essential rail services. In most cases, continued operation by the Class I railroad is preferable. However, the basic problem in this type of solution is in procuring local government and shipper interest in financial support to retain an operation that has deteriorated over the years and has been the subject of a formal proceeding before the ICC. Usually the local interests don't have much "fight" left after the railroad has received permission to abandon a line!

To alleviate such problems, we support amending Section 803 to permit federal funding of rehabilitation well in advance of the actual filing of the intent to abandon a particular line.

In retrospect, I believe the following considerations have most benefited our being able to advance the Rail Assistance Program in Tennessee:

* Preparation of the Rail Plan in-house; avoiding the time required to negotiate a consultant contract and obtain FRA approval of such contracts.
* Formation of a rail advisory committee to provide input into the planning process at an early date.
* Holding formal public hearings in each community affected by the proposed branch line abandonments.
* Insistence on local government and shipper participation in the solution and financing.
* Supplementing rail plan information with a more detailed marketing type study to assure the proposed solution will result in a justified expenditure of public funds.
* Setting a definite time frame for events to take place and taking the lead in assuring that no one drops the ball.
* Accepting the fact that not all branch lines can be "saved" or operated profitably and thus, some lines should be retained.
* Using operating subsidy only as a short term solution, while accelerated maintenance or transfer of ownership is being accomplished.

Conclusion

While all of us that work in the State Rail Programs appreciate the need and vital role rail transportation plays in the nation's overall transportation system, we should use every available forum to encourage:

* More equitable taxation of railroad properties as compared to other commercial and industrial properties.
* Continued change in government regulatory policy to enhance the railroad's ability to compete with other modes of transportation.
* Shipper ownership of equipment to free up available railroad revenues for accelerated maintenance programs.
* Encourage both railroad management and labor to undertake serious negotiations at the earliest practicable time, within the framework of recently agreed to provisions for updating work rules.
* Promote statewide and national commodity flow studies to provide the rationale needed for informed federal and state DOT decisions that affect all modes of transportation.
* Encourage rail management to quit playing defense and start playing offense--make the general public aware of the positive side of railroading and not let the TV news dramatization of derailments be the public's only exposure to rail transportation.

I firmly believe that working together, the state DOTs. rail management and rail labor organizations, can make great strides in improving rail transportation to the benefit of the entire country.

A PERSPECTIVE ON THE STATES/CONRAIL RELATIONSHIP IN IMPLEMENTING RAIL PROGRAMS

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Introduction and Summary

That this meeting was convened today is evidence of the constructive relationship evolving between the railroad industry and state officials. We are proud to be a part of this effort and want to express Conrail's continuing commitment to be an active, responsible partner in rail revitalization.

In the last two-and-one half years, the industry, the States, and the federal government have come a long way; yet we have a substantial distance still to travel, with many obstacles ahead. This presentation will briefly review Conrail's experience to date as a partner with the States and then focus on the challenges before us.

While the last five years may presently appear as revolutionary in the history of American rail service, the next decade must bring even greater changes--producing either an efficient, vital rail service or an obsolescent mode of transportation. The challenge before us collectively is to appreciate the problems driving this continuing crisis, to innovate realistic and viable concepts for American rail service in the 21st century, and to create an environment conducive to the necessary changes and to the implementation of those concepts.

To those of us concerned with the public policy aspects of rail revitalization, the challenge is substantial. Conrail management is convinced that a viable market exists for rail service and that efficient delivery of that service can be competitive with the other transport modes. However, it is equally clear to Conrail's management that the rail service of the future will not resemble that of today. While few of us know the detailed dimensions of that future service, Conrail analyses will soon produce significant insight. The issue before those of us in the private and public sectors is how can public policy facilitate this evolution into the future, ensuring optimization of public and private interests.

This evolution will be dynamic, with momentum increasing as results surface from the several private sector and public sector analyses currently underway. Concurrently, we must develop and address a public policy agenda that facilitates service evolution in response to market economics and intrinsic rail efficiencies while concomitantly indentifying and mitigating any adverse consequences to the social welfare. I think we-- the public and private sectors--are equal to the challenge. Through the Transportation Research Board and the National Conference of State Railway Officials, in concert with the rail industry, let us begin to build that public policy agenda. Let this agenda be based on our experience to date in this partnership and on the identifiable challenges ahead.

Retrospective Assessment of the Partnership between Conrail and the States within the Conrail Service Region

Recent rail reorganization, revitalization, and regulatory reform federal legislation were landmarks in

this nation's railroad history. The initial legislation was oriented toward the rail crisis in the Northeast, and in addition to the creation of Conrail--launched the federal/state partnership with the rail industry. Conrail and the states within the Conrail service region now have had 29 months of learning to work together. Those months have been devoted to implementation of three important principles which emerged in the complex legislation:

1) recognition and attempt to remedy the inequitable public policy treatment received by the competing modes of transportation;

2) recognition and attempt to remedy the economic cannibalism caused by internal cross-subsidization uneconomic rail service by profitable rail service; and

3) an attempt to reduce cross-subsidization, and mitigate the public interest consequences thereof, through programs of regulatory reform, state rail planning, and federal assistance for local freight and commuter rail services.

