RAIL PLANNING: A STATE VIEWPOINT

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The purposes and objectives of the Regional Rail Reorganization Act of 1973; its planning requirements; and the planning efforts of the Pennsylvania Department of Transportation, other northeastern and midwestern states, and various federal agencies in response to that legislation are described. Also included are a description and criticism of the report of February 1, 1974, by the U.S. Department of Transportation in response to the rail reorganization act. Attention is focused on the 17-state Conference of States on Regional Rail Reorganization, its formation and purposes, and its adopted resolutions and positions on rail reorganization planning by the U.S. Railway Association. This paper concludes that federal rail planning is defective because it places undue emphasis on abandonment of excess trackage as the solution to the railroad problem and uses fully allocated system cost rather than avoidable costs for evaluation of branch-line viability. The paper points out that federal rail planning has given insufficient consideration to future potential of the rail mode in moving persons and goods and to energy, environmental, and social needs of communities for continued rail service. Attention is focused on the harmful effects on competition and efficiency that may arise if federal rail reorganization efforts lead to one large single reorganized entity serving the entire northeast-midwest region.

•STATE and local planners have taken on rail planning, and railroading will never again be the same. In this paper, I will describe statewide railroad planning by the Pennsylvania Department of Transportation, by other states in the Northeast and Midwest, and by various federal agencies. This planning is being performed primarily in response to the Regional Rail Reorganization Act of 1973 and, therefore, is most relevant to states in the Northeast and Midwest; however, the rail problems and potential solutions in that region will increasingly apply throughout the remainder of the United States.

My observations are influenced by my perspective as a state government official with a commitment to having transportation decisions made through open public debate on the basis of rigorous analytic investigations of feasible alternatives and their impacts on the economic and social factors in the community. Given this vantage point, this paper finds much that is useful and promising in the planning by the states, but it is less optimistic about the efforts that have been undertaken so far by the federal agencies.

Major influences on rail freight transportation in the United States in recent years have been the bankruptcy of eight railroads in the Northeast and Midwest, near bankruptcy and generally low return on investment by many other railroads in other parts of the nation, and passage of the rail reorganization act by the Congress on January 2, 1974. These developments have brought much railroad decision making into the public sector, which, in policy and methodology, treats railroading substantially different from the way it had been considered previously by the railroad companies themselves. These company decisions were made primarily to maximize return on investment. Recently, this has primarily meant cost cutting rather than attempting to generate new revenues.

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The states, and to a lesser degree the federal agencies, involved in rail planning view railroad transportation as one element of a complex network of sometimes competing and sometimes mutually supporting transportation modes that should be used, as a matter of public policy, to provide safe, efficient, and low-cost mobility of goods and persons necessary to support the economic, social, and environmental objectives of the communities, the states, and the nation. Most states would prefer seeing these objectives met through a private enterprise rail system with, perhaps, some government assistance through judicious adjustment to freight rates and regulations, more rational funding policies for various transportation modes to allow each to compete more effectively with the other, appropriate tax reforms, and loan guarantees and similar mechanisms to allow the railroads to generate needed capital. Although more direct financial participation and public ownership are not generally an objective of the states, these would be acceptable to the extent necessary to provide adequate rail services. Essentially, the states see the solution as provision of higher levels of rail service, better use of facilities and equipment, and extensive use of new equipment and rehabilitation of run-down plants. Federal planners appear to be torn between what appears to them to be two conflicting goals: profitability and maximum service.

REGIONAL RAIL REORGANIZATION ACT OF 1973

In response to the serious threat that the eight bankrupt railroads (Penn Central Transportation Company, Reading Company, Lehigh Valley Railroad Company, Central Railroad Company of New Jersey, Ann Arbor Railroad Company, Boston and Main Corporation, Erie-Lackawanna Railway Corporations, and Lehigh and Hudson River Railroad Company) in the Northeast and Midwest might actually cease all operations and create an economic chaos, the Congress enacted the Regional Rail Reorganization Act of 1973. According to the act, its purposes are as follows:

1. To identify an adequate rail service system in the Midwest and the Northeast to meet needs and service requirements,
2. To provide an economically viable system that has adequate and efficient service,
3. To financially assist the continuation of local rail service, and
4. To federally finance the system at the lowest cost for the taxpayer.

