

REPORT BY THE

# Comptroller General

OF THE UNITED STATES

RELEASED

*substituted  
for 9630*

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## Information On Questions About Conrail's Track Abandonment Program

Conrail has not abandoned any rail lines to date, even though it considers several lines unprofitable. Conrail informed the Interstate Commerce Commission on November 30, 1978, that it would defer abandoning any active rail lines for 1 year to allow the Government to consider changing the way it regulates the rail industry.

GAO found that the methods Conrail used to identify branch lines for potential abandonment were reasonable. Also, Conrail's system for accumulating costs and revenues on its "study" lines provided auditable data and conformed to the Interstate Commerce Commission's format for supporting abandonment applications. Conrail does not estimate the social and economic costs and benefits of a proposed abandonment. However, the Commission recognizes such factors in deciding whether to approve an abandonment.

This information was requested by the Subcommittee on Government Activities and Transportation, House Committee on Government Operations.



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CED-79-45  
APRIL 2, 1979

E R R A T A

To the recipients of the Comptroller General's report to Representative John L. Burton entitled "Information On Questions About Conrail's Track Abandonment Program" (CED-79-45):

Substitute the enclosed report for the one you received on April 2, 1979, which was sent to you without a cover.



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-164497(5)

The Honorable John L. Burton  
Chairman, Subcommittee on Government  
Activities and Transportation  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

As requested in your December 28, 1977, letter, and discussions with your office, we have evaluated the Consolidated Rail Corporation's (Conrail's) criteria for route selection and track abandonment processes including whether any new or different criteria, such as social or environmental factors, are advisable. We also reviewed Conrail's study of its branch line from Waterbury to Torrington, Connecticut, a line Conrail had classified as subject to abandonment. Our findings are summarized below and detailed in the appendix.

This is our third report in response to your request. The two previous reports were "How Long Does It Take Conrail To Process Protected Employees Claims Under the 1973 Regional Rail Reorganization Act?" (CED-78-138, July 31, 1978) and "Conrail Faces Continuing Problems" (CED-78-174, Oct. 6, 1978). We are working on the fourth and final segment of the request, which concerns how effectively and efficiently Conrail and others are implementing the employee protection provisions of title V of the Regional Rail Reorganization Act of 1973 (45 U.S.C. 771-79), as amended.

Although Conrail has been studying the effect on income of abandoning a number of its lines, it has not yet abandoned any. Moreover, Conrail informed the Interstate Commerce Commission on November 30, 1978, that it had decided to defer, for 1 year, any abandonment initiatives involving active rail lines. This action was taken, according to Conrail, to allow the Government to consider changing the way it regulates the rail industry so as to allow Conrail more creativity in adjusting its track network than the Commission's current regulations allow.

B-164497(5)

According to its February 15, 1978, 5-year business plan forecast, Conrail had planned to send about 100 abandonment applications to the Commission between 1979 and 1982. Conrail estimated that these abandonments would save it about \$21 million through 1982. This amount represented only about one-tenth of 1 percent of Conrail's total estimated operating expenses for the 5-year period. Conrail has not calculated how its deferral will affect it financially.

We found that Conrail's procedures and criteria for evaluating its branch lines were reasonable and provided an adequate basis for Conrail to identify those lines which could be made profitable and those which could not. Also, Conrail's system for accumulating cost and revenue data provided auditable data and conformed to the Commission's abandonment procedures.

Conrail does not estimate the social and economic costs and benefits of a proposed abandonment. However, we found that the Commission in ruling on abandonment applications, implicitly recognizes such factors. For example, in reviewing Commission decisions on abandonment applications from other railroads, we noted several cases where the Commission disallowed abandonment because it believed the adverse impact on the community would outweigh the burden on the carrier despite the carrier's demonstrated losses.

It should also be pointed out that the Regional Rail Reorganization Act of 1973, as amended (45 U.S.C. 701, 744(c)) includes a subsidy program which permits a financially responsible entity (e.g., State, shipper(s), or local or regional transportation authority) to arrange for continued rail service on lines which the Commission has authorized for abandonment.

