

V. SUMMARY AND OBSERVATIONS

The selected specific proposals described in detail in Part IV are arrayed side by side in Exhibit XI, using the framework developed earlier. Displayed in this manner, the information can be used as a decision-making tool. What is missing is the reader's resolution of the pros and cons of each issue, together with an underlying personal hunch about the future of the railroad industry, an estimate of the political realities, and so forth.

The entire framework can be used to analyze (i.e. , break down into essential components) any new proposals as they emerge and to formulate individual new, preferred mechanisms for federal involvement in rail fixed plant.

As noted earlier, this is not an evaluative study, nor was it designed with the objective of recommending a particular legislative path. The following paragraphs highlight some of the impressions gained in the course of the study. 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. L-lard, 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.

EXHIBIT XI **ALTERNATIVE APPROACHES TO FEDERAL FUNDING OF RAIL REHABILITATION**

	A United States Rail Trust Fund	Railroad Rehabilitation and Improvement Act of 1975	National Transportation Rehabilitation 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
Related 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	To improve the nation's rail system through efficiency gains, strengthened competition, and enhanced carrier profitability	To provide for employment, conservation of resources, sound economic conditions in rail transportation, and improved services	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.	To provide needed financial assistance to the railroad industry, and to encourage rationalization and restructuring.	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 (interstate system designated by U.S. DOT; intrastate system designated by state government)
Government Funds							
Amount & Timing	\$12.9 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, rolling stock, and data systems)	Not specified, but include major rehabilitation	\$2 billion/year, plus \$1 billion in discretionary funds (all modes); plus state inputs from user charges; subsequent funding unspecified
Source	5% surcharge on all rail freight revenues	Diesel and residual fuel tax of approximately 5¢/gallon for 20 years	2¢/gallon tax on fuel - 0.14¢/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; private and for hire; appropriations from general revenues; user charges (\$1 per thousand gross ton miles (adjusted for inflation) †)	5% tax on all modes of freight (private and for hire); non-compensatory user charge set at 175% of 1974 ownership cost
Form	Grants, no matching or repayment, from proceeds of bonds issued by trust fund	Preferred stock, interest and principal deferred for 10 years; repaid in 20 years; effective interest rate of 2% (trust fund issuing bonds to 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 rate 1% above USRA borrowing rate; dividend cumulative, if earned, but deferred 8 years)	Loan guarantees (loans through federal financing bank); allows deferral of principal and interest	Government ownership (federal, interstate, state-intrastate); voluntary dedication of property; no compensatory user charges	Ownership (by state) Grants (100% for capital improvements, 70% federal/30% state for routine maintenance)
COST	Commitment per \$1 billion Risk: None Administrative: Medium Collection: Medium Distribution: Medium Acquisition: None	Commitment per \$1 billion Risk: Medium Administrative: Medium Collection: Medium Distribution: Medium Acquisition: None	Commitment per \$1 billion Risk: Low Administrative: Medium Collection: High Distribution: High Acquisition: None	Commitment per \$1 billion Risk: High Administrative: Low Collection: Low Distribution: Low Acquisition: †	Commitment per \$1 billion Risk: High Administrative: Low Collection: High Distribution: High Acquisition: None	Commitment per \$1 billion Risk: Medium Administrative: High Collection: High Distribution: High Acquisition: †††	Commitment per \$1 billion Risk: None Administrative: Very High Collection: Very High Distribution: Very High Acquisition: Very High
Government Control							
Route Structure	Railroads design projects and apply for grants based on their priorities; 90% of funds are "1" located, 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	None specified *	None specified	Not addressed since this is a financing mechanism for Conrail	Transportation Secretary can require applicant railroad to participate in merger, consolidation, joint use, or purchase or sale of assets as condition of loan guarantee	Carriers remain as operating companies; structure affected by control over joint use	Limited; some coordination, but protection of current carriers' service rights
Operations	None specified	None specified *	Joint use may be directed by ICC		Satisfactory operations can be a factor in decision to guarantee loans	Extensive	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 accounting system	None specified	Rate reform; expedited procedures for restructuring; prohibition of discriminatory taxation; uniform accounting system	None specified	None specified

* Rehabilitation - Road and Track, \$6.9 billion; Electrification, \$32 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 11.

- 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.