Objectives of the act are to create a rail system that

1. Is financially self-sustaining,
2. Meets regional rail transportation needs,
3. Provides for high-speed rail passenger service over the northeast corridor,
4. Has access to fossil fuels,
5. Preserves and promotes competition,
6. Achieves and maintains environmental standards,
7. Maintains and improves efficient and safe movement of freight and people, and
8. Minimizes job losses.

To implement these purposes and achieve these objectives, the act created the U.S. Railway Association (USRA), a nonprofit government corporation. This association was charged with preparing and implementing a reorganization plan that would transfer rail properties of the bankrupt carriers to a new entity called the Consolidated Rail Corporation (ConRail). Courts have since determined that the Erie-Lackawanna and the Boston and Maine can be reorganized under standard bankruptcy procedures, so the reorganization act now only applies to the remaining six. The act also established a Rail Services Planning Office (RSPO) within the Interstate Commerce Commission to conduct public hearings and evaluate U.S. Department of Transportation reports, described further on, and preliminary and final system plans prepared by USRA. The association is also authorized to permit the discontinuances and abandonments of lines pending the reorganization and to issue $1.5 billion in loans to ConRail, Amtrak, and

other railroads and to state, local, and regional authorities.

The Federal Railroad Administration (FRA) is required to prepare a report on rail service in the midwest and northeast regions, and to provide, within the planning period, $150 million for the rehabilitation and acquisition of equipment and facilities to be included within ConRail, up to $85 million in emergency grants during the planning period, and $180 million to state and regional authorities for service continuation subsidies and rehabilitation loans for branch lines left off the final system plan for 2 years following issuance of that plan. The states to qualify for service-continuation subsidies and rehabilitation loans must prepare a state rail plan acceptable to FRA.

The Congress is empowered to either approve or reject the final system plan. Despite several lower court reverses, the U.S. Supreme Court on December 16, 1974, dismissed various claims and found the rail reorganization act to be constitutional.

As a result of a recent congressional action extending the deadline dates of the act, the new schedule calls for USRA to complete the preliminary system plan by February 26, 1975; the final system plan is to be completed by June 26 and submitted to Congress by July 26. Congress has 60 days after it receives the final plan to either accept or reject it.

In the views of Pennsylvania DOT, the rail reorganization act has two major defects. First, it appears, at least through the federal interpretation, to place undue emphasis on consolidation and reduction of railroad trackage as a primary means of achieving an economically viable system. This has led to a disproportionate federal emphasis on branch-line abandonments and main-line downgrading to the substantial neglect of other key issues such as regional revenue divisions, government regulatory and promotional policies, work rules, poorly maintained infrastructure, inefficient yard operation, need for rail and motor carrier rate structures that more closely reflect relative costs, greater freedom in intermodal competitive rate making with elimination of noncompensatory rail rates, promotion of containerization, and improvement of freight car use.

Second, the act is substantially underfunded in light of the needs, and much of the funding available would not be used to essentially rehabilitate the railroads but rather to bail out the bankers, other creditors, and stockholders of the bankrupt railroads. The act provides $1.5 billion in federally backed guarantees of which only $500 million is specifically earmarked for upgrading ConRail trackage. Recent federal studies show that rehabilitation costs for Penn Central trackage alone may amount to $4 billion or $5 billion, of which only $2 billion to $2.5 billion can be generated by revenues. Justice Douglas, writing for the minority, in the recent Supreme Court approval of the act, claimed that, before the creditors get through suing the government under the Tucker Act for insufficient compensation for their holdings, it would cost the taxpayers $10 billion to $12 billion simply for transfer of rights to dilapidated rail properties.

