
APPENDIX A

Analysis of Issues

The following pages represent what is essentially an abbreviated presentation of the material contained in Part II of the report. They lay out a series of issues in a format which is useful for assessing the components of the alternative proposals for federal involvement in rail plant rehabilitation. Each issue is articulated in the form of a declarative statement which favors one side of the issue. The major pros and cons of that statement, as expressed by the sources contacted during the study, are then listed side by side below the statement, and are followed by questions intended to further clarify the issue. All of the issues covered in the report are included here, and are in the same sequence. They are:

Scope

Geographic

Density (Facility Types)

Government Funds

Amount

Timing

Source

General Revenues

Rail Freight Surcharge

Freight Surcharge, All Modes

Fuel Taxes

“No-Cost” Sources (Guaranteed Loans)

Form

Ownership vs. Non-Ownership

Soft vs. Hard

Trust Fund vs. Direct Assistance

Government Control

Route Structure

Industry Structure

Other Control Aspects

THE NEED FOR FEDERAL ASSISTANCE IS NATIONWIDE

PRO

- Deferred maintenance and capital projects exist throughout the rail system.
- Further deterioration should be halted on a national basis.

CON

- The most pressing problems are in the Northeast and Midwest regions.
- Some experience should be acquired in these regions before attempting a national program.

QUESTIONS

1. What are the needs for rehabilitation on a region-by-region basis?
2. To what extent are the needs increasing outside the Northeast and Midwest regions?

FEDERAL ASSISTANCE SHOULD BE LIMITED TO HIGH-DENSITY MAINLINES

PRO

- The federal government has a clearer interest in long-haul mainline traffic between major population centers. States and communities should be responsible for local problems.
- The only lasting role for rail freight transportation is in long-haul mainline service. Other service will, and should, be handled by trucks.

CON

- The rail system is an integrated one; therefore, rehabilitation should seek system-wide improvements.
- The worst of the deferred maintenance is on lower density branch lines and secondary mainlines.
- State and local governments do not have the funds required for secondary and branch lines.

QUESTIONS

1. If only high-density mainlines receive major rehabilitation, what will be the impact on service? On industry costs?
2. What is the cost of mainline-only rehabilitation as opposed to rehabilitation of the entire system?

***THE AMOUNT OF FUNDS REQUIRED FOR RAIL
REHABILITATION IS MORE THAN \$10 BILLION***

PRO

- Due to rail's energy and environmental advantages, it should play an expanded role in our transportation system. This will take major investments.
- Rail's competitors have been subsidized over the years to a larger extent than \$10 billion.
- It is possible that a large investment will evidence a threshold effect (i.e., that it will take a massive infusion, but the result will be a growing, economically viable industry). Smaller amounts will be wasted.

CON

- The federal government shouldn't have to pay the whole bill.
- Rail as an industry is in a long-term decline. Pouring large amounts of money into it is a waste of public funds.
- The major problem with the industry is **excess** capacity. Rehabilitation will increase that capacity and defer the needed contraction.

QUESTIONS

- I. What is the appropriate role for rail over the next few decades? Will it represent a greater or smaller portion of our transportation system?
- 2.. What route structure will be required to support that role?
3. To what standards should that route structure be rehabilitated?
4. **What is the cost of that rehabilitation?**
5. What is the return on that investment in terms of economic return? In terms of social benefits?

***THE RAIL REHABILITATION THAT SHOULD BE DONE SHOULD BE
ACCOMPLISHED WITHIN THE NEXT SIX YEARS***

PRO

- The financial condition of a number of railroads means that timely rehabilitation could prevent further bankruptcies.
- The effect of inflation is to make any delay increase the cost of rehabilitation.
- Further deterioration of rail fixed plant means that any delay will increase the cost of rehabilitation.
- Appropriate legislation can allow a quick start and simultaneous refinement of the total requirement.

CON

- It is best to proceed slowly because the real need for rehabilitation is not yet known.
- Further rail bankruptcies will facilitate the ultimate rationalization of the system.

QUESTIONS

1. What will be the costs of deferring the rehabilitation program, in terms of inflationary impacts, further deterioration of rail plant, and the financial condition of the weaker railroads?

***GENERAL REVENUES ARE THE BEST
SOURCE OF FUNDS FOR RAIL REHABILITATION***

PRO

- The nation's rail system is so integral to the economy that everyone benefits from its rehabilitation; therefore, general tax revenues are an appropriate funding source.
- In terms of administrative expense of collection, general revenues cost less.

CON

- . Appropriations out of general revenues are highly visible and appear to be expensive.
- . Planning a long-range program, such as rail rehabilitation, which involves major capital investments by suppliers (e.g., rail fabrication plants) requires a secure source of funds. Appropriations are too uncertain.

QUESTIONS

1. What are the supply implications of a nationwide rehabilitation program?

***A RAIL FREIGHT SURCHARGE IS THE BEST SOURCE
OF FUNDS FOR RAIL REHABILITATION***

PRO

- It is a user charge applied to those who benefit most directly from it.
- . It is a secure source and is not a drain on the public treasury.

CON

- It will degrade the economic viability of the rail industry by increasing the cost of rail service vis-a-vis truck and barge.

QUESTIONS

1. How much traffic will rail lose to its competition if rehabilitation is funded through a rail freight surcharge?
- ? How will the cost of a rail freight surcharge be distributed among consumers?

***A FUEL TAXIS THE BEST SOURCE OF
FUNDS FOR RAIL REHABILITATION***

PRO

- It is desirable as a conservation incentive.
- . It bears more heavily on trucks than on railroads, and thus partially redresses the historic inequity in government support.
- . It is broadly enough based, particularly if it includes private use of gasoline, to raise substantial revenues with a very small tax per gallon.

