



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

NOV 24 1973

MEMORANDUM FOR THE PRESIDENT

Eno  
Center for  
Transportation

SUBJECT: Designation of the Preliminary Routes to be Served by the National Railroad Passenger Corporation

Section 201 of Rail Passenger Service Act of 1970 requires the Secretary of Transportation to submit to the ICC and Congress a preliminary report and recommendations for the minimum basic routes and characteristics of service which the new Corporation will provide. The legal deadline for issuing the report is November 30.

Specifically, the statute states that:

Such recommendations shall specify those points between which intercity passenger trains shall be operated, identify all routes over which service may be provided, and the trains presently operated over such routes, together with basic service characteristics of operations to be provided within the basic system . . .

The following is a summary of my recommendations which I am submitting for your consideration and approval.

Recommendation

The system which I am recommending is set forth in Attachment A (Proposed Basic System Map) and Attachment B (List of Designated End Points). My recommendation provides for 27 routes, of which 13 are designated as "corridor" routes and 14 as "long haul" routes. The "corridor" designation applies to a pair of cities each with a population of one million or more and less than 300 miles apart. In three cases<sup>1/</sup> these criteria were relaxed to

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<sup>1/</sup> Portland-Seattle, Buffalo-New York, and Chicago-Minneapolis

account for unique existing travel patterns. The Corporation will be required to provide two daily trains in each direction in the corridors and one train in each direction on the long-haul routes. In the higher volume corridors, such as the Northeast Corridor, it is expected that the number of trains operated by the Corporation would be substantially greater.

### Basis for the Recommendation

Corridor routes were selected if the demand projected for 1975 was sufficient to permit trains to compete effectively with buses on a time basis and airplanes on a cost basis. The demand was forecast by either (1) projecting existing demand or (2) using a demand model developed in the Northeast Corridor Study for cases where existing demand has been artificially depressed by poor rail service.

For the long haul train, a principal requirement is that all regions of the country be connected by a reasonably direct route. Routes were selected on the basis of existing ridership data. All long-distance trains with present ridership in excess of 100 passenger miles per train mile were analyzed. This is a level of ridership at which a train should be approaching a break-even point assuming efficient management. In addition, those trains with a passenger load of 85 to 100 passenger miles per train mile were examined.

On this basis all routes having one or more long distance trains with a passenger volume of 100 passenger miles per train mile were included. Of the six routes with a passenger volume between 85 and 100 passenger miles per train mile, five were required to provide regional connectors and thus a truly national railway system. The one exception, Duluth-St. Paul, did not meet this criteria and is not included in the basic system.

The selection of routes was based on the most rational and objective criteria that we could develop. The selection standards were maintained for all routes; they were not varied for either political or social considerations. They also provided a screening procedure which prevented the basic system from becoming unwieldy, uneconomic and inefficient.



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Financial Implications

An analysis was conducted to determine the impact of the proposed routes on the financial health of the Corporation. Our projections are highly tentative and should be regarded as approximate estimates of the financial status of the Corporation. However, several points are worth emphasis:

First, it is estimated that the Corporation would be profitable in the fourth year of operation.

Second, the strongest routes will be those in the Northeast Corridor which are projected to show a significant profit commencing in the third year of operation. The sum of the other corridors as well as the long haul service should be operating near the break-even point in the fifth year. Attachment C is a five-year profit and loss estimate based on our recommendation.

Third, it is estimated that the Corporation will have the necessary financial base to operate without further Federal assistance beyond the initial capitalization specified in the legislation; namely, \$40 million from a direct Federal grant and \$100 million in guaranteed loans, as well as payments from the railroads estimated at approximately \$200 million. (The Federal Government is authorized to provide \$200 million in loans or loan guarantees to railroads to meet the costs of joining the Corporation.)