A counter proposal by Governor Shapp of Pennsylvania is the Rail Trust Fund, similar to the one established in 1956 for the Interstate Highway System. Under this fund, $12.9 billion would become available over a 6-year period for all railroads in the nation, on an equitable basis, by the sale of federally backed bonds. The program would be financed by removing the present 10 percent ICC surcharge and replacing it with a 5 percent surcharge on all shippers that would be used to retire the bonds guaranteed by the fund. The program would meet the primary problem facing railroads today, capital starvation. When facilities were rehabilitated, costs would decrease and revenue would increase. Improved productivity through plan rehabilitation could adequately retire the bonds and eliminate most current railroad losses. Essentially the trust fund idea permits a private enterprise solution, except for the fund itself.

The Surface Transportation Act of 1974 currently wending its way through Congress, although not as innovative as Governor Shapp's proposal, could similarly provide for a free enterprise solution to the rail poverty problem through the mechanism of massive government loan guarantees.

PENNSYLVANIA RAIL PLANNING EFFORT

Pennsylvania DOT began to mobilize its statewide rail planning effort before the Re-

gional Rail Reorganization Act of 1973 was passed but has subsequently modified the work program to make it directly responsive to the requirements of that act and planning requirements of FRA.

According to FRA guidelines (1), such planning by the states must be based on a comprehensive, coordinated, and continuing planning process designed to meet economic, environmental, and energy needs and to provide for the development of a coordinated and balanced transportation system. The plan, furthermore, is to be developed with opportunity for participation by public and private agencies and interested individuals. The plan must consider

1. Existing rail facilities and their use;
2. Economic and operational analysis of present and future rail services needs for both freight and passengers;
3. Potential for moving rail traffic by alternative modes;
4. Relative economic, social, and environmental costs and benefits involved in the use of alternative modes;
5. Evaluation of the condition of track roadbed and structures for which the state and its regions will apply for assistance;
6. Classifications of rail systems into lines to be included in the final system plan;
7. Lines of railroads in reorganization that are to be continued in operation;
8. Lines of railroads in reorganization that are not included in the final system plan; and
9. Lines for which the state wants to receive assistance for subsidy or acquisition in order of priority of importance.

The Pennsylvania study is being conducted by the Pennsylvania DOT Office of Planning and is receiving significant consultant assistance from R. L. Banks and Associates, Inc., and Creighton, Hamburg Associates, Inc. The study is being coordinated with efforts by the Governor's Office of State Planning and Development and the Pennsylvania Public Utilities Commission. It is designed to involve the public and affected interests through the formation of nine regional rail advisory committees working through a statewide rail advisory committee that consists of well over 100 members. The membership is drawn from representatives of state agencies, universities, Pennsylvania legislature, federal government, regional planning agencies, local government, rail industry, rail trade unions, rail-user organizations, environmental associations, business interests, and lay citizens. Regional and statewide committees meet bimonthly or more often as required and have engaged in discussions concerning issues, problems, and solutions. They have also proved useful in obtaining information and verifying or refuting data received from federal and other sources.

The objectives of the Pennsylvania DOT Railroad Planning Study are to collect data, undertake analyses, present all evaluated alternatives that can be used to formulate a comprehensive rail plan, and develop policies and positions useful in responding to federal proposals on rail reorganization. The study considers both freight and passenger traffic and includes

1. Analysis of present conditions, facilities, and use;
2. Estimation of demand for future rail transportation based on the State Investment Plan and socioeconomic targets to 1980, with special emphasis on coal transportation;
3. Analysis of branch-line and trunk-line needs and facilities;
4. Impacts on communities and regions from alternative branch-line and trunk-line configurations;
5. Financial implications of alternative solutions; and
6. Development of a strategy and methodology for plan implementation (e.g., rail passenger planning), monitoring, and reevaluation.