As requested, we reviewed the method Conrail used to place a value on the Torrington line. The \$802,669 figure is composed primarily of preliminary estimates of the real estate and net salvage values of rails and switches. Such a property value is used not to compute operating losses related to abandonments, but to help estimate the subsidy payment to be made should the Commission permit abandonment and should a rail service continuation subsidy offer be made.

We obtained comments on this report from Conrail and the Commission, who agreed our information is accurate as presented.

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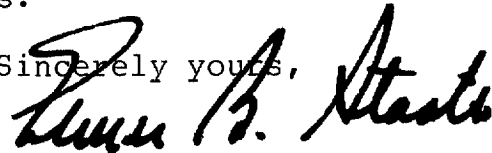
We plan to expand the scope of our ongoing review of payments made to protected employees under title V of the Regional Rail Reorganization Act of 1973, as amended. Because of title V's scope and cost and an apparent lack of Federal oversight, we believe more audit work than you had requested is necessary. We have, therefore, initiated a more comprehensive review of title V to determine

- the sufficiency of the \$250 million title V fund,
- whether persons are being paid correct benefit amounts, and
- the appropriateness of private corporations such as Conrail interpreting legislation and disbursing Federal funds with no apparent Federal oversight.

Our report is scheduled for release in June 1979.

As arranged with your office, we are sending copies of this report to Congressmen Evans, Maguire, and Moffett. Unless you publicly announce its contents earlier, we plan no further distribution of the report until 30 days from the date of the report. At that time, we will make copies available to interested parties.

Sincerely yours,



Comptroller General  
of the United States

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ABBREVIATIONS

Conrail	Consolidated Rail Corporation
FSP	Final system plan
ICC	Interstate Commerce Commission
RSPO	Rail Services Planning Office
USRA	United States Railway Association

INFORMATION ON QUESTIONS ABOUT CONRAIL'STRACK ABANDONMENT PROGRAMBACKGROUND

The Congress, in enacting the Regional Rail Reorganization Act of 1973 (45 U.S.C. 701), as amended, established a two-pronged approach to restructuring rail service in the Northeast and Midwest. On the one hand, title III of the act established the Consolidated Rail Corporation (Conrail) to be a financially self-sustaining, for-profit, private corporation to operate the rail services formerly provided by the bankrupt carriers. On the other hand, title IV of the act provided for a subsidy program to maintain essential but unprofitable rail services.

When planning for the reorganization of the bankrupt railroads into Conrail, the United States Railway Association (USRA) identified and studied those lines of the bankrupt railroads which would not contribute to the financial health of the restructured system. The final system plan (FSP) USRA prepared for Conrail mandated that Conrail's freight system not be burdened with deficits incurred for money-losing branch lines. In total, USRA analyzed 10,692 miles of active light density lines (branch lines). A total of 5,757 miles was excluded from the Conrail system, and those lines became immediately eligible for rail service subsidies under title IV. If a line received no subsidy, the act permitted discontinuance of service and abandonment. By the end of 1977, Conrail was still operating 1,233 of the 5,757 miles of branch lines excluded from the Conrail system. 1/ The cutbacks were made not by Conrail, but by State rail authorities who chose either to discontinue service or transfer operations to another carrier, such as a short line railroad.

The remaining 4,935 of the 10,692 miles of branch lines identified by USRA were assigned to Conrail. Conrail has been studying many of these lines to determine whether they are a financial drain.

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1/Although Conrail does not own these lines, it operates service to them under agreement with the provider of the subsidy, including shippers, and State and local governmental agencies.