Impact of the Department's Recommendation on the Present Level of Intercity Rail Service

	<u>Present Level of Service</u>	<u>Proposed Level of Service by the Corporation</u>	<u>Change</u>
<u>Corridor Service</u>			
Train Miles	13.9 M	11.9 M	-2.0 M
<u>Long Haul</u>			
Trains (one-way)	142	14	-128
Train Miles	49.2 M	13.0 M	-36.2 M

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Aggregate Impact

	<u>Present Level of Service</u>	<u>Proposed Level of Service by the Corporation</u>	<u>Change</u>
Passengers (served per year)	26-28 M	18-20 M	- 8 M
SMSA's <sup>1/</sup> served	184	131	- 53
States served	44	41	- 3
Intercity Rail Passenger Service Employment	28,300	11,300	- 17,000

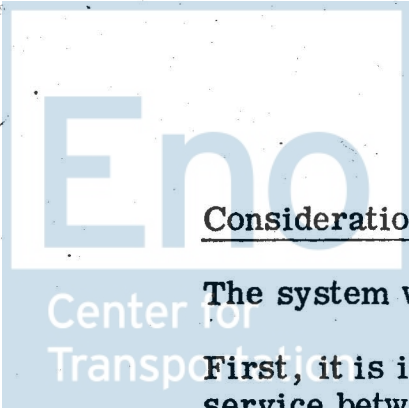
The implementation of the basic system will see a dramatic reduction of intercity passenger railroad service in this country. Approximately, 53 SMSA's now having intercity railroad service will lose their service altogether while an estimated eight million people currently using intercity rail passenger service annually will no longer be accommodated. Of 142 long haul trains, only 14 will be continued, constituting a reduction of long haul train mileage from the present 49.2 million miles to 13 million miles.

These reductions will also entail an estimated 17,000 reduction in personnel now employed in intercity railroad operations. Since the law contains a section providing for labor protective provisions for these dislocated employees, included at the insistence of the unions, we believe that these reductions can be handled in an orderly manner without labor unrest. However, the cost impact to be borne by the railroads is estimated to be as much as \$300 million.

The proposed system is truly a "bare bones" system, however, it will still serve 93 percent of the SMSA population now served by intercity trains.

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<sup>1/</sup> Standard Metropolitan Statistical Area





Considerations Involved

The system we have designed is based on several assumptions.

First, it is important to meet the legal requirement to provide passenger service between all regions of the country.

Second, it is important to preserve an essential nucleus of rail service throughout the country as an alternative carrier to the bus and airplane.

Third, routes have been selected only where high existing patronage warrants or where careful analysis indicates a high potential for attracting significant passenger volume in the immediate future.

Fourth, no costly improvements in roadbeds are planned and new equipment will be phased in only as demand warrants.

Fifth, the basic system should not be dependent on future Federal subsidies and should meet its costs as soon as possible. Accordingly, we do not envision the need for any Federal operating subsidy other than the \$40 million capitalization grant to start the Corporation and the related loan and loan guarantee provisions.

*Well, let  
Congress  
come back.*

Sixth, the system should be politically acceptable. We believe that the system we have designed is the minimum which has a chance to be acceptable to the public and the Congress. It is our judgment that any further reduction is likely to cause the Congress to seize the initiative in designating the system. The Department's proposed system may already be so minimal that it will be difficult to resist the pressure from those most severely affected. For example, our basic system design could result in three States - Wyoming, Arkansas, and West Virginia - and twelve State capitals losing service if the Corporation chose the most likely routes to operate.

Seventh, the system should not become a political football. Therefore, we have carefully applied the best analytical techniques available to develop criteria against which the merits of additional routes can be measured.

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In summary, we believe the proposed system

- meets the intent of the law,
- minimizes the chances for future Federal subsidies, and
- presents a defensible political position both on the size of the system and the criteria for selection.

### Alternatives

We have worked closely with the Office of Management and Budget in reviewing the basis for our proposed system as well as to examine potential alternatives. As a result of these discussions, three principal alternative proposals have been developed. As shown below, Alternative 1 consists of an expanded service system which includes eleven additional long haul routes beyond those in our recommended system (Alternative 2). Alternative 3 drops corridor service on three routes and converts another three corridors to one train per day "long haul" routes. Alternative 4 maximizes Corporate profits by dropping all unprofitable routes.