A major obstacle to the preparation of the rail plan is the absence of readily available data on physical facilities, use, and, particularly, origin and destination flows of rail freight. Some information is being provided by the bankrupt carriers themselves

and by USRA. However, similar information for nonbankrupt carriers and all origin and destination flow information are lacking, partly because of unavailability and partly because of the unwillingness or inability of USRA to effectively process and disseminate this information to the states.

A major source of information for branch-line analysis is a statewide rail shipper-receiver survey of firms on branch lines considered by USRA as candidates for abandonment. This survey solicited information concerning type of business; patterns of shipments and receipts both by rail and competing modes; possible impact on costs, production, and employment from branch-line discontinuance; possible impact from improved or downgraded rail service; and estimates of rail use to 1980.

CONFERENCE OF STATES ON REGIONAL RAIL REORGANIZATION

One of the more exciting developments resulting from the rail reorganization effort has been the formation and activities of the 17-state Conference of States on Regional Rail Reorganization. In forming the organization, the states pledged themselves to meet regularly to formulate broadly supported positions on key issues including methodology, federal-state relationships, main-line planning, branch-line service planning, passenger service, public participation, policy formulation, data collection availability, and data dissemination. Its formative meeting was held in Columbus, Ohio, in May of 1974, and subsequent meetings were held in Buffalo, New York, in June; in Boston, Massachusetts, in August; in Oak Brook, Illinois, in September; and in Newport, Rhode Island, in November. Other meetings were held in Lansing, Michigan, in January 1975 and in Pennsylvania in March. The executive committee of the organization has been meeting regularly with USRA and other federal agencies to exchange ideas and information. Meetings of the organization have generated discussions among the states and federal representatives and have resulted in the adoption of formal resolves that are undoubtedly shaping the states' planning efforts and challenging the various efforts and assumptions on the part of the federal agencies. It represents the most intensely cooperative transportation planning effort among the states that I have been witness to in my 20-year career.

The conference of states has formulated a consensus on various key policy and planning efforts including positions on lack of public participation in USRA decision making, evaluation of a USRA analysis of branch-line viability, evaluation of main-line strategic options of USRA, positions on the U.S. DOT report, positions on expenditure of financial assistance by FRA during the planning process, and a resolution supporting federal legislation to provide funds to the states for essential railroad planning. An early request from the states insisted on a cooperative, comprehensive, coordinated planning process and a role for the states in development of preliminary and final system plans analogous to their leadership roles in federally mandated highway, aviation, and urban transit planning. So far, this request has not been granted.

The states in the Northeast and Midwest have been polled recently on their rail planning efforts in connection with the findings of both the conference of states and another meeting (2). Results of this poll, as of January 1, 1975, reveal that nearly all states in the region have legal authority to prepare a rail transportation plan and that the majority currently possess statutory authority to qualify for federal rail subsidy or loan assistance. Of the 17 states polled, 15 are now actively planning for branch-line service, 13 for freight trunk-line service, and 12 for rail passenger service. Sixteen expect to make rail planning a continuing state activity. Nearly all states have conducted branch-line shipper surveys and are evaluating the economics and community impacts of branch-line abandonments. About half the states have conducted surveys of shippers on trunk lines as well.

A sample questionnaire is shown in Figure 1, and the survey results are given in Table 1 for questions 1, 2, 3, and 4 and in Table 2 for question 5. Only four states submitted lists of computer programs or new methods in response to question 6 on the questionnaire: New York, Maryland, Massachusetts, and Illinois.

Figure 1. State rail planning questionnaire.

STATE _____

NAME OF RESPONDENT _____

TITLE _____

TELEPHONE _____

1. Does your state have legal authority to prepare a multi-mode transportation plan?
_____YES _____NO

2. Does your state have the necessary statutory authority to comply with the requirements of Title IV of the Regional Rail Reorganization Act for receipt of rail service continuation subsidies? _____YES _____NO

(a) If so, what agency has been designated as the state rail planning agency?