These three federal thrusts established the parameters for the partnership between Conrail and the states within the Northeastern region. Programmatically, these principles are implemented in financing and delivery of commuter and light density line rail services, the process and "decision-rules" for branch line rationalization--service discontinuance and abandonment, and the process and substance of state rail planning.

The initial phases of interaction between the states and Conrail were months of groping to provide the services, to meet the mandates of the law, and--in the process evolve a definition of the partnership. It was not, and is not, a process without friction. This new venture offers substantial opportunities for conflict, for interpretations to vary, and for "gliches" to occur. Nonetheless, Conrail feels that people of good will can, and have for the most part, worked together to serve the needs of the railroad and the local interest. It is a dynamic process still evolving--but our experience to date has been constructive and we have high hopes for the future!

Commuter and light density line subsidized services

The Northeastern rail crisis focused Congressional attention on an aspect of the economic problems of the rail industry: the cross-subsidization of commuter services and uneconomic light density freight lines (LDL's). The legislation created two efforts to reduce this cross-subsidization--the federal/local financing for commuter services, and the federal/state financing for continued service on abandoned freight lines. Conrail was the initial railroad to become involved in the federal/state LDL program, because the Final System Plan eliminated some 6,900 route miles from Conrail's predecessor systems. In Conrail's initial 9 months of existence, we were "designated" as operator of some 144 subsidized LDL's with 2,600 route miles.

Conrail's approach to the subsidized services has been to implement the intent of the federal legislation--to deliver efficiently and safely those rail services deemed to be in the public interest, while substaining mandate against cross-subsidization. In essence, we have attempted to respond to the service desires of the commuter authorities and designated state rail planning agencies with the quality of service permissible under the agencies' budget constraints and standards of safe and efficient rail operations.

This has not been a relationship without frictions. Intrinsically, the relation is subject to severe strains caused by the fiscal constraints on public agencies usually confronted with service demands in excess of funds available, and by Conrail's commitment to service quality without Corporate cross-subsidization.

In practice, these frictions have been manifested in interpretations of the legislative intent, the RSPO subsidy formula--what are avoidable costs?, and financial contingencies not addressed by present legislation--for example, catastrophic liabilities for which insurance is not available to the carrier or subsidizing agency. In a pragmatic, ad-hoc fashion, Conrail and the public agencies have addressed the problems, designed business-like resolutions between the parties or are seeking additional federal remedial legislation where necessary.

We do feel the relationship has been one of good faith. With the public agencies, we have successfully plowed new ground--implementing what generally has been observed to be a successful program. Future improvement of the subsidized services is largely a function of economics-- the allocation of public funds for these services, plus the Conrail program for system-wide efficiencies which should reduce costs and/or improve service quality. Additionally, Conrail management is committed to improving the internal administration of the subsidized services--through organizational improvements in field operations, plus an attempt to simplify accounting administration.

Specifically, with regard to the subsidized light density freight lines, Conrail is experiencing a decreasing involvement as a designated operator. Today, we operate 93 lines with 1,110 route miles, less than half of the route mileage initially under operation. This is due to three phenomena: 1) states within the Conrail service region continue to examine the benefits of local freight service assistance and, in several cases, have discontinued subsidy operation, 2) the states have felt that another operator--other than Conrail--could perform the service better and/or at a lesser cost, and therefore has replaced us with usually a "short line" operator, and 3) some states have taken corrective actions (such as construction of connections, track rehabilitation or provision of substitute or alternate facilities and services) thereby permitting abandonment of major segments without loss of service. In any event, Conrail wants to be supportive and responsive to the states preferences. However, there is an important caveat--one which I want to emphasize strongly. Although Conrail seeks to facilitate transfer of subsidized operations in any way possible when a State so decides, we will not cross-subsidize short line operations with an unequitable division of revenue with the new operator or by providing a disproportionate and inequitable supply of freight cars. If the State-subsidized operation of an abandoned branch line results in Conrail cross-subsidizing the designated operator through unfair divisions of revenue, then the purpose of the abandonment has been subverted--the cross-subsidization remains.

Therefore, when states are considering short-line operator proposals, we urge them to examine the economics closely, to be sure that subsidy estimates are not predicated upon unreasonable divisions of revenue with other carriers. To eliminate this program, I would urge each state to adopt the practice of one State within the Conrail service region, which is to require a short-line operator to submit a divisions agreement with interchanging carriers as part of their proposal to become the designated operator.

The definition of an "equitable" division of revenue is often disputed and tends to be distorted by the interests at stake. However, Conrail has attempted to be reasonable in that, if business negotiations do not produce mutually acceptable divisions, we are willing to take the issue to the ICC for resolution. To date, we have maintained a

standard division policy with all short lines from which we do not intend to deviate.

Branch Line Rationalization: Service Discontinuance and Abandonment

Conrail has become substantially involved in the recent branch line rationalization procedures, as established by the federal legislation and developed under FRA and ICC regulations and guidelines. Presently, Conrail has 22 lines with 123.9 route miles in Category I--anticipate filing of an abandonment petition within 3 years, and 28 lines with 718 route miles in Category II--potentially subject to abandonment. While Conrail has yet to file a petition for experience with branch line rationalization as the area of greatest friction and adversity with state rail officials. On the other hand, as the process has evolved in an ad-hoc, pragmatic fashion, this offers an opportunity for a most constructive partnership.

