

TESTIMONY OF
ROBERT W. BLANCHETTE
FEDERAL RAILROAD ADMINISTRATOR

BEFORE THE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TRANSPORTATION
U.S. SENATE
March 17, 1983

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to present the Federal Railroad Administration's budget request for Fiscal Year 1984.

Our agenda for FY 1984 is rooted in the direction FRA charted two years ago. As a result, I should like to review our stewardship against our original policy direction. This review can serve the dual purpose of accounting for our activities to the Subcommittee and of setting the framework for our 1984 initiatives.

FRA's policy goal has been to end the Federal government's role as a major owner, financier, regulator and handicapper of the Nation's railroads. The 97th Congress agreed with this goal and provided the necessary tools for its attainment through the passage of landmark legislation: the Northeast Rail Service Act of 1981 (establishing provisions for the divestiture of Conrail), the Amtrak Improvement Act of 1981 (encouraging actions by Amtrak to reduce Federal subsidies), the Federal Railroad Safety Authorization Act of 1982 (repealing outdated rail safety requirements), and the Alaska Railroad Transfer Act of 1982 (authorizing the transfer of the railroad operation to the State of Alaska).

Through the combined actions of Congress and the Administration, we have sharply reduced FRA's appropriations and personnel levels. Budget authority (excluding the non-recurring valuation settlements) has been reduced 42 percent, from the historical peak level of more than \$1.6 billion in FY 1979 to \$932 million in FY 1983. On-board personnel (excluding the Alaska Railroad) has declined by 21 percent, from 855 employees at the end of FY 1979 to an estimated 677 employees at the close of the current fiscal year. Exhibit I shows these year-by-year changes.

EXHIBIT I

SUMMARY OF BUDGET AUTHORITY AND EMPLOYMENT
(Dollars in millions)

	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>Percentage Change (FY 1979-83)</u>
Budget Authority	\$1,616	\$1,561	\$1,605	\$1,130	\$932	-42%
Employment	855	861	777	687	677	-21%

RAILROAD DEREGULATION AND FEDERAL ASSISTANCE

The Administration began with a firm commitment to implement the promises of economic deregulation made in the Staggers Rail Act of 1980. The Department urged the Interstate Commerce Commission to exempt coal export and boxcar traffic from regulations, to allow more flexibility in the rate structures of railroads, and establish guidelines for coal rates to enable differential pricing by railroads and protect captive shippers. These initiatives have met with a large measure of success.

Federal financial assistance programs were reassessed in the new climate of improving industry finances and physical plant. We concluded that there were opportunities to shift the emphasis away from Federal financing. We declined loan applications which appeared to be candidates for private financing, which indeed was secured.

At the same time, we provided for the completion of meritorious applications before us. FRA committed \$30 million in preference share financing to the State of South Dakota to rehabilitate and preserve service on the 482-mile Miles City line purchased from the Milwaukee Road. Agreements have been completed to provide \$40 million in Federal assistance for the acquisition of 650 miles of former Rock Island track and operating rights between the States of Kansas and Texas by the State of Oklahoma, the Oklahoma, Kansas, Texas Rail Users Association, and the Missouri-Kansas-Texas Railroad Company.

Most of the remaining \$69.1 million of redeemable preference share financing has been earmarked for specific projects by Congressional action. These projects include acquisition and rehabilitation of former Rock Island lines, and terminal and yard improvements in East St. Louis and Kansas City. Negotiations are proceeding as quickly as possible on those projects.

FRA's assistance programs have served the need for which they were intended. We do not foresee any additional meritorious applications for major projects for correcting deferred maintenance on heavy-density interstate rail lines.

AMTRAK

At the end of 1980, Federal subsidies for Amtrak were heading toward the \$1 billion mark; the fiscal process had gone out of control. We gathered the evidence that such profligate ways were not necessary to the preservation of a national system. Amtrak, we urged, could operate like a business. Congress agreed and responded. Appropriations were reduced to \$896 million in FY 1981, \$735 million in FY 1982, and \$700 million for the current fiscal year. Amtrak has met these budgetary challenges while improving its overall effectiveness.

