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BEFORE THE SUBCOMMITTEE ON COMMERCE, TRANSPORTATION AND
TOURISM OF THE COMMITTEE ON ENERGY AND COMMERCE
U.S. HOUSE OF RESPRESENTATIVES
MARCH 17, 1981

Mr. Chairman, I appreciate this opportunity to provide you with the views of the Department of Transportation regarding the Administration's proposal to discontinue the Local Rail Service Assistance (LRSA) Program.

Originally established by the Regional Rail Reorganization Act of 1973 to alleviate the impact of the substantial branch line abandonments associated with the start-up of Conrail, this program provides transitional Federal operating and rehabilitation assistance. The states in the Conrail territory received assistance to develop rail planning expertise and to subsidize continued service on those abandoned lines which provided services they considered important to local shippers or the economy of the region.

Subsequently, the program was broadened to include planning and subsidy assistance to all states. It has been used to alleviate the impacts of abandonments resulting from the Rock Island and Milwaukee Road restructurings. Under a statutory allocation process, funds are allocated to all states, even to states which have little or no branch line abandonment problem.

The Local Rail Service Assistance program served a genuine need in the northeastern states. The impact of the abrupt abandonment of 7000 miles of track was mitigated by the program. Industries which lost rail service received a transitional period of time to make adjustments and to develop and implement alternative transportation for their products. The states developed rail planning expertise. Federal support of the program has served its purpose and, having done so, should now be terminated.

The Local Rail Service Assistance Program was established in 1973 under Section 402 of the 3R Act, to permit states in the northeast region to continue those rail services which they considered most important. $180 million was authorized for the program. It was designed to permit continuance of those lines which were not transferred to Conrail through operating subsidies, limited necessary track maintenance, and the acquisition of such lines.

Congress later broadened the program to include all states and authorized an additional $360 million plus $2 million for rail banking of lines, bringing the total authorization to $542 million. In addition, the program was expanded to cover the costs of constructing connecting tracks or intermodal transfer facilities and to include any rail lines which annually carried less than three million gross tons per year.

What began as a short-term program to deal with the problem of 7,000 miles of light density rail lines was expanded into a categorical grant program covering many areas of the country where the line abandonment problem is far less urgent and, in some cases, nonexistent.

Initially, the states used program funds primarily for operating subsidies to keep many rail services intact until shippers could arrange for alternative transportation service, or the economics of the line could be changed through higher shipper payments or lower labor costs. Sixteen of the states in the northeast region subsidized freight service on 3,000 miles of eligible light density rail lines and made improvements to the track necessary to ensure safe operations. Six states also applied for program funds to acquire lines to be continued in operation or to be rail banked. Some of these projects are still pending and the funds approved for them remain available.

In review, the program has produced mixed results. The initial subsidies were intended to be an interim measure while long-range plans were developed. Instead, more than 2,000 miles of the 3,000 miles originally subsidized were still in the program as of September 30, 1980. Subsidized operations have been discontinued generally when shippers or local communities were unwilling to contribute at least a portion of the non-Federal share of the subsidy. Only 28 miles have been acquired by operating railroads and restored to private sector railroad service; of that mileage, 26 miles were acquired by Conrail itself.

Outside the northeast states, only two lines have been operated under subsidy, 24 states have used funds for rehabiliation or acquisition assistance with the emphasis on non-abandoned lines.

New York is one state that has used the program effectively. It adopted a comprehensive approach to the railroad abandonment problem, one which involved local communities and shippers and considered the total range of transportation solutions, including substitute service through rail connections or team tracks. As a result, New York has discontinued service on a total of 443 miles of the original 583 miles in the program. Five of the lines, totalling about 135 miles, have been or are being purchased at the county level and service is being provided by short line railroads.

As it evolved, the program developed major deficiencies. They include using grant funds for long-term operating subsidies, using Federal funds to solve isolated transportation issues appropriately within the local domain of states, and allocating funds by a formula which made them available to areas without serious rail problems.

Other more appropriate tools are available for use in specific areas where problems are unique and severe and where Federal funds can, on a one-time basis, contribute to the retention of improved rail services in the private sector.

There will be situations in the future which will require assistance programs to mitigate the impacts of railroad restructuring. The solution, however, should be tailored to the problem at hand. We cannot support retaining a permanent branch line assistance program to address possible future problems, when it is likely that future problems could be resolved better with a targeted program. For example, the Rock Island Railroad Transition and Employee Assistance Act made loan funds available to shipper groups and public agencies to purchase abandoned Rock Island tracks.

In the RITEA, Congress required that $38 million of the preference share program under the 4R Act be set aside for non-carrier and public agency purchase of Rock Island properties. Congress made up to $27 million of the preference share program available for similar purposes on the Milwaukee's abandoned properties and up to an additional $15 million for retention of Milwaukee lines in a rail bank. Congress also authorized a limited, 90-day program of directed service to deal with the abrupt loss of service on the Rock Island and Milwaukee properties. The cost of this was not to exceed $15 million.

In the Staggers Act of 1980 Congress established a "Feeder Railroad Development Program," to provide prospectively for the orderly transfer of light density lines to new shortline railroads. Eligible lines are those for which a shipper proves to the Interstate Commerce Commission that the transfer would be in the public interest because the current owner is providing inadequate service, and those lines which a railroad lists on its system diagram map as potential candidates for abandonment.

Using the system diagram map criterion, shippers and the railroad can avoid the abandonment process and the deferral of maintenance that often precedes an abandonment application. The Staggers Act also amended the Redeemable

Preference Share (Section 505) program by setting aside not less than five percent of appropriated funds for use in acquiring or rehabilitating lines under the feeder line program.

The feeder line program and funding for non-carrier purchases of lines has an advantage over the LRSA program's broad based allocation to all states in that funds can be targeted to lines that can be successfully operated as shortlines. This may permit continued service to shippers and should feed freight to the large railroads for long distance movement. Applicants are required to demonstrate that they will service an important traffic base and will have the ability to repay the loans, thus preventing the program from becoming a long-term subsidy for uneconomic branch lines.

In light of the history of the Local Rail Services Assistance program and the existence of programs targeted at specific problems, we believe that the Local Rail Services Program has served its purposes and should be terminated.

I should be pleased to answer any questions you might have.