Conrail's approach to branch line rationalization is consistent with any business operation where excess physical plant is suspected to be a component of excessive operating costs. Our objective has been to identify portions of our business where service results in substantial economic losses, which require shippers on viable lines to cross-subsidize service on an uneconomic line. Conrail's commitment has been first to attempt to find actions within Conrail's capability, or within the willingness of all interested parties to remedy the economics of the service. Only after failing to find successful corrective actions would the line become a real candidate for abandonment. Conrail has striven to be open and candid throughout the entire process, exceeding by far the ICC requirements for full public notice. Our hope has been to enlist all affected parties in a search for an economic solution and, only when that fails, does a line become an abandonment candidate.

The results of the process have been gratifying to date. First, I think most states involved in this effort would attest to our sincerity in seeking alternative solutions to abandonment through consultation with affected parties. While the State officials may not always appreciate the problems along the way, nor the end result when no alternatives to abandonment may emerge, they have expressed respect for our efforts.

Of our initial 28 lines in Category II, corrective action has identified a variety of specific actions which, when fully implemented, will convert the economics on 12 lines from losses annually of $1,363,278 to a positive annual contribution of $963,345--a 171% improvement over the original losses as measured under the RSPO formula. Not only have these corrective actions resulted from consultations with affected parties, but--our analysts tell me--a significant share of the recommended changes originated from the state rail planning agency staffs.

I want to qualify my enthusiasm for these results. While I think these lines demonstrate a most constructive partnership with the states, unfortunately there appears to be no successful resolution for the remaining 16 lines--although the corrective action process is yet to be completed. These remaining lines represent Conrail's more significant branch line losses and, if no alternative emerges, Conrail will ultimately file for abandonment. That action will really test the nature of our partnership with the states. Our hope is that after the corrective action alternatives are exhausted and abandonment becomes the only solution, then contested abandonment proceedings will be minimized because of the extensive consultation which preceeded the petition. A component of our abandonment submission to the Commission will be detailed documentation of the "corrective action" process as it was unfolded on a specific line. While "corrective line" efforts will not unilaterally preempt contested abandonments, the documentation of good faith efforts to search--unsuccessfully--for alternative solutions should then require demonstration of how public convenience and necessity outweigh in importance the line's non-viable economics.

Permit me to outline briefly the corrective action process as we envision it operating.

1) Conrail branch line analyses: Conrail, on a continuing basis, is studying our branch lines for a variety of motives--operational improvements, labor consolidations, opportunities for the expected federal legislation permitting "preabandonment" capital investments, and branch line rationalization. When, in these analyses, a line fails the RSPO viability test--RSPO costs significantly exceed revenues, then a line becomes a candidate for "corrective action".

2) Notification of state agencies: In advance of publishing an ICC System Diagram Map revision, the designated state rail planning agency is notified, data presented, and engaged in preliminary discussions. If these early sessions do not reveal errors in data or offer immediate alternatives to the corrective action process, the line fulfills the ICC Category II definition--the line is under study, losses exceed revenues according to the RSPO formula, and the line may be subject to future abandonment proceedings, if corrective action is unsuccessful.

3) Map published

4) Consultation with affected parties: At this juncture, data and analyses are presented to all affected parties--state agencies, local agencies, shippers and concerned citizens. The first effort is to get a critique and conconsus on the data and economic results. Challenges to data are welcomed, reviewed, and if validated, are then fed into another iteration of the RSPO test. Another effort is attempted to get concensus on the economic status of the line.

5) Corrective action proposals: This entails analyses by Conrail marketing, sales, operating and other related departments in an indepth examination of ways to remedy the lines economics. Included as potential options are reduction in service frequency, changes in operations, improved marketing, rate increases, shipper surcharges, alternative routings, elimination of short hauls, etc.

Conrail investment for rehabilitation is doubtful because a line with significant economic losses is not likely to demonstrate sufficient return on investment to warrant allocation of Conrail's scarce capital. Rehabilitation necessary to assure safe operations will be undertaken, however.

State rail planning agencies, communities and shippers often offer similar proposals for corrective action. In addition, public agencies have offered public capital for rehabilitation. Also, some agencies have suggested public ownership of the line to remove from Conrail the taxes and other costs associated with ownership--including in some cases, partially or fully subsidized maintenance of the line.

If the RSPO economics of the line respond to one or a combination of these "corrective action" proposals, the proposals are implemented and the line returned to Category V. If this effort is not successful, the next step is the designation of the line in Category I and subsequent preparation of abandonment petitions.

6) Petition for abandonment or discontinuance of service: This step is taken only when all else has failed. Hopefully, all affected parties are fully aware of the lines non-viable economic status, the overall problems associated with cross-subsidy, the lines inability to respond to corrective action and

thus the necessity for abandonment to be contested on other grounds.