Under the resourceful guidance of Graham Claytor, Amtrak has continued improvements in productivity and service quality. The Corporation's revenue-to-cost ratio increased from 42 percent in FY 1981 to 50 percent in FY 1982; it is expected to meet or exceed the legislative requirement of 50 percent in FY 1983. On-time performance for the full Amtrak system service improved to 79 percent in FY 1982, and is expected to meet its goal of 80 percent in FY 1983. Express Metroliner service between New York City and Washington, DC, which was inaugurated last year, continues to be highly reliable, with a 92 percent on-time performance record.

The list of improvements is impressive. New or rehabilitated equipment is reducing maintenance costs. New labor agreements, especially those related to Amtrak's takeover of operating crews on the Northeast Corridor, have reduced personnel costs. Premium fares and extra-frills services, especially on the Express Metroliner and Florida routes, have had positive impacts on revenues. As a result, the Federal subsidy per passenger has declined from over \$42 in FY 1981 to about \$33 in FY 1983.

NORTHEAST CORRIDOR IMPROVEMENT PROJECT

In 1981, FRA restructured the Northeast Corridor Improvement Project to put even greater emphasis on passenger safety and service reliability. In doing so, the Administration recommended a reduction in the total project cost to \$2.19 billion. By the end of FY 1984, all of the work included in the Administration's

total funding level will be either under contract to private firms or underway as specific tasks by Amtrak forces. Nearly 90 percent of the work will be complete. Completion of the project will provide safe and reliable rail passenger service in the Northeast Corridor, and will provide schedules at, or very close to, the original travel time goals stated by Congress. Amtrak now agrees that the costly electrification program between New Haven and Boston can be eliminated.

From its inception through 1982, the project has placed concrete ties over 400 miles of track, laid 540 miles of continuously welded rail, completed 466 miles of track undercutting, and resurfaced 634 track miles for high-speed operations. FRA and Amtrak rehabilitated 115 bridges, constructed maintenance-of-way bases at Providence, Rhode Island and at Odenton and Perryville, Maryland, and began construction of equipment service facilities at Washington, Wilmington, and Boston. Station rehabilitations are underway in New London, New York City, Newark, Trenton, Wilmington, Baltimore, and New Carrollton. Work is scheduled to begin this year on the remaining stations in Boston, Providence, New Haven, Stamford, Metropark, and Philadelphia. In addition, a major construction effort is underway at the B&P Tunnel in Baltimore.

WASHINGTON UNION STATION REDEVELOPMENT

Union Station was converted by the Department of Interior to a National Visitors' Center for the 1976 Bicentennial. Subsequently, this historic railroad station fell into a serious state of disrepair and finally became unsafe for public use. The Administration and the 97th Congress took the first steps toward redeveloping this fine old building by conducting new engineering and marketing studies directed by the Union Station Redevelopment Act of 1981.

Only two weeks ago, Secretary Dole announced an agreement with Amtrak to begin the redevelopment of Union Station so that railroad passengers can return to the original loading and discharging sites within the building. As soon as the initial rehabilitation is completed, this building will be ready for further office and commercial development.

ALASKA RAILROAD

The Administration and the 97th Congress also worked closely together on the Alaska Railroad Transfer Act of 1982. This legislation authorized the transfer of the Alaska Railroad to the State of Alaska. This goal had been unsuccessfully sought for years.

CONRAIL

The most complex and difficult problem that we addressed was that of Conrail's divestiture. The Administration began with the conviction that the Federal government should no longer own and subsidize Conrail. In less than eight months, Congress affirmed our judgement with passage of the Northeast Rail Service Act of 1981 (NERSA). We are fortunate to have Stan Crane, the Chairman of Conrail, working so effectively towards our common goals of profitability and private ownership.