	Alternatives			
	1	2	3	4
	Expanded Service System	Recommended System	Reduced Service System	Maximum Profit System
<u>Projected Corporate Profit in 1975</u>	\$14.1 M	\$24.4 M	\$35.9 M	\$55.2 M
<u>Service Characteristics:</u>				
Corridor Routes	13	13	7	3
Long Haul Routes	25	14	17	6
Trains (one way)	135	124	66	45
SMSA's Served	145	131	131	66
<u>Train-Miles</u>				
Long Haul	16.4 M	13.0 M	13.5 M	7.1 M
Corridor	11.9 M	11.9 M	8.3 M	7.3 M



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Alternative 1 is the most politically appealing of the four since it would include a much larger route structure and provide service on such routes as Boston-Albany, St. Louis-Kansas City, and New Orleans-Jacksonville which are not included in our recommended system. Although desirable, this expanded system is not essential for providing a national system. It would in our judgment represent an added financial drain on the Corporation.

Alternative 3 would disregard the criteria established for selecting routes in densely populated areas. The concept of corridor service, on which these criteria are based, is to provide a viable alternative to the air and highway modes of travel. In order for rail to compete successfully it is necessary to provide a minimum service of twice a day for the business and casual traveler, i. e. , morning and late afternoon. If such service is eliminated or changed to one train per day at inconvenient hours, we would effectively eliminate rail as an alternative mode of transportation. Furthermore, the implications of such a reduced service system are far greater than the estimated small gains in corporate profits. Specifically, we would trade inadequate service and serious political consequences for marginal profit gains.

Alternative 4, while the most attractive financially, does not meet the intent of the law which calls for rail passenger service between all regions of the country. Furthermore, it is simply not politically acceptable since it includes only six long haul routes with such routes as New York - Chicago excluded. There undoubtedly would be severe political repercussions from the Congress if such a system were designated.

In contrast to these three alternative systems, my recommendation provides the best compromise of route structure, service characteristics, financial viability, and political acceptance. It defines explicitly two quite different types of routes - long haul and corridor - to serve markedly different travel demands. The fourteen recommended long haul routes are the minimum required to connect the major regions of the country. Any fewer would leave significant gaps in the national system. The thirteen recommended corridor routes together with the base level of two daily trains in each direction provide a necessary alternative to air and highway travel

in the most densely populated areas of the nation, based on their ability to compete successfully on both a cost and time basis.

The reduction of existing rail passenger service will allow us to concentrate capital improvements and operating costs over a minimum number of routes. These steps, plus efficient and imaginative management, should result in a financially sound Corporation.

Political pressures will undoubtedly develop even on this system, but our best defense is the rational basis by which the routes were selected.

For the reasons outlined above, I recommend for your approval the fourteen long haul routes and thirteen corridor routes described in our plan. Following your approval, and as required by law, I will submit the preliminary report and recommendations for the basic system to the Interstate Commerce Commission and the Congress on November 30, 1970.

Finally, I want to stress that these are my preliminary judgments. I do not know what information or pressures will develop as the preliminary plan is reviewed by the ICC, Congress, and the State Commissions. It could well be that we will have to modify this plan later. Prior to making any changes, I will, of course, discuss them with you.

