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A NEW FEDERAL RAILROAD BRANCH LINE POLICY WITH LOCAL PARTICIPATION

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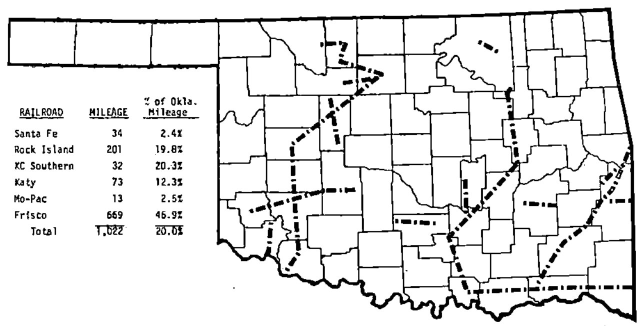
Bankruptcy of the Rock Island Railroad provides strong evidence that railroad failure is a national problem, not limited to the industrial, Northeastern states. The long series of railroad bankruptcies in the seventies has generated a new government attitude toward the railroad industry. Emphasis now focuses on guaranteeing the financial strength of a private railroad transportation system. A new federal policy toward railroad branch lines is being formed which relieves railroad companies of the financial burden of unprofitable line operations and promotes roadbed rehabilitation. States and local communities will participate in planning and financing the important, but unprofitable, rail line enterprises.

The railroad is a vitally important mode of transportation to rural Oklahoma. Rail carriers have a cost advantage in long-distance movement of commodities shipped in large quantities. Persons producing, distributing or consuming products of agriculture, forests, and mines have a vital interest in the future of Oklahoma's rail system.

Communities located on "light density" rail lines will be particularly concerned with branch line policy developments. "Light density" lines are those incapable of carrying carload weights of 263,000 pounds. That is, the railway cannot support a covered hopper car fully loaded with one hundred tons of grain. These lines are obsolete relative to new railroad equipment being used. Often these lines do not generate traffic sufficient to warrant railroad investments to rebuild track to a higher carrying capacity. Location of light density lines in Oklahoma is pictured in Figure 1.



RAILROAD	MILEAGE	% of Okla. Mileage
Santa Fe	34	2.4%
Rock Island	201	19.8%
KC Southern	32	20.3%
Katy	73	12.3%
Mo-Pac	13	2.5%
Frisco	669	46.9%
Total	1,022	20.0%

Figure 1

The Railroad Problem

In 1970, the Penn Central Transportation Company, largest of U.S. railroads with more than 20,000 miles of roadway, declared bankruptcy. Five other Northeastern railroads fell to financial disaster in rapid succession, in addition to one railroad previously bankrupt, in 1967. The seven bankruptcies at the heart of the "Northeastern Railroad Crisis" are merely the catastrophic symptom of problems underlying the entire industry.

Bankruptcy is not an unusual occurrence in the railroad industry, but the nature of recent financial failures is much more severe than in previous instances. Railroad companies typically bear very heavy debt burdens as a result of their tremendous capital investments in roadway, rolling equipment and other facilities. Previous bankruptcies have often been caused by unmanageable debt structures, with more debts maturing than incomes could cover. Reorganization of company financial structure often has been possible under provisions of Section 77 of the Bankruptcy Act. This section allows companies to defer taxes and payments to creditors while a major financial overhaul of the company takes place, under supervision of a court appointed trustee.

The bankruptcies of the Northeastern railroads are of a different kind. Trustees of nearly all seven of the bankrupt companies have reported to their respective courts that the railroads suffer a basic shortage of income which would prevent covering operating expenses and debts, under any plan of financial reorganization.

Despite tremendous holdings of company assets fixed in rail property, railroads are facing an income squeeze. Various reasons have been developed to explain the railroads' inability to generate income. Suggested causes of the uncertain financial outlook for railroads include inflexible rate regulation, cost increasing labor work rules, inefficient management practices, rising material and fuel costs, discriminatory property taxation, public subsidization of competing modes, structural economic shifts away from railroad-using activities and regulatory inhibitions to abandonment of unprofitable line segments. The actual cause or mix of causes of the railroad income problem is uncertain.

Worsening cash positions have resulted in declining conditions of track and equipment. Just as farmers in a cash squeeze tend to defer replacement and maintenance of machinery and buildings, so too have railroads deferred expenditure on track and yard maintenance. Speed and service have been reduced on many lines, discouraging traffic and further reducing traffic and income.

Oklahoma is deeply affected by railroad financial insecurity. Income statistics show two Oklahoma railroads in financial trouble, the Chicago, Rock Island and Pacific and the Missouri-Kansas-Texas. Both railroads suffer basic income shortages similar to those of the Northeastern bankrupt railroads. Deficit net railway operating incomes, for both companies, indicate an inability of operating revenues to cover costs of daily transportation operations. Accounting for fixed annual expenses and net income from nontransportation enterprises, income losses are even more substantial. The Rock Island filed for bankruptcy on March 17, 1975; the Missouri-Kansas-Texas continues to operate on the verge of bankruptcy.