LEGISLATION AND  
REGULATIONS GOVERNING  
ABANDONMENT OF RAIL LINES

Section 304(g) imposed a 2-year moratorium preventing Conrail from abandoning any portion of its 17,000-mile system until April 1, 1978. After that date, Conrail was permitted to submit rail abandonment applications to the Interstate Commerce Commission (ICC). ICC has jurisdiction over proposed abandonments pursuant to section 1a of the Interstate Commerce Act, which provides that rail lines cannot be abandoned and rail service cannot be discontinued unless ICC authorizes it.

ICC regulations governing abandonment of and discontinuance of service to rail lines are contained in title 49, part 1121, of the Code of Federal Regulations. Part 1121 also sets forth procedures for financially responsible entities to submit offers of financial assistance after ICC has approved abandonment but before it issues a certificate of abandonment. This provides a last chance to continue service over lines proposed for abandonment. Generally, part 1121 establishes

--a requirement that each railroad submit to ICC a diagram map of its rail system which designates its lines into five categories:

- (1) those which the carrier anticipates will be the subject of an abandonment or discontinuance application within 3 years;
- (2) those which are under study and potentially the subject of an abandonment application;
- (3) those for which an abandonment or discontinuance application has been filed with ICC;
- (4) those which are being operated under rail continuation subsidies; and
- (5) all other lines operated by the carrier;

--a requirement that the system diagram map be revised annually if a line is listed in category (2), with the revision to clearly reflect the carrier's decision whether to transfer lines in category (2) to either category (1) or (5), or retain the line in category (2) for further study;



- detailed procedures specifying the notice, filing, and processing requirements for abandonment or discontinuance applications, offers of financial assistance, and offers of acquisition for other public use; and
- standards for ICC use in evaluating abandonment and discontinuance applications and in determining rail freight service continuation assistance.

According to the regulations, if there is significant opposition to an abandonment, the line must be shown in category (1) on the map for at least 4 months before the railroad files the abandonment application. However, if no significant opposition exists, the line need not be identified in category (1).

A railroad initiates an abandonment by filing a notice of intent to abandon with ICC. Copies of the notice must be sent to State governors, public utility commissions, shippers, and other specified parties, and the notice has to be published for 3 weeks in local newspapers and be posted at stations on the line involved. Within 30 days after the notice requirements are completed, the railroad must file the actual abandonment application with ICC. This application must also be filed at least 60 days before the intended abandonment date.

The abandonment application filed with ICC must contain extensive information, including

- a description and map of the line;
- a statement as to the physical condition of the line, including an estimate of deferred maintenance and rehabilitation costs;
- a description of the services provided for the past 2 years, including volume of traffic on the line, and an explanation of any important service changes in the past 5 years;
- data on revenues, avoidable costs, and return on value for a 36-month period, together with a computation of an estimated subsidy payment for a 12-month period, and a statement of the effect of the abandonment proposal on the net income of the carrier;

- a statement of the rural and community impact of the proposed abandonment, identifying significant users of the line, alternative sources of transportation service, and efforts which have been taken to continue service; and
- a statement of the environmental impact of the proposed abandonment.

If no opposition to an application is anticipated, the carrier can submit a summary abandonment application that omits much of the above information.

Once the application is filed, ICC has 55 days to determine if the proposed abandonment should be the subject of an investigation which may involve a public hearing. (However, if an interested party requests an investigation, the ICC must suspend the abandonment proposal until the investigation is completed.) If ICC decides an investigation is unnecessary, the abandonment certificate is issued 60 days after the application is filed. If a hearing is ordered, ICC must proceed within a specified time limit and reach a decision. Depending on whether there is an appeal, ICC's decision could take as long as 18 months.

ICC's standard in ruling on proposed abandonments is "public convenience and necessity." ICC weighs the public use of a line and the need for the service which it provides against the financial loss or burden the railroad would incur if it continued the line. When ICC investigates a proposed abandonment, the burden of proving that the abandonment is consistent with the public convenience and necessity rests on the carrier. ICC will sometimes hold a public hearing before an administrative law judge. More often, ICC will dispose of the case under "modified procedures," whereby all interested parties submit written statements and ICC makes a determination on the basis of these statements.