While our assessment remains that this has been a healthy process, some problems have surfaced to which I would like to draw your attention:

1) When to publish a map with a line designated as Category II? The most persistent and perhaps pernicious issue in this process revolves around the decision as to when a line should be publically identified as potentially subject to abandonment. Conrail has been criticized for delaying too long on that decision--implicitly alleging that we were trying to defeat the public notice intention of the legislation. On the other hand, Conrail has been taken to task for prematurely sounding the "death knell" for a line and destroying any hope of industrial development and increased rail use on the line. A real dilemma exists here--with the need for fair public notice on one hand and, on the other, the seeming concensus that assignment of a line to Category II ensures that the econmics cannot be revised. Most state agencies in our territory have vigorously contended that the corrective action process ought to precede a line's identification as a potential candidate for abandonment.

My first recommendation is that some process be initiated to review experience to date under the new ICC regulations to determine the effectiveness in serving their several objectives. Is Category II really needed? New York State has recently petitioned the ICC for elimination of Category II for these very reasons. Are its benefits in excess of the adverse effects most observers witness?

Beyond that, Conrail is attempting to formulate a decision rule for categorizing lines which conform to the legislative intent for fair public notice without capriciously designating lines which are salvageable if not publically exposed prematurely. Our decision rules first commit Conrail to sequential progression from Category II to Category I and ultimately to an abandonment petition if corrective action is not feasible or fails. The only exception to this is if a state rail planning agency agrees in writing that a line's economics demonstrate substantial losses and that no corrective action is feasible or desirable, then the line would be placed initially in Category I.

The critical decision then is placement in Category II. Conrail will not place a line in this status until it has been studied and until relatively reliable data analyzed under the RSPO formula demonstrate the line to have significant losses - excessive costs over revenues. Furthermore, the line will not be published in Category II until initial conversations with the state rail planning agency indicate our data are as good as any presently available and that immediate, obvious corrective actions are not available within the resources of either Conrail or the state. If immediate corrective action is feasible, then the line cannot be considered a potential candidate for abandonment.

2) Corrective Action: An Expensive Process; Are the Benefits Worth It? Conrail will continue to assess the effectiveness of corrective action. It is a costly process in terms of staff resources spent in analyses, re-analyses, and consultations with affected parties. Nonetheless, the process has educated many of us (States and Conrail) about branch line economics, about potential solutions, and about creative ways of working together. We are at the stage where many of the results have been mutually happy. As stated earlier, the real test will come with the lines not amenable to corrective action and for which abandonment petitions will be filed.

State Rail Planning

The federal legislation also mandated state rail planning. It is interesting to note that the 3R Act called only for..."a State plan for rail transportation and local rail services..."; whereas the 4R Act specifies "...an adequate plan for rail services... as part of an overall planning process for all transportation services..." In summary, I feel that the rail planning process within the States in the Conrail region has been vigorously and responsive to the immediate public need; however, from my perspective, state rail planning in the Northeast has yet to make this transition to the 4R mandate and, until it does, misses a superb opportunity to serve the public interest as well as the needs of the rail industry.

To date, most state rail plans in the Northeast have been characterized by the necessary response to the "branch line" problems created by the Final System Plan and recently by Conrail's branch line rationalization program. For this reason, state rail planning has been oriented to resource allocation issues associated with the rehabilitation and operating subsidy inherent in LDL programs.

Frictions have been minimal in our experience with the state rail planning process. The only constraints restrict the data a rail carrier can provide. More importantly, the limited scope of rail planning today suggests that the massive, wide-ranging data often solicited are not responsive to the agency's mission--unless that mission is expanded as mandated in the 4R Act to all transportation services. Conrail would be pleased to provide most data requested, if similar requests were made of the other modes for incorporation into intermodal studies, plans, and equitable modal policies.

In the interim until intermodal state plans are a reality, Conrail seeks to confront data issues with FRA and the States on an ad-hoc basis--willing to provide those data that are essential for local rail service planning which compromise neither Conrail's proprietary interest nor shipper confidentiality.

Our most fundamental frustration with state rail planning has been its scope and, what we feel has become, its perverted manifestation in an all-encompassing, overwhelming mission to preserve local rail service. I do not disagree with the objective. I violently disagree with the narrow focus on that issue. It seems to me--and I know it has been obvious to many of the state agencies--that state rail planning has focused only on the tip of the iceberg; attacking symptoms, not root causes. In many cases, although admittedly not exclusively, the health and vitality of the local branch line is a function of the health and vitality of the system serving that branch. Therefore, at least concurrent with efforts to preserve local rail service,--it seems imperative to preserve the basic health of the institution--to nurture the roots and trunks of the system as well as apply resuscitation to the branches.

Unfortunately, from my perspective, state rail planners are only now taking the initial steps to broaden their concern. Some states are rapidly making major initiatives in this direction, which is most encouraging. It is encouraging because we at Conrail become increasingly aware of the fact that our evolution to a sustainable, private sector institution providing efficient, safe rail service will largely be determined by public policy. Not that we lack, internal to Conrail, sufficient opportunities and challenges to guide our own destiny. However, in the final analysis, the success of Conrail and the dimensions it assumes will, in large part, be a function

of the constraints and incentives created by national and state public policies. And it is here that I feel state rail planning to date has not exploited an opportunity. The planning process applied to root causes of the rail crisis could lead state rail officials to more fully comprehend the problem and potential prescriptions, to become more effective advocates at state and federal levels and thus to ameliorate the public policy constraints and disincentives which favor alternative competitive modes and which can lead the rail industry to obsolescence.

