EXECUTIVE SUMMARY

This report provides a conceptual framework for the evaluation of alternative approaches to federal assistance for the rehabilitation of the nation's railroad fixed plant. The report is not intended to provide an analytic evaluation of the alternatives. Rather, it identifies the pros and cons involved in the major issues raised by the alternatives.

The conceptual framework identifies five major areas of interest (or components) essential to an assessment of alternative proposals for federal involvement. They are:

- Objectives--The stated objectives of various proposals are couched in fairly general terms. A significant difference emerges, however, between those approaches with a primary emphasis on the use of federal assistance to promote the rationalization and contraction of railroad fixed plant and those which emphasize an expansion of rail service.

- Scope--Two asPects of scope emerged from the study. They are geographic coverage (that is, regional versus nationwide) and the types of facilities included in the rehabilitation.

- Government Funds--The conceptual framework indicates four areas of concern arising from the funding aspects of the proposals:

  --Amount and Timing. Wide differences exist in terms of the total amount of rehabilitation proposed and the period of time over which this rehabilitation should be accomplished.

  --Source. Alternative sources of public monies to support rail rehabilitation include general revenues; rail freight surcharges; freight surcharge, all modes; fuel taxes; and "no-cost' sources such as the ability of the government to guarantee private loans. There are many significant implications in the choice of funding sources.

  --Form. The alternative forms of government involvement range from ownership, as in the case of the 'Confac'? proposals, through grants, soft or hard loans, and several forms of equity; to loan guarantees. The pros and cons of each are explored.

--cost. Four kinds of cost are identified. They are the commitment cost, which is the amount of public funds deliberately planned to be spent per $ billion of rehabilitation; the risk cost, or the amount which may become a federal liability (in the event of default in a guaranteed loan, for exarnple); the administrative cost; and the cost of acquiring rail rights-of-way in those cases involving federal ownership.

- Government Control--This category covers a range of important issues involving the degree of government control over route structure, industry structure, railroad operations, and other control aspects such as railroad dividend policies. These control aspects of the various proposals for federal assistance in rail rehabilitation are of great interest to the industry as well as to other observers of the rail scene.

- Related Actions--Other aspects of proposed rail legislation, while outside the scope of this study, are inextricably linked to a valid perspective on rehabilitation in the eyes of most observers. Such actions include rate reform, regulation of industry restructuring, relief from discriminatory taxation and passenger service losses, and the prescription of improved accounting systems.

The conceptual framework summarized above is applied in this report to a selected group of specific legislative proposals. A comparison chart of these proposals appears at the end of this summary.

As noted above, this is not an evaluative study, nor was it designed with the objective of recommending a particular legislative path. Some of the impressions gained in the course of the study are highlighted in the following paragraphs. These impressions, held by at least a majority of the industry, shipper, labor, state, and administration officials interviewed, are pertinent to any legislative efforts. They are as follows:

- The problem of deteriorating rail fixed plant is national in scope, although by no means uniform. Priorities lie in the Northeast and the Midwest regions of the country.

- Public ownership of rail rights-of-way raises many problems. It should be seriously considered in terms of whether it is necessary or whether alternative solutions which have yet to be tried have sufficient probability of success to warrant the deferral of nationalized rail plant.

- There is no cheap solution. Hard, or highly leveraged, financing will not get rehabilitation money where it is needed most, and a small program will not really test the role that federal funding of rehabilitation can play in establishing a viable rail industry.

- The cost of soft loans may approach the cost of an outright grant as the term of the loan, the repayment schedule, and the interest rate become more liberal.

- A trust fund is generally regarded as a desirable device to provide a secure stream of funding for rail rehabilitation and to permit, through the authority to issue bonds, large initial outlays to be made based on a limited, but longer term stream of receipts.

- Care should be taken to ensure that the necessary control over what facilities get rehabilitated is used to promote a rational rail system. The potential for excessive politicization of the process can be minimized with a legislative requirement for all analysis used as the basis for route decisions to be made available for public review.

- In terms of the corporate structure of the rail industry, the current ‘Balkanized” structure is not ideal. A more desirable structure is achievable through means other than federal coercion based on rehabilitation funding.

- Many unknowns are involved in the question of federal investment in rail fixed plant. Among them, as noted above, are:

  --What is the need?

  --What is the return on the investment (both internal to the railroads and external to society as a whole)?

  --What other legislative actions are necessary or desirable to enhance the effectiveness of federal financing of fixed plant?

  The existence of these unanswered questions requires that some means of determining the answers be set in motion, and that sufficient flexibility be built into the program to avoid making lasting mistakes in the early stages while answers are being sought.