_____ State Highway Department
_____ State Department of Transportation
_____ State Planning Agency
_____ Public Utility Commission
_____ Other (Identify _____)

(b) As the state rail implementation agency?

_____ State Highway Department
_____ State Department of Transportation
_____ Other (Identify _____)

3. Is your state now actively engaged in (a) planning for rail branch lines (local rail services)? _____YES _____NO; (b) planning for rail freight trunk lines?
_____YES _____NO; (c) planning for rail passenger service? ___YES ___NO

4. (a) How many professionals do you currently have engaged, full time, on railroad planning?
_____

(b) How many professionals do you plan to have engaged, full time, on rail planning in mid-1975? _____

(c) Do you plan to make rail planning a continuing part of your agency's work? ___YES ___NO

5. In what phases of rail planning is your state now actively engaged?
(please check)

PHASE	FOR Potentially Excess Branch Lines	FOR Trunk Lines	FOR Passenger Service
1. Study of Financial Revenues			
2. Establishing Citizen Committees			
3. Establishing Committee to Coordinate with Railroads			
4. Freight Demand Forecasting			//////////////
5. Goal Setting			
6. Shipper Survey			//////////////
7. Network Survey (physical system, service density)			
8. Alternative Improvement Plans (facilities, services)			
9. Estimating Future Usage (computer or hand assignment)			
10. Community Impact of Branch Line Closing(s)		////////	////////////////
11. Branch Line Evaluation (carrier economics)		////////	////////////////
12. Strategic Pattern of Railroad Property Ownership			//////////////
13. Evaluation of Alternatives			

6. Please list any substantial computer programs or other new methods to facilitate the foregoing work items.

Table 1. Responses to state rail planning questionnaire for questions 1, 2, 3, and 4.

Question	Conn.	Del.	Ill.	Maine	Md.	Mass.	Mich.	N.H.	N.J.	N.Y.	Ohio	Penn.	S.D.	Vt.	Va.	W.V.	Wisc.	Total
1	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes-15 No-2
2	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes	—*	Yes	No	—*	Yes	Yes-11 No-4 —* -2
2(a)	SDOT	SDOT	SDOT	SDOT	SDOT		SHD	PUC	SDOT	SDOT	SDOT	SDOT		PUC	SPA	O	SDOT	SHD-1 SDOT-10 SPA-1 PUC-2 O-1
2(b)	SDOT	SDOT	SDOT	SDOT	SDOT		SHD	O	O	SDOT	SDOT	SDOT		O			SDOT	SHD-1 SDOT-10 O-3
3(a)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes-15 No-2
3(b)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes	No	No	Yes	Yes-13 No-4
3(c)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	No	No	Yes	Yes-12 No-5
4(a)	6	1	9	1	5	3	4	1	0	—*	0	21	1	1	0	0	3	
4(b)	6	1	9	1	7	5	4	5	2	—*	—*	7	2	1	—*	—*	4	
4(c)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes-16 No-1

Note: SHD = state highway department, SDOT = state department of transportation, SPA = state planning agency, PUC = public utility commission, O = other.
*Not applicable.

Table 2. Number of responses to state rail questionnaire for question 5.

Phase	Branch	Trunk	Passenger	Phase	Branch	Trunk	Passenger
1	14	10	8	8	8	7	5
2	11	8	5	9	11	9	7
3	6	5	5	10	14	–	–
4	12	8	–	11	11	–	–
5	11	8	8	12	5	6	–
6	14	9	–	13	11	9	6
7	14	12	8				