Railroad Branch Line Policy

The roots of the new federal railroad branch line policy have been established in the Regional Rail Reorganization Act of 1973, enacted to remedy the immediate problem of Northeastern railroad failures. The Act focuses upon preserving a financially viable railroad system from segments of the seven bankrupt companies. Two new corporations were established to maintain "essential" service to customers of financially torn railroad companies. The United States Railway Association (USRA) is a nonprofit government corporation charged with responsibilities of designing a regional railroad system plan. The Consolidated Rail Corporation (ConRail) is a for-profit common carrier which is to acquire and operate railroad properties of bankrupt companies which are considered essential. The regional system plan will identify rail lines of bankrupt Northeastern companies to be continued in service. These lines may be purchased by ConRail or by existing solvent railroads in the region. Lines designated as non-essential will be abandoned if railroad users, communities and states fail to purchase the lines or subsidize operations.

The Ford administration is seeking to reduce federal involvement in ownership and operation of a common carrier railroad. The administration proposal would establish ConRail to function for only two years as a transitional mechanism to organize the rehabilitation of track and orderly sale of bankrupt lines to financially strong companies. The President's proposal also includes allowance for abandonment of nonessential lines except where states, local communities and shippers will purchase lines or subsidize operations.

The new law authorizes Congress to appropriate funds for rail service continuation subsidies to cover operating deficits on lines not considered essential by the USRA, yet considered valuable to state and local interests. Subsidies may be used to contract with ConRail or other railroads for rail service and to improve and maintain rail properties. Subsidies are limited to a maximum of seventy percent of the cost of continuation.

The Secretary of Transportation may draw upon a USRA fund to grant loans to states and local transportation authorities for purchase of rail properties not in the regional system plan. Loans and loan guarantees may be granted for repair and restoration of properties purchased. Loans are limited to seventy percent of the purchase price or cost of improvement.

Eligibility of states to receive formula funds and special assistance grants is contingent upon two requirements. First, the state must have established an agency with authority to "develop, promote, and supervise" efficient rail services, with budgetary responsibility and capacity for continuing research and development. Secondly, the state must have established a state plan for railroad transportation and local rail services which provides for equitable distribution of subsidy and loan funds, and for an implementation program coordinated by the state railroad planning agency. Without existence of the agency or the plan, funds designated for the state will revert to the general fund for distribution to eligible states.

The Regional Rail Reorganization Act currently applies only to seventeen Northeastern states. Local Oklahoma communities are not yet being held responsible for continuation of local rail services. Rail service continuation subsidies are not yet available to Oklahoma. However, bankruptcy of the Rock Island Railroad and weakening financial positions of other Midwestern railroads have pressed Midwestern Congressmen to propose legislation expanding provisions of the Act to the entire nation.

The basic concept of federal protection of a core railroad system with state responsibility for non-core lines is being applied to Oklahoma and the entire nation in numerous bills pending before the United States Congress. Senator Pearson's "Local Rail Services Act of 1975" (S.863) seeks to provide forewarning of impending line abandonment, by requiring at least a one year notice of railroad intentions to abandon a particular line. Availability of 70 percent matching funds for subsidies and loans to states with rail planning agencies and state rail plans would be nearly identical to provisions in the Regional Rail Reorganization Act. Senator Hartke has proposed amendments to the Act which would provide funds for development of state rail plans (S.1679) and to permit states to petition for re-evaluation of line operations not originally considered essential by federal planners (S.1396).

Senator Humphrey has proposed

the "Railroad Rehabilitation and Recovery Act of 1975" (S.1385) which would establish a national network of essential rail lines to be owned and administered by the federal government. States would own and administer feeder lines. A trust fund similar to the Interstate Highway Trust Fund would provide money for rehabilitation; regular maintenance expenses would be paid for from respective federal and state rail maintenance funds with incomes generated from user charges on all traffic carried on the lines. Senator Hathaway has a similar proposal entitled the "Interstate Railroad Act of 1974" (S.1144), without state participation.

Senator Taft's "Modern Railway Transportation Act" (S.1476) and his "Omnibus Rail Act of 1975" (S.1801) seek to remove abandonment review from ICC jurisdiction, returning the abandonment decision solely to railroad management with 90-day notice of the public and the U.S. Department of Transportation. If the Secretary of Transportation considers a line essential, he could issue a one-year stay of abandonment while reimbursing the carrier for losses incurred. After one-year service could be continued with reimbursement of losses paid 70 percent by the federal government and 30 percent by states.

Conclusion

Actual provisions for the national railroad branch line policy have not yet been formulated. Congressional hearings on branch line policy are scheduled for mid-1975. Provisions for state and local participation in planning and financing service continuation on branch lines appear consistently in national transportation legislation. This is a sign that railroad branch line policy will, indeed, include active state and local participation.

The shift of financial responsibility for continued local railroad service will force local communities to make decisions on whether to subsidize or buy and operate local railroad lines. Local communities must be able to determine their own willingness and ability to pay for a level of continued railroad service and whether this willingness is sufficient to attract the level of service desired. These decisions require that local community leaders and shippers organize themselves and be aware of the importance of local rail service and of transport alternatives.

Preparation by state government for a new branch line policy requires establishment of a railroad planning agency and formulation of a state railroad plan. The seventeen Northeastern states are nearing completion of their own state railroad plans, in response to the Regional Rail Reorganization Act. In addition, Iowa, Wisconsin, and Texas have begun studies to develop railroad plans. Development of an Oklahoma railroad plan will permit explicit attention to the current and future transportation requirements of Oklahoma communities.

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