ALTERNATIVE APPROACHES TO FEDERAL FUNDING OF RAIL REHABILITATION

	A United States Rail Trust Fund	Railroad Rehabilitation and Improvement Act of 1975	National Transportation Rehabilition and Modernization Act of 1975	Financial Procedures to Assist Conrail's Viability	Railroad Revitalization Act	Railroad Revenue Act of 1975	Transportation Development Act of 1975
Stated Objective	To enabl ● privately owned rail roads to obtain sufficient funds to modernize and expand all of their facilities 'n order to better serve the public	To improve the nation 'S rail system through efficiency gains · strengthened competition, and enhanced carrier profitability	To provide '0' employmen t' conservation of resources, sound economic cond itions in rail transpo rtation, and im-proved services.	To assist Conrail 'S viability, during the first 8 years of its operation, by virtually elimi-nating debt service in that period on capital required for rehabilitation.	.O provide needed financial assistance to the railroad industry, and TO encourage rationalization and restructuring 131	To obtain modern and efficient rail service.	To efficiently accomplish the reconstruction and modernization of the rail system.
Scope							
Geographic	Nationwide	Nationwide	Nationwide	Northeast and Midwest	Nationwide	Nationwide ●	Nationwide
Facility Types	All lines	All lines	All lines	All lines	All lines	All lines	All lines IOMOM •I ● system designated by U.S. DOT, intrastate system designated by n•I ● government)
Government Funds							
Amount & Timing	s 'Z' 9 billion over 6 years ·	$10 billion over 10 years	$6 25 billion over 5 years	$2 billion or more over 8 years	About $2 billion over 10 years (includes terminals, rolli 9 stock, and data systems)	Not specified, but 'najor ● major rehabilitation	$2 billion/year, plus $1 billion in discretionary funds (all modes); plus 181S ● inputs from user charges; subsequent funding unspecified
Source	5% surcharge on all rail freight revenues	Diesel and residual fuel tax of approximately 5C/gallon for 20 years	z C/gallon tax on fuel + 014C/ KWH of electricity used by rail and water carriers and road vehicles (except buses)	Loan guarantees default covered out of general revenues	General revenues	1% tax on all freight surface transportation, PWW ● and for hire; appropriations from general revenues; user charges [$1 per thousand 9106 ton miles (adjusted for inflation)]	5% tax on all modes of freigh (private and for hire); non-compensatory user eb¿83 ● set 81 75% O8 1974 ownership co
Form	Grants, no matching or repayment, from proceeds of bonds issued by trust fund	Preferred stock, interest and principal deferred for 10 years; repaid ', 30 years at effective interest rate of 2%; trust fund, issuing bonds 10 accelerate rehabilitation payments	Matching grants, plus "soft loans"	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 vM ● 1% above USRA borrowing rate; dividend cumulative, if earned, but deferred 8 years)	IOS guarantees (loans through federal financing bank); allows deferral of principal and interest	Government ownership (federal interstate, state-intrastate); voluntary dedication of property; .o compensatory user charges	Ownership (by state) Grants (100% for capital III+ provements, 70% federal/30% ML ● for routine maintenance
Cost	Commitment per $ billion: $1 billion Risk: None Administrative Collection: Medium Distribution: Medium Acquisition: None	Commitment per $ billion: $754 million Risk: Medium Administrative Collection: Medium Distribution: High Acquisition: None	Commitment per $ billion: $500 million* Risk: Low Administrative Collection Distribution: High Acquisition: None	Commitment per $ billion: ... Risk: High Administrative Collection: Low Distribution Acquisition†: -	Commitment per $ billion: Low Risk: High Administrative Collection: Low Distribution: High Acquisition: None	Commitment per $ billion††: $1 billion Risk: None Administrative Collection: High Distribution: Very High Acquisition†††: Very High	Commitment per $ billion: $1 billion Risk: None Administrative Collection: High Distribution: Very Hig Acquisition: Very Hig
Government Control							
Route Structure	Railroads design projects and apply for grants based on their priorities; 90% of funds are allocated, proportionate to the surcharge	Railroads apply; DOT designates main and branch lines and approves specific projects	Extensive control by Secretary of Transportation		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	Total control	Total control
Industry Structure	None specified	NO. specified**	None specified	Not addressed since this is a financing mechanism 'w Conrail	Transportation Secretary can require applicant railroad to pənwpм ● 'n merger, consolidation, joint use, or purchase or sale 0' assets as condition of loan guarantee	Carriers remain as operating companies; UMMU ● affected by control over joint 0117	Limited; #0in ● coordination, but protection of current carriers' service rights
Operations	None specified	None . 'IM ''	Joint use may be directed by ICC		Satisfactory operations can be a factor in decision to guarantee loans	EXTENSOV ●	Extensive
Other Control Aspects	None specified	DOT sets terms and conditions	None specified		None specified	None specified	None specified
Related Actions	None specified	None specified	Improved account 'oų system	None specified	Rate reform; expedited procedures for restructuring; prohibition of discriminatory taxation uniform accounting system	NON ● specified	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.
**Government has minority representation on railroad's board of directors in the event of default
... Cannot be calculated with available data estimated to be fairly low due to interest rate at 1% above market for guaranteed loan
†Not addressed
††Assumes non compensatory nature of user charge in part of acquisition cost
†††See Part II