BRINEGAR REPORT

On February 1, 1974, Claude S. Brinegar, secretary of transportation, issued his now notorious report that was mandated by section 204 of the Regional Rail Reorganization Act of 1973 (3). The purpose of the report, as stated in the act, was to launch the planning process for reorganizing the region's rail system, describe the existing system, analyze capital and operating problems and possible improvements that might be realized, and provide recommendations on restructuring and consolidation. The report was not designed to develop detailed solutions but to recommend geographic zones between which rail service should be provided and the criteria for subsequent more detailed analyses. It identified over 15,000 miles (24 140 km) of rail routes, or 25 percent of the region's total, as potentially excess. It also recommended that Interstate main lines be consolidated into a high-volume upgraded network shared by ConRail and other carriers by eliminating or downgrading of unnecessary main lines, that rail competition be maintained only over Interstate networks from traffic centers that generate a minimum of eight daily trains traveling more than 200 miles (322 km) in the same direction, that local rail service requirements be provided generally by a single carrier in a given geographic area, and that rail facilities not financially self-sustaining be abandoned unless subsidized by state or local transportation agencies.

The public outcry resulting from the recommendation for massive rail abandonments was unprecedented and has made the public suspicious of federal rail agencies; this feeling has yet to subside. The main outlet for public opposition was a series of public hearings held throughout the region by RSPO. The public response is well documented in two RSPO publications (4, 5).

The Brinegar report suffered, in the view of RSPO and state and local officials, from defects both in data and logic. The data analyses were based on 1972 rail traffic volumes that, in Pennsylvania and elsewhere, were critically influenced by Hurricane Agnes and that reflected the worst of possible conditions: bankruptcy, the kind of management that has led railroads to bankruptcy, lack of capital, poor service, lack of incentive, and poor morale. No consideration was given to future energy, economic, or management conditions that would lead to more favorable traffic volumes and revenue. The data in many cases identified a billing station, not an actual origin or destination point, and did not consider through traffic data, and some of the lines designated as potentially excess were already abandoned although some were clearly economically viable in terms of carloads.

Determination of potentially excess lines was based on economic viability rather than on public need. Much of the public has argued, quite correctly in my opinion, that the abandonment of almost any rail branch line will have devastating effect on shippers and jobs but little impact on railroad profitability. The latter is much more influenced by revenue divisions, freight rates, poor state of repair of equipment and facilities, insufficient car supply, work rules, and poor management.

William E. Loftus of the FRA Office of Policies and Plans has claimed that the report has been widely misinterpreted: that it was not intended as a recommendation for abandonment but rather as an identification of those areas where duplication existed. Whatever its original intent, it has led federal rail planners to rail abandonment as the prime solution and has forced many shippers and industrial developers to hold expansion plans in abeyance.

In Pennsylvania, the abandonment proposals in the Brinegar report were seen not only as an abandonment of rail lines but also as an abandonment of shippers and employees

whose jobs depend on these lines. According to our studies, thousands of small businesses and perhaps as many as 25,000 employees would be affected by cutbacks as specified in the secretary's report.

According to the conference of states, disproportionate attention has been focused on branch lines. The states point out that the law mandates that the system as a whole, not each individual segment, be profitable. The states call for a refocusing of organizational planning efforts onto other significant issues including terminal coordination, end-to-end regional and transcontinental mergers, extension of profitable railroads, consolidation and coordination of main-line yard and terminal operation, adequate competition, capital generation, rehabilitation and modernization needs, interline revenue division, rate making and per diems, continued improvements in labor productivity, and involvement of labor in the planning process.

Subsequent to Brinegar's report, USRA came up with still more candidates for branch-line abandonment, again using questionable data and analytic techniques. In Pennsylvania alone the number of rail sections considered as potentially excess has increased from the 87 sections in Brinegar's report (3) consisting of 1,450 miles (2334 km) to the current total of 233 sections covering 2,331 miles (3751 km). Despite urgent pleas by the states, USRA has failed to remove the threat of abandonment from even those lines about which USRA and state staffs generally agree that traffic density adequately satisfies any reasonable criteria.