I would like to digress briefly to suggest a conceptual approach to the relationship between the railroads and state planning--really the nexus of public and private sector planning applied to the field of rail service.

Conrail, and I think the rail industry generally, must evolve into a different "thing" in the future, if it is to be viable and if it is to continue to offer service. How radically different future rail service must be is yet to be fully appreciated. I am convinced that future rail service will be determined through the interaction of private and public planning. State rail planning can and will provide a major role. Therefore, it is essential that the fundamental aspects of the delivery of rail service be understood and appreciated by state officials, that cooperation exist between the agencies and the industry, and that public officials and industry representatives collectively and effectively advocate future directions. Furthermore, to achieve the effort, each planning sector must be sensitive to the imperative of the other. Although the mutual objective must be to accomplish this goal through self-sustainable and viable private institutions and the states' objective will be to protect the public interest, at least cost to the taxpayer. Hopefully, through interactive planning, these objectives need not be mutually exclusive.

To achieve these goals, objectives and respective roles require better definition. My perspective emboldens me to offer a perhaps over-simplified definition of respective roles:

1) Conrail role: Conrail has been mandated to become a viable private sector institution as a least-cost-to-the-taxpayer method for preserving rail service in the Northeast. Within that context, our planning must be oriented toward creating an efficient, self-sustaining rail service responsive to market forces and minimizing internal cross-subsidization. The process of our planning is to conduct economic analyses, evaluate alternative options satisfying our mandate, and implement the optimal alternative. Where the public interest is affected--as is the case so often with Conrail, we must share our analyses with public planners, allow validation of the data and methodology to the extent feasible, permit rebuttal of the options analyses, and--most importantly--provide an opportunity for the public planners to offer feasible means to alter the economic conditions which drive the analyses and options that may imply adverse public consequences. This philosophy was embodied and practiced in our corrective action activity branch line rationalization program and in the treatment of our Five Year Business plans.

2) Role of State Rail Planning: From my perception only, the mandate of the state rail planning agencies is to foster the public interest through rail transportation public policy. I would urge that this is accomplished first through creating a public policy environment within the State conducive to private sector revitalization of rail service; and secondly where the activities of the first effort fail and/or threaten conflict with the public interest, intervene through market economics which precipitate the private sector action. In essence, if cross-subsidization drags private sector revitalization, public policy must alter the economics of that service to eliminate the cross-subsidy--if the service is essential to the social welfare and the costs within the public financial capability.

By definition, this appears to relegate public sector rail planning to a reactive role. In the sense that the service is delivered by private institutions and the public institutions are unwilling to underwrite the full costs of service, the public role must be reactive to industry initiatives which are reactive to market conditions that are somewhat perverted by public policy. Therein lies the non-reactive role to which most of the remainder of this paper will be devoted.

Public policies which create inequitable competitive economics among the modes must be remedied. What especially concerns me is the apparent neglect by state rail planning of state public policies which could correct the modal inequities and directly influence the economics which determine the quality of rail service in a State. Only through initiatives which intervene into the competitive modal economics service can a State create an environment conducive to efficient, viable rail service. The railroad asks not for "favored" treatment, but equal treatment. To gain equal treatment, I think we need the help of the state rail planners.

Within state government exists a wealth of opportunities for constructive action which could impact rail service needs and delivery--if those opportunities were intelligently and aggressively pursued. Conrail has been "out front" vigorously attempting to develop and realize those opportunities. In all candor, Conrail has often found itself "out front" without much support--moral or otherwise--from the state rail planning agencies. We have drafted and lobbied rail reform legislation in state legislatures which we sincerely believe benefits the rail industry, the state's shippers, the state's economy, and the general social interest. We attempt to do this in consultation with all affected state and local agencies and yet, when pressures arise in this process, we find ourselves spearheading the effort with solid support from private and public interest groups and little or no "presence" from the State's rail planning agency. However, in all fairness, we rarely find opposition from those agencies.

But, nonetheless, this indicates to me opportunities to enhance rail service which are not being fully exploited. I think I understand some of the reasons for this--the lack of "policy" planning resources in the agency staff; the political vulnerability of a rail agency in a highway-dominated bureaucratic structure; and--of course--the myopic focus on the tip of the iceberg, the symptoms, the branch lines. Much of this can be changed, if we work together. It is changing at a slow but unyielding pace. My concern is whether the pace can be accelerated in time to resuscitate or revitalize the patient.

If I may be so presumptious, I would like to outline a number of critical issues which state policy could impact, thereby creating an environment more conducive to rail service within the State. I offer this list of issues only as an agenda to be modified by others. I know my colleagues from the industry can and will suggest items more profound than those I offer. Nevertheless, let us commit to building jointly such

agenda for each state. More importantly, let us act vigorously to see the agenda implemented.