NERSA relieved Conrail of excessive cost burdens and established a process for the transfer of Conrail to private ownership. A rational labor protection program has enabled a reduction of 2,900 excess brakemen and firemen, resulting in estimated annual savings of \$80 million. Additionally, Conrail's management and labor unions negotiated a massive wage deferral agreement. Conrail has also abandoned 2,600 miles of uneconomic lines and transferred all commuter services to State and local governments.

Conrail has achieved profitable operations through the marketing and pricing innovations that became available under the Staggers Rail Act of 1980. Despite the recent period of record traffic declines, Conrail has reported a profit for 1982 of \$174 million under Generally Accepted Accounting Principles or \$2 million under ICC accounting basis.

The Department has retained the investment banking firm of Goldman, Sachs and Company to assist DOT in selling the railroad. I am optimistic that Conrail will meet the NERSA profitability tests and that we will have a green light to move forward on a stock sale.

SAFETY

FRA's safety program is based on the premise that cooperation and consensus yield better results than the unilateral ukases of the regulators.

During the past two years, railroad safety regulations were brought into line with the present-day needs of railroad operations. For the first time, rail labor and management were brought together to review Federal regulations and recommend changes jointly. As a result, consensual revisions are now in place for track safety standards, power brake regulations, and car interchange rules. In addition, FRA will issue Notices of Proposed Rulemaking this month concerning signal and train control regulations, and is working on a consensual approach to the control of alcohol and drug abuse in rail operations.

Since 1981, FRA has made considerable progress towards adequate manning levels in safety enforcement. Exhibit II outlines the increases made in field staff. Of the 24 additional positions authorized for FY 1983, 17 have already been filled and selections have been made for three positions. We expect to have personnel on-board for all 379 authorized positions within the next two months.

EXHIBIT II

FRA REGIONAL OFFICES
On-Board Personnel

<u>Inspector Discipline</u>	<u>FY 1981 (Actual)</u>	<u>FY 1982 (Actual)</u>	<u>FY 1983 (Projected)</u>
Regional Safety Directors	8	8	8
Motor Power & Equipment	98	98	100
Operating Practices	45	49	58
Track	72	72	88
Signal & Train Control	29	33	33
Hazardous Materials	27	28	30
Total	<u>279</u>	<u>288</u>	<u>317</u>

(Excludes trainee and clerical personnel.)

TRANSPORTATION TEST CENTER

FRA determined early on that it did not need to retain management responsibility for the Transportation Test Center in Pueblo, Colorado. Since this research facility conducted valuable testing for railroads, equipment suppliers and other Federal agencies, we concluded that it would be better marketed and operated by the railroad industry itself. The Association of American Railroads agreed, and assumed management of the Center at the start of FY 1983. FRA, of course, will remain a major user of the facilities for safety related research and testing.

FRA REORGANIZATION

To deal more effectively with our new directions and program priorities, I have streamlined FRA's management and organizational structure. A new position of Executive Director was created to improve coordination in the day-to-day management of our administrative operations, financial assistance and research programs, oversight activities of Amtrak and the Alaska Railroad, and work in the Northeast Corridor Improvement Project.

FY 1984 BUDGET REQUEST

Our FY 1984 budget request assumes a continuation of these policies. FRA's total FY 1984 budget request is \$868,396,000, exclusive of extraordinary items such as litigation settlements and technical intra-agency loan defaults. This is \$59,331,000 less than the FY 1983 figure of \$927,727,000 for comparable items, a reduction of 6 percent. Our request in FY 1984 for permanent positions is 700, which is 622 positions less than FY 1983. Of this reduction, 585 positions are attributable to the proposed transfer of the Alaska Railroad to the State of Alaska.