If ICC concludes that public convenience and necessity permits abandonment of the line, it issues a certificate of abandonment and publishes its finding in the Federal Register. The certificate is made effective 45 days after publication in the Federal Register, unless postponed by an offer of financial assistance to continue service.

The subsidy procedure comes into play only after ICC approves an abandonment. Under the provisions of section 1a of the Interstate Commerce Act, if, within 15 days after ICC publishes its finding in the Federal Register, a financially responsible person offers a rail service

continuation payment which (1) covers the difference between revenues and costs together with a reasonable return on value or (2) covers the acquisition cost of the line, ICC must postpone the abandonment for a reasonable time, not to exceed 6 months. The postponement is to permit the subsidizer sufficient time to enter into an agreement with the carrier. Section 1a also requires that ICC determine the extent to which the avoidable cost plus a reasonable return on value exceed the revenue from the line.

CONRAIL'S LINE  
ANALYSIS PROGRAM

Since fall 1976, Conrail has been studying its branch line network to (1) quantify the existing demand for local rail service and measure whether individual lines contribute to net income on an out-of-pocket cost basis, (2) try to improve the economic performance of lines that do not contribute, and (3) identify lines which Conrail cannot continue without public assistance. Conrail officials stated that abandonment actions will be taken only as a last resort.

Conrail began its analysis by screening about 12,000 miles of its 17,000-mile route system to select lines which carried less than 100 carloads per mile per year. Conrail ultimately selected 260 lines with 2,940 track miles for detailed financial analysis.

All railroads covered by the law, including Conrail, filed the required system diagram maps with ICC in April and May 1977. Conrail's map, however, did not identify any line segments being processed for abandonment or any lines under study and potentially subject to future abandonment, because Conrail management was unable to make those identifications.

In June 1977, Conrail furnished ICC and other interested parties a list of the 260 lines it was studying. In October 1977, Conrail reported that less than 70 of the original 260 lines were still being studied. In December 1977, Conrail filed a system diagram map with ICC which identified 22 lines with 124 track miles as lines Conrail would try to abandon within 3 years. The map also identified another 34 line segments totaling 730 track miles as under further study and potentially subject to abandonment.

Conrail's line analysis program--conducted by about five people--has been a small part of Conrail's total operations. According to its February 15, 1978, business plan, Conrail expected to send about 100 line abandonment applications to ICC between 1979 and 1982. Through 1982, Conrail expected that its branch line abandonments and other changes would save the railroad about \$21 million, or about one-tenth of 1 percent of Conrail's estimated expenses through 1982.

In 1978, Conrail continued its analysis of branch lines and filed an amended system diagram map with ICC in December 1978. This map shows that (1) 326.7 miles of line previously listed as potentially subject to abandonment will not be abandoned, (2) 18 miles of unused lines which had been designated as potentially subject to abandonment will be abandonment candidates, and (3) 408.8 miles of line potentially subject to abandonment will remain in that category. These changes reflect Conrail's decision in November 1978 to defer for 1 year any abandonment initiatives involving active rail lines to allow the Government to consider changing the way it regulates the rail industry. Conrail wants a change that will permit a more creative approach to adjusting its route system than current regulations permit. Conrail has not calculated the impact its deferral will have on its financial performance.

METHOD USED BY CONRAIL  
TO IDENTIFY ABANDONMENT  
CANDIDATES

ICC's abandonment regulations detail the procedures to be followed in filing diagram maps and processing abandonment applications. Although the regulations specify the system diagram map categories, they do not state how the carriers are to decide which categories their lines belong in.

