

TESTIMONY OF FEDERAL RAILROAD ADMINISTRATOR
JOHN M. SULLIVAN ON APRIL 1, 1980
BEFORE HOUSE TRANSPORTATION AND COMMERCE SUBCOMMITTEE ON
THE ISSUE OF FUTURE FUNDING FOR CONRAIL

Mr. Chairman:

I am pleased to be able to appear before you today to present an overview of Conrail's financial prospects from the perspective of the Department of Transportation.

In calendar year 1979, Conrail had the best year in its four-year history. It generated a net loss on the order of \$180 million, half the loss it incurred in 1978. It also obtained a \$200 million improvement in cash flow from operations over 1978 levels. The Corporation expects a performance drop in calendar year 1980 due largely to unfavorable projections for the national economy and resulting traffic declines. Yet, Conrail expects to improve its financial performance in calendar year 1981 as the economy progresses and traffic levels improve.

Conrail does foresee financial challenges due to the 1980 performance problem. It believes it can meet them through calendar year 1981 with a combination of initiatives: operating efficiency improvements, creative rate actions that depend on regulatory flexibility, slowdowns in track rehabilitation and plant additions, and careful financial management. Thus, the Corporation has not requested a new Federal authorization in FY 1981, and the Administration has not budgeted any financing over the existing \$3.3 billion.

For several reasons, FRA considers this no-funding position to be the most responsible and feasible course of action. Conrail's performance improvement between calendar years 1978 and 1979 suggests that Conrail's management is gradually succeeding in controlling operations and in achieving some productivity improvements. Better-than-expected performance in the first quarter of calendar 1980 has helped to reduce Conrail's first quarter drawdowns by about \$100 million from previously budgeted levels. We trust that this Congress will pass a regulatory reform bill for the rail industry that will allow Conrail the ratemaking flexibility it needs to achieve the financial results it forecasts. The recent compromise between the Southern Railway System and Conrail on joint rates strengthens our belief in the prospects for timely regulatory reform legislation.

Despite these positive factors, a forecast such as Conrail's is only as good as the assumptions on which it is built. Ultimately, these assumptions may prove to be overoptimistic in several respects. The national and northeastern economies may perform more poorly than Conrail expects. The Congress may fail to legislate meaningful regulatory reform for the rail industry. The Corporation itself may fail to achieve the operating efficiencies it seeks. Under any of those circumstances, Conrail could develop emergency financing requirements in FY 1981.

In that event, the Department would consider requesting funds to allow Conrail to complete up to its 1980 and 1981 fixed plant rehabilitation and improvement programs at their currently budgeted levels. We would present to the Congress at that time our recommendations as to the amount and funding mechanism. We would not fund any 1980 or 1981 capital

programs above the currently budgeted levels. I say that because Conrail has not demonstrated that the impacts of the ongoing deferrals would be debilitating in the 1980-81 period, irremediable thereafter, or contrary to the long-term interests of the Corporation. Also, substantial regulatory reform in 1980 and 1981 could lead to shifts in traffic volume and composition that would alter Conrail's future fixed plant needs. An augmented program in 1980 and 1981 could run counter to these prospective changes in traffic patterns.

Of course, Conrail may identify a need for a new Federal authorization in FY 1982 and beyond. In that eventuality, we may wish to employ an approach similar to that of Title V of the 4R Act, in which fixed plant rehabilitation and improvement funds would flow to Conrail through the Department on a project-by-project or group-of-projects basis. We believe that Conrail eventually should be placed on an equal footing with the railroad industry in applying for the limited amount of Federal funds available for railroads. We will have a better appreciation of the Corporation's prospects in FY 1982 and thereafter when we receive Conrail's Five-Year Business Plan for calendar years 1981-85 this coming June.

Also, we would appreciate swift Committee consideration of the Conrail 3R Act Title V labor protection provisions which we recently forwarded to Congress.

Mr. Chairman, that concludes my remarks. I would be pleased to answer any questions.