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SCIENCE AND TRANSPORTATION

SUBCOMMITTEE ON SURFACE TRANSPORTATION

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The Administration opposes reauthorization of the Local Rail Service Assistance (LRSA) Program for the same policy reasons that led the previous Administration to oppose LRSA funding in the past six years.

The LRSA Program was a byproduct of the financial crisis that afflicted American railroads in the 1970's. It was established by the Regional Rail Reorganization Act of 1973 as a regional two-year program of financial assistance to provide local communities sufficient time to adjust to the loss of major carrier rail service following the bankruptcy of Penn Central and several smaller regional carriers. Only 18 states in the Northeast and Midwest were originally eligible for assistance. As the railroad financial crisis peaked with the bankruptcy of the Milwaukee and Rock Island Railroads, the program was expanded nationally making every state, except Hawaii, eligible for assistance.

LRSA was never intended to be a solution to those bankruptcy-related problems, or others to which it has been creatively applied. It was intended as a stop-gap measure to hold an over-regulated railroad system together in a crisis while viable long-term solutions were pursued in Congress and elsewhere. The railroad industry today is far different than it was before 1980.

FRA is extremely proud of the accomplishments under the LRSA Program. Since 1976, the LRSA Program has provided planning assistance to 49 states and the District of Columbia and project funding to 47 states. Over $496 million has been granted to date. States have very effectively used LRSA funding to preserve essential rail service to many communities by rehabilitating thousands of miles of track. Some states have purchased lines. Many states have taken advantage of the Program's flexibility by pursuing low cost options, such as rail connections, in lieu of major rehabilitation projects. A few states have even selected non-rail alternatives less expensive than continuing rail service, such as relocating single shippers or increasing the capacity of local roads.

Notwithstanding the success of the LRSA Program, the concerns which led to its creation are being addressed outside of LRSA. States are creating their own programs to deal with the preservation of essential freight service. Perhaps even more important have been the changes in the railroad industry brought about by regulatory reform under the Staggers Act of 1980.

Many states have established their own independently funded rail freight assistance programs. Currently, 20 states have active financial assistance programs. Approximately $94 million is available under these programs through 1989. States without funding programs provide technical assistance to shippers and local communities. Nine states have used their LRSA funding as a base for financing future projects by loaning the funds to railroads instead of granting them.

Since the early 1970's, when the LRSA Program was established, the Staggers Act and other regulatory reforms have greatly improved the financial condition of our nation's railroads. The industry's return on investment has doubled in the years following the Staggers Act. Major carriers are continuing to to restructure and streamline their systems, but they no longer rely exclusively on the abandonment process. They are actively working to preserve rail service on light density lines through sales to shortline and regional railroads which can operate the lines more efficiently and profitably.

At the moment, this rationalization process is clouded by the PL&E cases now before the Supreme Court. If the Third Circuit Opinions are sustained in certain ways, major carriers will once again have more incentive to abandon lines in most cases than to sell them to shortline or regional carriers. We do not believe that result will obtain or would be in the public interest.

From January 1, 1981, through July 1, 1988, close to 200 new small railroads were established, all but a handful of them from track formerly operated by the major carriers. The explosion in the number of shortline and regional railroads, when LRSA funding has been at its lowest level, demonstrates the move away from abandonments and job disruption to continued service and job preservation. It also demonstrates the availability of private-sector financing for the acquisition of light density rail lines.

FRA's recent Report to Congress, "Deferred Maintenance and Delayed Capital Improvements on Class II and Class III Railroads," found that 55 percent of the 1987 shortline and regional railroad traffic was handled by carriers which require no additional rehabilitation to eliminate deferred maintenance. Another 30 percent of the carloads were handled by railroads reporting no track rehabilitation needs beyond those which can be covered with internal funds. While the remaining 15 percent of the traffic is carried by small railroads that require external financing to eliminate deferred maintenance, we believe these needs can be met with private-sector financing and State funding.

The LRSA Program provided the transitional assistance for which it was established. It demonstrated the validity of the feeder line concept and established that regional railroads and shortlines could succeed as feeders to the trunk rail system. Now, states, selling railroads, and private-sector financiers have stepped forward to continue the process. In light of this success, coupled with the need to reduce Federal spending, there is no compelling need to continue the LRSA Program.

Last year, the Reagan Administration agreed to support an FY 1989 transfer of $10 million to LRSA if the Program were reauthorized. While this Administration is opposed to the LRSA Program, we will honor that agreement. However, the Secretary will recommend veto of any authorization of appropriations in excess of this amount.