None specified	
Related Actions	None specified	

Source: Illinois Department of Transportation, undated draft.