

STATEMENT OF WILLIAM B. JOHNSTON, ASSISTANT SECRETARY OF TRANSPORTATION
FOR POLICY AND INTERNATIONAL AFFAIRS, BEFORE THE SUBCOMMITTEE ON
SURFACE TRANSPORTATION OF THE SENATE COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION, FEBRUARY 20, 1980

Good morning Mr. Chairman and Members of the Committee.

The Department of Transportation appreciates this opportunity to appear before your Committee to advise you of the current status of our efforts to restructure the Rock Island Railroad in order to preserve essential rail service and minimize adverse impacts on employees, shippers, and communities. I will also discuss our proposals to continue service in the short-term, as well as the labor protection legislation which is urgently needed to advance the restructuring process in an orderly manner. With me today are Robert Gallamore, Deputy Administrator of the Federal Railroad Administration (FRA), and William Loftus, FRA's Associate Administrator for Federal Assistance.

After three years of financial difficulty, the Rock Island reached a severe crisis point last August. An employee strike related to back pay issues stopped the railroad and President Carter established an Emergency Board to restore essential service for the grain harvest. Shortly thereafter, the Interstate Commerce Commission (ICC) found that the Rock Island was cashless and could not continue operations. The ICC, with the President's urging, then directed the Kansas City Terminal Railway to provide service for 60 days. That directive was later extended an additional 90 days and is now due to expire March 2. In November, Secretary Goldschmidt announced a process that resulted in bids for Rock Island properties being received by us on February 1 and we reported the results of this process to the public on February 4.

Mr. Chairman, it is apparent that further steps must be taken immediately to avoid counterproductive disruptions of service which could set back the progress we have made. It is reassuring that both we in the Administration and many of you in the Congress have a similar perception of the urgency of events. I am pleased to be able to advise you today of a set of actions and legislative recommendations being developed that will advance the goal I think we share -- permanent service arrangements by railroads that are financially able to do the job, and a reasonable level of protection for adversely affected employees. My suggestions will, however, be significantly different from the Senate bills and Joint Resolution which have been introduced to continue operations of the Rock Island for periods of from one to six months as a whole, and potentially longer in the case of lines on which bids have been submitted. Instead, our proposals build on the substantial progress that the Department has already made. We believe this process is working and that it must be permitted to proceed.

Major progress in the next few weeks will require resolution of the labor protection question, voluntary acceptance of interim operating responsibility by acquiring railroads, and full cooperation of the Trustee, the Reorganization Court and creditor groups. While there are uncertainties and many complexities, the tight deadlines we have set are designed to move all the parties toward solutions as quickly as possible. Also, the tight timetable will hold to a minimum the large expense to the general taxpayer of directed service operations.

Recognizing that directed service is only a stop-gap solution, the Department over the last several months has been taking some bold steps to encourage and shape long-term solutions. We have pursued the basic policy of seeking the transfer of essential parts of the Rock Island system to other rail carriers in order to avoid long-term Federal funding. To this end, the Federal Railroad Administration (FRA) has, pursuant to the Department's authority under Section 401 of the Railroad Revitalization and Regulatory Reform (4R) Act, been meeting with railroads who have an interest in acquiring facilities of the Rock Island Railroad. As a result of our request for firm purchase offers, eighteen parties have expressed interest in acquiring and operating portions of the Rock Island, with bids covering 88 percent of Rock Island traffic and 65 percent of its track. The map before you indicates the level of interest on different lines, and a copy of this map is appended to my testimony.

In order to maintain service during the transfer period, we have proposed that prospective purchasers become interim operators at the termination of directed service orders on Rock Island. In those cases where the prospective purchaser indicated a willingness to provide such interim operations, the lines are shown in green on the map; where the bidders preferred to operate only after acquiring the property, the lines are shown in orange. The red lines indicate that no bid was received, although we are continuing to work with certain railroads to cover major traffic points on those lines. Our objective is to install interim operators to provide service on the green and orange lines and to essential service points on other lines by April 1.