An Agenda for Railroad Revitalization Within the States: Below are listed state public policy initiatives which Conrail believes would contribute to railroad revitalization within the State, which are supported by reasonable public policy rationale:

1) State and local tax relief and reform: As Jim Runke stated to this group at the Annual Meeting last year, the railroad industry is burdened with an excess of $400 million dollars of state and local taxes annually. This is a substantial factor in the costs of providing rail service in any state and unfavorably impacts the economics of specific branch lines as well as the total system. As a matter of fact, analyses of Conrail's state and local tax liabilities reveals a perverse impact of the tax burden. The state and local tax burden within our 16 states tends generally to be inversely correlated with crude measures of business activity. To state the case simply, the less business Conrail generates in a state, the higher the tax burden per activity. For those concerned with preservation of local branch line service, the tax liability appears as an excellent target for intervention to improve local economic viability.

There are other persuasive policy rationale for tax relief. Again, in terms of Conrail economics confronted with a steadily declining traffic base, how much additional traffic would we have to carry to generate a dollar profit, compared to a dollar removed from tax liability? Tax relief infuses dollars directly into the railroad's treasury and becomes available for operating and capital investments. Tax relief can be effective for rail revitalization!

Tax relief in the form of a tax credit for rehabilitation and maintenance additionally ensures a State that proceeds from tax relief remain in the State, are expended on physical plant within the State, and thus are not exported elsewhere in the system. Since Jim Runke's presentation last year, two states--Michigan and Connecticut--enacted tax credits of this nature. A tax credit bill is before the Pennsylvania legislature, and I can assure you--with your assistance--many more states will have similar proposals before them.

Another compelling reason for tax relief is intermodal equity. We are all familiar with the imbalance of State transportation investment and taxation which favors modes competing with rail service. Yet many legislators, economic development professionals and other state officials are unaware of the substantial state subsidies in the other modes. These people need proselytizing, and state rail planning officials can be credible advocates!

2) State financial assistance programs: Although less pure in terms of economic theory, it is much more feasible politically to correct public policy inequities by favoring rail service with subsidy similar to those granted other modes. I just briefly list a few of the avenues towards this goal, as occuring within states in the Northeast:

* State capital grant programs: New York is just completing implementation of a $250 million bond program for freight and passenger rail improvements where the State has made substantial investments in private carrier facilities. The New England Regional Commission awards grants for the labor portion of track rehabilitation projects with the New England States. Additional Northeastern states are moving in this direction.

* Low or no interest state loan programs: In Michigan, a bill was recently introduced to establish a revolving loan fund through State bonding which would offer several hundred million dollars annually to the rail carriers within the State on a low or no interest basis, allocated according to the carrier's track mileage within Michigan.

* State provision of the 10% non-federal share of grade crossing improvements: Improvements in highway rail safety are suffering because local communities and railroads are unable to provide the 10% non-federal share in grade crossing improvement programs. All but six states in the Conrail region have appropriated state funds for that purpose.

* Urban grade separation, track relocation, and facility consolidations: The cities of our nation are suffering from complex, and often redundant and/or absolescent rail facilities that weave through their boundaries. Several studies and U.S. DOT reports have indicated the magnitude of this problem and the associated benefits in its remediation. The initial constraint is often the lack of financial resources in the cities and the railroads to undertake these projects.

* Maintenance of highway bridges over rail lines or rail bridges over highways: Highway arteries and pedestrian crossings are in dangerous disrepair. The fiscal condition of both the railroads and the local governments inhibits bridge repair. Several Conrail states provide railroad bridge maintenance; a few have accepted ownership of the railroad bridge along with the maintenance responsibility.

* Rail service disaster relief: A multitude of public programs exist to repair disaster-stricken transport facilities in public ownership. Because of private rail facility ownership, few--if any--public monies are available to restore rail service destroyed by natural disasters.

3) Modal Equity in State Policy: Without cessation, public policy makers are barraged about the inequities in modal transportation policy which favor the railroad's competitors. Often this barrage is founded on assertions, national data or whatever--that has less credibility than actual "homestate" facts. Furthermore, while the "modal inequities" arguments are often used in support or opposition to specific pieces of legislation, few states--if any--have a comprehensive program to redress this public policy imbalance. It seems to me that the rail planning community could achieve much to force confrontation with this issue.

* Multi-modal commodity flow studies should be conducted within a State, to obtain a basic, descriptive understanding of how freight travels within the political jurisdicition.

* Subsequent to the descriptive analysis, the question arises as to why the various flows exist. Are the modal choices rational and in the public interest? Do the economics of modal choices in the State reflect the true costs of service or are the choices determined by a variety of subsidies achieved through the State's taxation and investment pattern with respect to the various modes? Analyses of state program budgets and taxation policy could reveal the actual treatment accorded the specific modes, as well as suggest corrective alternatives. Similarly Significant insights into modal economics within a state could be derived from analysis of the relative effectiveness and impact of state regulatory activity on the different modes.

* Increasingly, government has become concerned about the unintended consequences of public policy on other areas--such as the cross-impact on an initiative in one programmatic field on another. An excellent example of this concern and its manifestation is environmental impact statements. Because rail service often suffers from well-meaning public policy, would it not be appropriate to undertake "rail service impact statements," at least when policy decisions are made on transport issues? This would, at a minimum, ensure that adverse treatment of rail service is a deliberate policy choice.