ADMINISTRATION, RESEARCH, AND SPECIAL PROJECTS

In FY 1984, I am proposing to consolidate all of the salaries and expenses and contractual support, except Railroad Safety, into one appropriation entitled "Administration, Research, and Special Projects." Merged into this appropriation would be the administrative expenses and contract support of previous appropriations which included Office of the Administrator, Railroad Research and Development, Rail Service Assistance, and FRA staff expenses of the Northeast Corridor Improvement Program.

I believe that it is unduly cumbersome to continue separate appropriations for these accounts when the objectives for which these appropriation accounts were created have largely been met. The programs that provided Federal financial assistance to the railroads are in their final stages. The Railroad Research and Development office is being reduced in function and size. The office's primary role is to support FRA's safety function. This requested consolidation will allow flexibility to manage personnel and resources in accordance with changing programs and priorities.

I am requesting \$40,736,000 and 255 permanent positions for this account, a net decrease of \$24,676,000 and 37 permanent positions from our comparable FY 1983 level. The major decrease of \$20,750,000 is attributable to the proposed elimination of Federal funding for the Local Rail Service Assistance program. The reduction in permanent positions reflects cutbacks in various line and staff functions, resulting in salary and expense savings of \$1,625,000.

The consolidated contract support activity, which contains elements of policy support, R&D support and special projects, reflects a funding level of \$21,965,000, a reduction of \$1,970,000 from FY 1983. Policy support has been reduced by \$2,410,000, which is partially offset by minor increases in R&D support and special projects.

The remaining \$854,000 of the Administration, Research, and Special Projects request is for borrowing authority to pay interest on inter-agency loan guarantees.

RAILROAD SAFETY

FRA requests \$26,514,000 and 445 permanent positions, a net decrease of \$1,486,000 from our FY 1983 level, but with no change in permanent positions. The request for budget authority reflects an increase of \$3,801,000 for our field inspection efforts, offset by a decrease of \$487,000 in headquarters expenses and a decrease of \$4.8 million for the State safety inspection program and automated track inspection program.

In the Federal enforcement program, carryover funds of \$2,600,000 were reprogrammed to finance the 24 new positions allowed in FY 1983, as well as additional pay costs and increased travel expenses. The remaining increases are composed of \$149,000 for the annualization of the FY 1983 pay increases and related benefits, \$751,000 for contractual support, and \$300,000 to provide the full year cost in FY 1984 of vacancies filled in FY 1983.

CONRAIL LABOR ASSISTANCE

FRA is requesting \$20 million for FY 1984. This will ensure that funds are available to provide benefits to additional Conrail employees affected by further abandonments, and facility consolidations, and will cover any remaining claims due to the transfer of commuter services and Amtrak's employment of intercity passenger crews on the Northeast Corridor.

SETTLEMENTS OF RAILROAD LITIGATION

In FY 1984, \$38,545,000 is requested for settlements of railroad litigation, in contrast to a level of \$87,467,000 in FY 1983. Although the funds are contained in FRA's budget, responsibility for the settlements rests with the United States Railway Association.

NORTHEAST CORRIDOR IMPROVEMENT PROGRAM

We are requesting an appropriation of \$100 million to bring the total amount appropriated to the full \$2.19 billion level approved by the Administration. The remaining focus will be on completing the track improvement program, building new service facilities, installing signals, hazard detectors and switch heaters, and renovating stations.

AMTRAK

For FY 1984, FRA is proposing an appropriation of \$682 million to cover operating expenses, capital acquisitions and improvements, and labor protection. For the second consecutive year, Amtrak and FRA agree on the factual premises of the budget submissions, including the dollar differences under various legislative assumptions.

ALASKA RAILROAD

No funds are requested for the Alaska Railroad in FY 1984. The Alaska Railroad Transfer Act of 1982 authorizes the transfer of the Alaska Railroad to the State of Alaska. It is anticipated that the transfer will take place before the statutory deadline of July 14, 1984.

Mr. Chairman, this completes my prepared statement. I will be happy to answer any questions the Subcommittee may have.