

Statement of Richard F. Walsh, Director of Transportation Economic
Analysis, Department of Transportation, Before the Subcommittee on
Oversight of the Internal Revenue Service of the Senate Finance Committee
June 21, 1979

Mr. Chairman, Members of the Committee, good morning.

I am Director of Economic Analysis in the Office of the Secretary of Transportation. My office is responsible for the analysis of the proposal known as Save Our Railroad Employment (SORE). As you know, this proposal incorporates a plan to operate the western portion of the Milwaukee Road as a separate carrier apart from that portion of the Milwaukee which the Trustee has said he wants to continue to operate. Several members of the Congress have asked that the Department conduct a thirty-day study of this proposal's financial viability. I am here today to report on the status of our work.

First, let me explain why my office is managing this task rather than the Federal Railroad Administration. As you know, the viability of the SORE proposal is a key issue in the development of plans for coping with the Milwaukee bankruptcy. It deserves immediate attention. We in the Department of Transportation--including the Deputy Secretary, the Federal Railroad Administrator and the Assistant Secretary for Policy and International Affairs--have felt it very important to have the analysis carried out by people who are one step removed from FRA's day-to-day efforts to facilitate necessary restructuring of rail service in the midwest and elsewhere. My office follows these efforts closely and

keeps informed on them, but we are not directly involved. Accordingly, as we are the office in OST that would normally be responsible for any substantive economic analysis of rail matters, we received the assignment.

To that end, we have contracted for a financial analysis of SORE's viability. Through a sole source procurement, we have obtained the services of The Consulting Center, Inc., a small consulting firm with headquarters in Sudbury, Massachusetts, and a branch office in Alexandria, Virginia. It is the only firm that we know of that we can confidently expect to do an objective and rigorous high quality analysis in the very short time available. Under the terms of our contract, we are to have a final report by July 6. We expect the analysis to cost slightly less than \$10,000.

The Alexandria office of The Consulting Center is headed by Mr. Russell F. Murphy, Executive Vice President of the firm. Both Mr. Murphy and his staff have been actively engaged in the financial analysis of troubled railroads for the last several years. A former employee of DOT where he was closely involved with analysis of the Penn Central's difficulties, Mr. Murphy was, successively, Director of Financial Analysis and Vice President for Finance of the United States Railway Association. Most members of his group have similar experience.

Thus, all have been familiar in the most intimate detail with the problems and challenges of the analyses of financially marginal rail operations.

We are confident that Mr. Murphy and his team will do the job right.

My own staff will be working closely with them and directing their efforts.

The analysis is progressing on schedule and should be ready on time.

However, at this juncture, I have nothing to offer you in terms of any substantive results. Because of the importance and the sensitivity of the issue, I think it would be entirely inappropriate for the Department to speculate on the outcome of the analysis when only part of the required work has been done.

Mr. Chairman, that completes my prepared statement. If there are any questions on the way in which we are carrying out this assignment, I will be glad to try to answer them.