USRA, with a staff of 180 and a total authorized budget during the planning period of some $40 million, remains hard at work with its own planning efforts. It has some 18 consultant research studies under way on subjects such as property appraisals, environmental assessments, rail facility inventories, community impact from branch-line abandonments, regional and national economics, rail passenger service, rail competition economics, and equipment use. However, although USRA meets periodically with staffs of states and other interests, the discussions are not entirely satisfactory and are limited primarily to a review of USRA consultant efforts. The meetings are not open to the public; opportunity for outsiders to present testimony at these meetings is very limited; and opportunity by the states and others to review, participate in the preparation of, and respond to position papers before they are submitted to USRA for final action has been denied.

One of the chief problems is that USRA staff has not adequately provided the board with states' views and will not release findings, reports, and calculations to the states and other outsiders until they are approved by the board. Such a policy makes public participation impossible. USRA has finally agreed to allow the states to review calculations on the economics of branch lines, but so far few, if any, such calculations have been delivered. Rail carload data have not been disseminated to the states even though they are in USRA possession. Generally the staff seems to work in secrecy, giving their own comfort and security higher priority than the obligation to make decisions in public. One recent concession has been a policy to make summaries of board meeting minutes available to the states.

The states have, on several occasions, argued that a tax supported agency must keep the public informed as a matter of policy and that such a practice serves to make analyses more valid and proposals more achievable. Such pleas have generally not been acknowledged. Most USRA officials come from the business world where competition no doubt compels a measure of secrecy. Unfortunately, these officials do not appear to have made a complete transition to the public sector nor do they appear to fully comprehend the responsibilities of public service.

I must compare this situation with the much more open and constructive relationship that the states have had and continue to have with the Federal Highway Administration, Federal Aviation Administration, Urban Mass Transportation Administration, and staff of the Office of the Secretary of Transportation.

BRANCH-LINE VIABILITY

One of the key elements in the planning process is the USRA evaluation of branch-line

viability in the design of the final system plan and in the determination, by the states, of the use of limited financial-assistance funds for service continuation.

From the state viewpoint, there are a number of deficient aspects in the USRA methodology. The USRA analysis evaluates each individual branch-line section, but the act prescribes that the whole system as opposed to each individual segment be profitable, if possible. The analysis

1. Considers only revenue loss or gain to the carrier on ConRail, not the national system;
2. Uses fully allocated system costs rather than avoidable off-branch costs, as specified in the act;
3. Ignores the abandonment cost of dismantling highway and stream structures and the additional cost of circuitry for overhead traffic;
4. Uses an unrealistically short economic life for amortizing rehabilitation costs and an interest rate greater than ConRail's capital cost; and
5. May require abandonment of a branch line because of need for rehabilitation even where profit levels in the past would, under good management practices, have been sufficient to permit adequate maintenance.

A main conclusion from these viability analyses is that most branch lines will generate sufficient revenue to cover normal operating and maintenance costs but not the necessary cost of rehabilitation. This suggests that, instead of massive branch-line abandonments, what is needed is a one-time major capital investment in the rail plant that now exists in the Northeast and Midwest, and, with some exception, elsewhere in the nation. This again argues strongly in favor of Governor Shapp's Rail Trust Fund or similar capital formation arrangements.

U.S. RAIL ASSOCIATION ANNUAL REPORT

In October 1974, the Congress passed Senate Joint Resolution 250 amending the Regional Rail Reorganization Act of 1973 by extending planning deadlines by 120 days. As a result, the preliminary system plan due October 29 was not issued, and, instead, USRA issued its annual report (6). The publication reported on the progress of planning analyses conducted by the USRA through October 1974 and included a financial report. Unfortunately, there is little in the USRA annual report to define the direction of USRA thinking on the preliminary system plan. The report is still preoccupied with profitability tests, allocated costs, and branch-line abandonments. USRA is still saying that every single mile (kilometer) of branch-line traffic must make a profit or it will be presented to the state for a 2-year subsidy program that is neither adequate nor long enough. The report is now talking of 10,000 miles (16 093 km) of potentially excess trackage out of the 24,000 miles (38 624 km) of bankrupt rail trackage in the region. This is even more drastic than Brinegar's report (3) that discussed 15,000 miles (24 140 km) of potentially excess lines out of a combined bankrupt and solvent system of 62,000 miles (99 780 km). There is still little evidence that USRA considers such factors as future profitability of branches; present and future economic, energy, and social needs of the communities; or even the relationship of the federal rail transportation planning effort to other federal efforts such as that considered in the Federal Energy Administration's Project Independence, which will require substantially increased production of coal if any attempt is made to meet the nation's energy needs. Given an increase in demand for coal, it follows that coal shipments by rail will also increase and thereby justify the retention of many branch lines now considered potentially excess by USRA.