After the initial screening process, Conrail estimated the economic contribution of individual branch lines by applying branch line profitability standards developed by ICC's Rail Services Planning Office (RSPO). These standards were developed to calculate the amount of subsidy required on lines operated by railroads under the rail service continuation provisions of the Interstate Commerce Act and the Regional Rail Reorganization Act of 1973, as amended. Because the RSPO standards provided a framework for estimating revenues and costs on individual branch lines, Conrail uses them with some modifications, to determine abandonment

candidates. Conrail and ICC officials both agree that this data collection method is for planning and estimating purposes only and that it would not be suitable as evidence accompanying an actual abandonment application, since the regulations require that actual financial data on a line be submitted with the abandonment application.

On January 1, 1978, Conrail began collecting actual revenue and cost data on the lines it identified on the December 1977 system diagram map as either the subject of an anticipated abandonment application or under further study and potentially subject to abandonment. The data Conrail is now gathering is in a preliminary stage because certain unit costs are based on 1977 operating statistics. However, a Conrail official said that when 1978 statistics became available (i.e., during early 1979), the costs will be recalculated to reflect actual 1978 costs.

#### THE TORRINGTON SECONDARY

We examined documentation relating to Conrail's branch line between Waterbury and Torrington, Connecticut, to test Conrail's application of its line analysis procedures and to determine whether Conrail's system for accumulating branch line cost and revenue data provided adequate information and was in accordance with ICC's regulations. This line, known as the "Torrington Secondary," was designated on Conrail's December 1, 1977, system diagram map as a line under further study and potentially subject to abandonment. This line will remain in that category on the next diagram map according to Conrail.

#### Estimated revenue and costs

Conrail's economic analysis of branch lines considers revenues, avoidable costs (on-branch and off-branch), and property value. Conrail's procedures for estimating each of these are described below.

- (1) Revenue represents all of the Conrail revenue for traffic originating or terminating on the line. It does not include revenue due another railroad on interrailroad shipments that does not accrue to Conrail.
- (2) On-branch costs relate directly to the branch operation. The six categories of on-branch costs are:

- Maintenance of way: In accordance with suggested RSPO guidelines, maintenance of way costs were estimated at \$1,000 per year per mile of track.
  - Rehabilitation costs: No rehabilitation costs were included in Conrail's estimate.
  - Maintenance of equipment: These are the estimated costs to maintain locomotives used on the branch. They were calculated by multiplying the estimated number of hours the locomotive was used on the branch by the average maintenance cost per hour incurred by Conrail to repair that type of locomotive. In addition, this cost category includes estimated mileage and ownership cost of freight cars for the time the cars are actually on the branch.
  - Transportation: Transportation costs include crew and fuel costs. Conrail estimated crew costs by multiplying estimated crew hours to serve the branch for the year by the appropriate labor rate. Fuel costs were estimated by multiplying estimated locomotive hours by average hourly fuel costs.
  - Taxes: Taxes were not considered in Conrail's estimate.
  - Miscellaneous: A very small amount of miscellaneous costs was included in Conrail's estimate. However, Conrail included estimated administrative costs based on 1 percent of the revenue of the line, as in the RSPO standards.
- (3) Off-branch costs--basically, estimated off-branch costs are calculated to capture the cost involved in moving freight cars on Conrail lines to or from the point where the branch begins--in this case, Waterbury, Connecticut. Costs included are terminal costs, linehaul car costs, and interchange costs, all of which are based on average cost factors as applied to actual car movements.
- (4) Valuation of rail property--Conrail estimated the value of the Torrington Secondary at \$802,669, as follows:

## APPENDIX I

## APPENDIX I

Value of real estate 238.36 acres at \$480 per acre	\$114,413
Net salvage value of rail property (rails, switches, signals, etc.)	681,444
15 days working capital	<u>6,812</u>
Total	<u>\$802,669</u>

The RSPO guidelines provide that the above items be considered in estimating property valuation. Conrail's estimate for the real estate value per acre was based on the opinion of a Conrail real estate expert and a realtor from Connecticut who, after a visit to the area, estimated the line's land value to be \$800 per acre. Since Conrail holds clear title to 60 percent of the land, the value was estimated at \$480 per acre (\$800 x 60 percent). The salvage value of the rail property was estimated by Conrail's New Haven Division engineer; it represents the gross value of rail and switches less the costs of dismantlement.