To assure an orderly transfer of most service -- and to provide time for critical labor negotiations, and the enactment of necessary labor protection legislation -- Secretary Goldschmidt has made the following recommendations to the Interstate Commerce Commission:

- (1) The ICC should cancel its February 22 embargo of incoming traffic and continue full directed service until March 2.
- (2) The ICC should maintain directed service for 30 days after March 2 on lines for which offers to purchase have been made. It should also assure that service will be continued to specific locations on other lines where there is a need to continue essential shipping service as determined through normal ICC procedures and on other lines where we can expect offers of purchase to be made once the labor issues are resolved.
- (3) The ICC should not permit traffic embargoes before April 1. Embargoes are disruptive to the process, particularly where interim operators will be ready to provide service at the end of the directed service operation.

This extension period should enable the involved parties to take the administrative, legal, and labor implementing actions necessary to put interim service in place. Our recommended service extensions would continue most of the traffic and are estimated to cost about \$12 million for the additional 30 days proposed.

Resolution of labor protection issues is the most pressing requirement for continuing service on the Rock Island with interim and acquiring carriers. In order to press this issue toward resolution, the Department of Transportation has convened meetings of involved labor and railroad officials and substantial progress is being made.

Under a set of principles developed by a committee of labor and management representatives to serve as the basis for negotiating an agreement, Rock Island employees who are reemployed by an interim operator or acquiring carrier would be guaranteed compensation by that operator or carrier. The compensation guarantee would be equal to 80 percent of the employee's average salary and would extend for a period not to exceed 36 months. The interim operator would be responsible for the guarantee during the period of interim operations and the acquiring carrier for the balance.

Employees not hired by interim operators or acquiring carriers would not be provided any protection under this agreement. Thus, there is the need for appropriate legislation to provide assistance to such employees. In our view, it will be extremely difficult to even begin interim operations without such legislation.

In enacting the Milwaukee Railroad Restructuring Act (MRAA), Congress provided a framework which we believe could also be desirable for labor legislation on the Rock Island. We are in the process of developing a labor protection proposal consistent with the MRAA, discussing its elements with other agencies involved, and making adjustments appropriate to the Rock Island circumstances. While our proposal has not been put

in final form, we believe the Trustee should compensate those employees displaced by service discontinuance and not hired by an interim operator or acquiring carrier. Under normal ICC precedents, the Trustee's labor protection responsibilities could be very large, but this case presents an entirely new situation. For that reason we would take the view that the Trustee should be able to borrow Federally guaranteed funds to meet his responsibilities.

Under the precedent established by the MRRRA, labor protection could include up to six months of monthly compensation equal to 80 percent of the employee's average salary. During that six month period, the employee could elect to take a separation allowance based on his years of service less any monthly compensation already provided. An employee who elected to take a separation payment would forego further compensation or protection. The Rock Island Trustee should have a ceiling on his payments to employees. It is our present view that this ceiling would not exceed \$75 million, consistent with the level of protection being assumed by the Milwaukee under the MRRRA. The ceiling could be reduced as we further develop our proposal.

We are also evaluating whether the Federal government should be responsible for providing initial monthly compensation guarantees for up to six months to employees who are displaced and are ultimately hired by an interim operator or an acquiring carrier. In addition, our plan would have the Federal government offer the opportunity for retraining employees not hired.

Beyond the immediate transition period, we feel strongly that the Railroad Restructuring Assistance Act, which was submitted to the Congress last May is essential to the longer term restructuring process. This legislation would authorize \$1.5 billion in repayable financing for the purpose of acquisition and rehabilitation of facilities by railroads involved in restructuring. Labor protection costs resulting from restructuring or from negotiated work rule changes would also be eligible. The availability of this financing would facilitate the continuing interest of the greatest number of carriers in acquiring Rock Island and Milwaukee properties and in expediting track rehabilitation to provide improved service. I urge the Congress to enact this legislation as quickly as possible.

To conclude my testimony Mr. Chairman, let me summarize. We believe the process is working and that the only tool lacking to bring it to conclusion is that of labor protection legislation. We have urged the ICC to provide the time necessary for the parties to reach an accommodation of the complex issues involved in restructuring the railroad and we will take all actions within our power to achieve that end. We do not support any of the legislative proposals before you, feeling that they would simply freeze the process, thereby relieving all parties from the pressure to bring it to a conclusion.

Thank you. We would be pleased to respond to any of your questions.