A key aspect of the USRA plan for reorganization of bankrupt railroads (6) is the design of the new ConRail. The USRA options are as follows:

1. Properties of the bankrupt lines would be consolidated into one system called ConRail. This appears to be the basic plan Congress had in mind when it enacted the

legislation. According to USRA, ConRail 1 has the best opportunity to reduce duplication and therefore the best chance for profitability. According to the states, however, ConRail 1 will exert a dominant monopolistic influence over the entire region, weakening existing solvent railroads and displaying the typical characteristics of monopoly: lack of incentive and poor service to shippers. Furthermore, this option would result in unmanageable size, and there would be greater risks of massive future collapse, and nationalization of railroads would result in the region or in the entire United States.

2. ConRail would be established, but the New York-Newark, Philadelphia, and Allentown areas would be served through small neutral terminal companies to provide access to those markets through other carriers than those in the ConRail system. According to the states, terminal companies traditionally have shown no motivation to provide good service, and there is no reason to think that the situation will be different under this option. The viability of the terminal operation is considered to be exceedingly questionable; therefore, subsidy requirements will be placed either on the federal treasury or on the states or communities in which the terminals are located. Terminal companies are also considered incapable of providing good north-south traffic service, particularly passenger service in the northeast corridor.

3. ConRail would be established essentially as a large terminal company, north of Washington, D.C., and Norfolk, Virginia, and east of Harrisburg, Pennsylvania, and Albany, New York. To the west of this terminal company, a presumably profitable Penn Central entity would be reorganized. Again, however, ConRail east would be monopolistic, and the problems of ConRail and neutral terminals would be combined. Furthermore, Penn Central west may not be able to become an economical system.

4. Structure and operation before the merger of the Pennsylvania and New York Central Railroads would be resumed, and the smaller bankrupt railroads would be merged into either of the two systems. USRA says that this alternative could prevent another Penn Central situation, in which the collapse of one firm undermined the rail system of the entire region.

5. Government would own some or all lines in a consolidated facilities corporation through which ConRail would lease facilities and over which it and other carriers would operate rail service.

The position of the Conference of States on Regional Rail Reorganization is that the finally adopted option must provide major cities in the region with direct competitive main-line service by more than one carrier and that it must ensure the financial viability of the solvent carriers and those being reorganized under standard procedures. The states found ConRail to be unacceptable because of its monopolistic position, diseconomy of size, and inflexibility. The conference voted unanimously that the unmerging of the Penn Central appears to be potentially the most desired of the options because it best meets its objectives. The states further stated that no reorganization is feasible without adequate financial support. It urged USRA to fully explore the financial needs and limitations of the act and seek additional funding options, if necessary, including the Rail Trust Fund proposed by Governor Shapp.

In Pennsylvania also we favor the unmerging of the Penn Central and provision of additional competition by the formation of a Mid-Atlantic Rail Corporation consisting of the Reading Company, Lehigh Valley, Central of New Jersey, and Lehigh and Hudson River Railroads.

In closing, I would like to repeat what I perceive to be the commitment of the states in the region: retention of all necessary existing rail service and expansion and improvement of the rail network to the maximum extent possible because rail is the most economical, energy saving, and environmentally protective of all modes for person and goods movement under certain conditions. Our economy and our communities demand nothing less.

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