* States--especially in the Northeast--are becoming extremely aggressive about industrial development and economic revitalization. Because of the criticality of rail service to these objectives, state development personnel are increasingly aware of the need for rail service considerations in the State's overall program. This should be encouraged and facilitated by involvement of State rail planning resources. Furthermore, as access to highway transportation is such a critical factor in the State's promotional efforts, so should be rail access. Site selection assistance should become more rail sensitive and enlightened. Neither the potential industrial locator nor the rail industry benefits from a State's encouragement of industrial siting on uneconomic branch lines, when main line sites are available and may provide superior service at lesser cost. If a State seeks to open underdeveloped territory to industrial location, non-compensatory rail service should be financed publically as in new highway construction to the site.

4) Transportation safety: Transportation safety has become of increasing national concern over the last 15 years. As society becomes more interdependent, transportation increases; the opportunities for conflict and accidents increase; and higher speeds, heavier transport equipment, and hazardous commodities with increased opportunities for "incidents" combine to offer potential catastrophies. All of this occurs in a temporal context of great public concern for environmental quality. Needless to say, all of us in transportation daily experience this heightened concern for transport safety, and witness a growing trend for more stringent legislation and regulation.

Public policies to enhance transportation safety can be destructive or can be enlightened in serving public needs for transportation which is safe, as well as economic and efficient. Toward this end, I urge state policy to reflect on two perspectives concerning rail safety initiatives and their costs and benefits:

1) Much of what is offered as rail safety legislation and/or regulation must be vigorously scrutinized to ascertain whether the benefits to public or employee safety will be derived, and--if so--will exceed the often substantial costs. Frequently, safety benefits can be achieved through lower cost programs, but by the time the initiative reaches regulatory or legislative forums, political pressures simplify and polarize the issue, leaving only one alternative--public safety or intolerable hazards. The economics of service delivery and alternative methods of safe service delivery must be examined closely. I reiterate the proposal for "rail impact" analyses.

2) The economic impact of safety legislation and regulation can be mitigated through increased State sharing of the safety responsibility. This statement does not deny the shippers' and carriers' significant role in safe transportation. But it recognizes the public benefits from safe transportation and therefore the public involvement in cost sharing. For example, rather than outright bans of hazardous material transportation in urban areas--which not only destroys the rail carrier service, but also has deleterious effects on the cities' economic base, enlightened state action to undertake financing and training of emergency response personnel within the community would minimize the severity of an accident in an effective manner without the railroad and its shippers assuming the entire cost. Consistent with the theme of modal equity, when one considers the massive public investments in the other modes for safety purposes, state actions in rail safety would similarly enhance the social welfare by minimizing the risks of catastrophy and by minimizing the adverse economic impacts on shippers and carriers.

5) Expanded scope for conventional state rail planning: By the term "conventional" state rail planning agencies. Clearly, there exists no paradigm descriptive of all the state rail agencies currently. The programs, the agencies length of existence, and the unique environment of each political jurisdiction necessitates that each agency and its orientation will differ. However, within the resources of the agencies I observe, there are resources which could be applied immediately to areas neglected to date because of the many other urgencies:

* State rail planning has primarily focused on rural areas where service has been threatened or discontinued. The urban areas are crying for assistance in a number of efforts which have rail planning components. Municipal and regional planning agencies usually have transportation planning resources focused on highways, air, and mass transit. Rail freight operations, physical plant, and economics are beyond their immediate competence, but often are capabilities resident in the state agencies.

Urban development initially centered around rail facilities. Today's cities find rail freight users have often evacuated the center city, and the city is often physically divided by obsolete rail structures which inhibit pedestrian and highway transportation. Furthermore, active rail facilities and lines are often viewed as obnoxious land uses in the city. Finally, much valuable urban land is occupied by underutilized rail facilities. From the railroads perspective, its urban plant is admittedly excessive, inefficient, and a source of constant irritation between city fathers and railroad management. Previously, I addressed the financial needs to solve these problems. Even more immediate is the need for creative technical planning assistance which can assist the railroads and the community to begin a process for resolving their respective needs. This requires both the physical and policy planning expertise that most state rail planning agencies currently contain.

* A similar situation exists in industrial development where public agencies are vigorously recruiting new industry and attempting to provide infrastructure as an incentive for relocation. The promotional agencies often lack expertise to deal with modern rail freight service needs of potential shippers. State rail planning agencies can offer a vital resource in this effort--with the agency's own skills, plus its ready access to railroad industry specialists. Costly and irritating problems can be avoided if state and railroad experts are involved early in this process.

* In a related suggestion, a spectrum of states agencies are making policy recommendations without rail expertise. Whether the policy pertains to economic development, energy conservation, and environmental quality, etc., there are railroad impacts implied -- often to be a "rail educator" which apprises other policy makers of rail-associated benefits and costs.

* Within this vein, another role for state planning agencies emerges. Rail interests need to meet and discuss a variety of issues--before problems produce adversarial relationships. Whether the issue concerns rail service on a specific subsidized line or the ultimate future and dimensions of rail service in the State, state rail planners are in an ideal position to convene rail labor, shippers, regulatory agencies, legislators, rail industry management, "rail fans," and public interest groups to address a State rail agenda from the "micro" to "macro" issues.