Conrail's return on value estimate was calculated by multiplying the value of the property, \$802,669, by 11 percent, the average cost of capital of railroads holding A or AA bond ratings. This is one approach suggested by the RSPO standards. Conrail is in a unique situation because its long-term financing is provided, for the most part, by the Federal Government. Hence, Conrail had difficulty deciding what an appropriate capital cost would be. The 11-percent figure was used by Conrail for estimation purposes because its finance department believed it to be a reasonable cost of capital for a railroad.

Return on value is not an operational cost considered in computing net avoidable costs realized from a line abandonment. The return on value calculation only comes into consideration in determining the estimated subsidy payment to be made should ICC permit abandonment of a line and if a rail service continuation subsidy offer is made. According to an RSPO official, the objective of the return on value calculation is to reimburse the railroad for the return it would have received had it been permitted to liquidate the line instead of continuing its operation.

Using the RSPO branch line profitability standards as an estimating tool, Conrail calculated the revenues, avoidable costs, and return on value of this line for the period July 1976 to June 1977, as follows:

## APPENDIX I

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Revenue		\$350,424
Avoidable costs:		
On-branch	\$166,781	
Off-branch	<u>272,155</u>	
Total avoidable costs		438,936
Operating loss		-88,512
Return on value forfeited by continuing to operate the line		<u>88,294</u>
Total		\$-176,806

If property valuation were not considered and the size of the crew on the branch were reduced from four to three persons, Conrail estimated the loss on the Torrington Secondary as follows:

Revenue		\$350,424
Avoidable costs:		
On-branch	\$149,415	
Off-branch	<u>272,155</u>	
Total avoidable costs		<u>421,570</u>
Operating loss		-71,146
Cash flow		<u>670</u>
Total		<u>\$-71,816</u>

Conrail's evaluation and plan  
for the Torrington line

After calculating its operating loss on the Torrington line, Conrail analyzed the results to determine if corrective action could be taken to eliminate the loss. After studying possible approaches to increasing revenues and reducing costs, Conrail concluded that no possible corrective action could change the line's deficit. According to Conrail, the major reason for the deficit is lack of volume--a position Conrail's analyses indicate will not change.



As stated on page 7, Conrail plans to continue designating the Torrington line as an abandonment candidate on its December 1978 map. Because estimated data is not suitable evidence for an abandonment application, Conrail has developed a system to capture actual revenue and cost data on all the lines it is actively studying, i.e., those listed on the December 1977 system map. This system was started in January 1978.

Using the data generated for the Torrington line, we compared how Conrail was accumulating actual costs and revenues to the methods prescribed by the abandonment regulations and tested the data to see if it was supportable. We found that Conrail's system accumulated revenues and costs in accordance with the regulations and that the data could be traced to appropriate source documents and cost factor calculations. Currently, Conrail's calculations are preliminary because certain cost factors are based on 1977 data and must be revised at the end of 1978. However, the preliminary figures indicated that the deficit on the Torrington Secondary for 1978 could be about \$69,000.

#### CONCLUSIONS

We believe the method Conrail used to evaluate its branch lines is reasonable and provides its management with an adequate framework for decisionmaking. In addition, Conrail's system for accumulating costs and revenues on branch lines appears in consonance with the regulations and capable of providing a trail of supporting information.

Conrail does not estimate the social and economic costs and benefits of deciding whether or not to abandon lines. However, ICC, in deciding upon abandonment applications, does weigh the impact of the proposed abandonment on the community against the burden which is placed on the carrier if it is required to continue operating the line. In certain cases, ICC has decided that the community impact of an abandonment necessitates retaining the line. Further, if a line abandonment is permitted, the offer of a subsidy by local interests could result in retained service. Consequently, we believe that current abandonment procedures adequately consider the interests of affected rail users.

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