CON

- Any tax is viewed as an inequitable burden by those who are taxed.
- Rail's freight competitors should not be asked to pay for rail rehabilitation.

QUESTIONS

1. Will the nation benefit if rail rehabilitation is achieved at the expense of some increase in fuel cost?
- ² Of the alternative fuel taxes (all fuels for all surface transportation; all fuels for freight modes only; freight modes, diesel and residual fuel only), which is the most appropriate?

***LOAN GUARANTEES ARE THE BEST SOURCE
OF FUNDS FOR RAIL REHABILITATION***

PRO

- Loan guarantees are a “no-cost” solution except in the event of default.
- They make low-cost capital accessible to the rail industry.

CON

- They are available only to the railroads which can repay them, and these are the railroads which need assistance the least.
- The government liability is uncertain as to timing and amount.
- Inadequate railroad earnings are part of the problem. A solution which relies on those earnings as a source of funds is no solution at all.

QUESTIONS

1. To what extent is the rail plant needing rehabilitation owned by railroads which are able to repay a low-cost loan?

**GOVERNMENT OWNERSHIP OF RAIL RIGHTS-OF-WAY IS AN
APPROPRIATE FORM OF REHABILITATION INVOLVEMENT**

PRO

- . It avoids criticism of federal assistance to privately owned companies.
- It affords the opportunity to centrally plan and implement a truly national rail system.
- . It permits a viable industry of private railroad operating companies.
- It facilitates the planning and implementation of a national rail passenger service.

CON

- . Bureaucracy or politicization make nationalized rights-of-way an inefficient arrangement, even with a rehabilitated system.
- The separation of plant ownership and train operations creates practical operating problems.
- . Publicly owned rail rights-of-way invite “destructive” competition.
- The acquisition of rail fixed plant will be very expensive, in terms of either purchase/condemnation or noncompensatory user charges needed to make a voluntary turnover feasible.

QUESTIONS

1. Is nationalization of rail rights-of-way necessary now? Or are there alternative “private” solutions (with government assistance) which may create a viable private industry, with public ownership available as a fallback position if they fail?

***GRANTS, MATCHING GRANTS, OR “SOFT” LOANS ARE
PREFERABLE TO FULL REPAYMENT LOANS AS A FORM OF
FINANCIAL ASSISTANCE FOR REHABILITATION***

PRO

- Hard loans will not enhance the economic viability of the rail industry.
- Hard loans are of no use to the financially weaker railroads which need rehabilitation the most.

CON

- Hard loans are cheaper.

QUESTIONS

1. Can flexible assistance be provided so that the softness of the assistance varies according to the individual owning railroad's ability to repay?

***A TRUST FUND ISA DESIRABLE MECHANISM
FOR RAIL PLANT REHABILITATION***

PRO

- **A** trust fund is a good way to provide the secure funding program required for a rehabilitation plan which involves major capital investment by suppliers.
- A trust fund facilitates the conversion of a long-term, lower level of income into a short-term, higher level of outflow for rehabilitation.

CON

- **A trust** fund approach is too secure for a program with as many unknowns as the rehabilitation program. It is difficult to “turn off” if the need turns out to be less than initially estimated.

QUESTIONS

1. Can flexibility be built into a trust fund mechanism to avoid overfunding as the true measure of the rehabilitation requirement emerges over time?

***GOVERNMENT CONTROL IS DESIRABLE OVER THE
ROUTES AND FACILITIES REHABILITATED***

PRO

- If the government puts money in, it ought to be able to control how that money is spent:
- The central problem of the rail industry is excess capacity. Federal rehabilitation is an opportunity to take charge of the rationalization process.
- System rationalization requires a major, centralized analysis and planning function which is best performed at the federal government level.
- Only the government can be expected to plan a system which reflects social benefits as well as financial returns.

CON

- Centralized planning does not work as well as free market forces, so the focus should be on freeing the market forces from regulatory control, not on taking over the rationalization function.
- The government should help with analysis and planning, but should leave the decisions to the railroads.

QUESTIONS

1. What administrative mechanism is best for exercising control (e.g., the USRA/DOT/ICC approach used in the Northeast)?
2. **How** can a nationwide government rationalization effort avoid placing a financial burden on those railroads whose lines are not selected for a rationalized system?
3. How can shippers who are subject to reduced service, through rationalization be compensated? Should they receive compensation?

***GOVERNMENT CONTROL OVER THE CORPORATE
STRUCTURE OF THE INDUSTRY IS DESIRABLE***

PRO

- The current “Balkanized” structure is a major contribution to the industry’s problem.

CON

- While a more desirable structure is needed, it will evolve without government control if the current procedures for restructuring (10 years for the Rock Island merger) are expedited.

QUESTIONS

1. Can the procedure for the approval of industry-initiated restructuring be improved?

***GOVERNMENT CONTROL OVER RAILROAD INDUSTRY SPENDING
FOR OTHER THAN REHABILITATION IS DESIRABLE***

PRO

- If public money is invested in rail rights-of-way,” the railroads must be prevented from simultaneously disinvesting through cash dividends, or from wasting funds in exorbitant salaries or management perquisites.

CON

- A bureaucracy established to monitor railroad spending will reduce the efficiency and effectiveness of railroad management.

QUESTIONS

1. What mechanisms can be set up to protect the public investment in rail rehabilitation without creating a bureaucracy or interfering unduly with private management functions?
2. Will rail rehabilitation, and related government actions, enhance the viability of the industry to the extent that private owners are no longer motivated to “disinvest” in the rail system?