In essence, the scope of rail planning can, and in many States is, expanded beyond branch line issues.

This hopefully would be an evolutionary step toward the ultimate role -- that of rail planning, policy analysis, and policy advocate. Today, the rail agencies within the Conrail region range across a spectrum moving toward rail planning/policy/advocate role. I think this evoluation is desirable and will happen. My hope is that the evolution occurs rapidly enough to assist beneficially the evolution which the industry must undertake.

Conclusion:

The relationship between Conrail and the state rail planning agencies within Conrail's service region has been dynamic, vibrant and generally productive. Implementation of new federal programs has required extensive problem-solving, innovation, and patience. But collectively, the relationship has progressed to mutual respect and, I think, reciprocal needs among the industry and the State agencies.

Our hope is that the foundation created under difficult circumstances is firm, from which to launch an even more ambitious effort under equally crisis-like environments. Rail service can survive as a vital ingredient in the nation's economic revitalization, if industry and public policy makers work together. An environment must be created conducive to the industry's evolution towards its future, yet presently unknown, dimensions. State government can provide an essential contribution to this evolution.

SOUTHERN PACIFIC'S VIEW OF THE STATES' RAILROAD PLANNING

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I strongly believe that the states will play a particularly important role in determining the future dimensions of the Nation's rail network. Certainly in the early era of railroad construction and development, the states were an important force shaping the rail network, and I am convinced this will be repeated before the twentieth century is ended.

The role of federal aid in encouraging the dedication of scarce, private capital to the risky proposition of constructing railroad lines throughout a largely undeveloped nation in the last century is well known. But what is often overlooked is that the states played a similar role, as did many cities and towns.

Some states constructed railroads. Pennsylvania, for instance, constructed the Allegheny Portage Railroad and the Philadelphia and Columbia Railroad. The state of Georgia constructed the Western and Atlantic and operated the road successfully until after the Civil War.

Other forms of aid were also provided by the states. In the early decades of railroad building, many railroads were granted monopoly privileges, which provided protection from competition for a limited period of time. Some states provided banking privileges to railroad corporations; the idea seemed to be that profits from banking operations were more assured than those from railroad operations, and thus could be used to entice the subscription of stock from otherwise reluctant investors in amounts equally divided between a jointly-controlled banking and railroad operation. The exemption from taxation for a limited number of years was also provided as an incentive to railroad development by at least nineteen states. North Carolina provided the most unusual form of aid as it turned over gangs of convicts on favorable terms to a number of railroads; for example, the Cape Fear & Yadkin Railroad was constructed entirely by convicts.

But the principal form of aid from the states was provided in the form of direct financial aid to encourage railroad development. The Federal Coordinator of Transportation estimated an amount in excess of $200 million was ultimately provided, including stock subscriptions of $40 million, loans of $80 million, railroad bond guarantees of $45 million, and land donations of 49 million acres valued at $48 million. 1/

My point in delving into this bit of history is simply to demonstrate how crucial were the states in developing the railroad system during the last century. Of course, there were sound economic and political reasons for doing so because there was no other feasible means of surface transportation for much of the country. Thus, to the extent a locality was unable to find itself linked into the rail system, it truly had no economic future. From this perspective, the eagerness of the people to obtain improved transportation facilities and their willingness to provide the direct financial aid and other assistance to do so are readily understood. For it is evident the people knew very well that the economic future of their communities and of their states depended on the availability of rail transportation facilities.

Although competing modes of transportation are more fully developed today, railroads still play an important role in the economic fabric of the states and, of course, of the nation. Although less crucial than our forefathers viewed them in earlier times, railroads still provide freight services which cannot be duplicated without incurring the penalties of higher transportation costs, reduced economic activity, increased highway deterioration, and greater fuel consumption and environmental damage.

But the government-sponsored development of the nation's multimodal transportation infrastructure has significantly changed the economic legitimacy of the existing railroad network. In point of fact, the ubiquitous highway system comprises approximately 3.5 million miles, more than 15 times the 200,000 mile route system of the nation's rail network. As that highway system was developed and expanded during the past half century, patterns of intercity freight transportation changed accordingly. The resulting shift of traffic from rail to highway and the declining rail share of the intercity freight market are well documented.

But the end result is that the rail network which was developed when railroads were the only feasible national transportation mode is far too extensive and over-developed given today's conditions.

The extensive debate which preceded the passage of the Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act) considered the extent to which restructuring of this rail network should occur. Strengthening the nation's private enterprise rail system through consolidation in order to permit the carriers to compete intermodally and intramodally with efficiency and economy so as to assure their financial solvency was determined by the Congress to be one important public policy objective to be pursued. In addition, the Congress recognized that portions of the rail network's light density lines constituted a financial burden on the rail carriers which they could no longer bear. As a result, a shift in public policy was provided so as to permit the abandonment of financially non-viable light density lines, unless their retention was deemed essential to meet either the social or political goals of the affected states. Broadly stated, the basic responsibility for determining the economic importance of each state's light density line has been placed jointly upon state rail