*John W. Voje*

*OK*

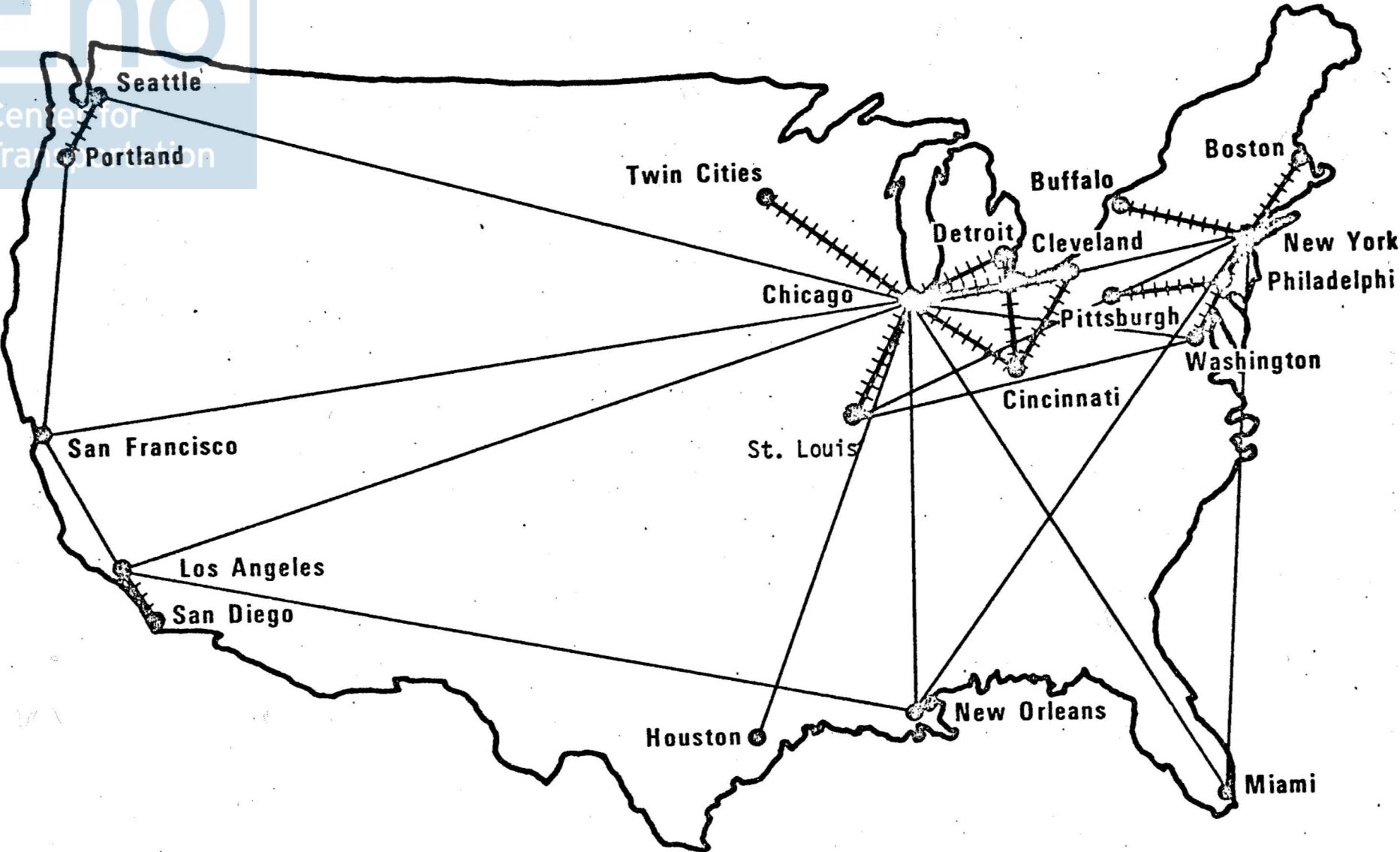
*But is direction of profitability*

- Attachment A: Map of Proposed Basic System
- Attachment B: List of Designated End Points  
in Proposed Basic System
- Attachment C: Statement of Profit and Loss -  
National Railroad Passenger Corporation





PROPOSED BASIC SYSTEM





DESIGNATED END POINTS IN PROPOSED BASIC SYSTEM

CORRIDOR ROUTES (Minimum of two daily trains in each direction)

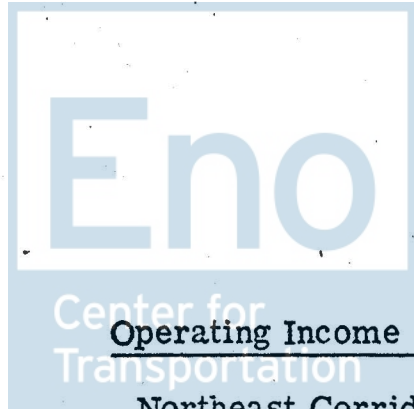
NEW YORK - BOSTON  
NEW YORK - WASHINGTON  
NEW YORK - BUFFALO  
PHILADELPHIA - PITTSBURGH  
CHICAGO - CLEVELAND  
CHICAGO - CINCINNATI  
CHICAGO - ST. LOUIS  
CLEVELAND - CINCINNATI  
LOS ANGELES - SAN DIEGO  
SEATTLE - PORTLAND  
CHICAGO - MINNEAPOLIS  
CHICAGO - DETROIT  
DETROIT - CINCINNATI

LONG-HAUL ROUTES (One train per day in each direction)

NEW YORK - CHICAGO  
NEW YORK - ST. LOUIS  
WASHINGTON - CHICAGO  
WASHINGTON - ST. LOUIS  
NEW YORK - MIAMI  
CHICAGO - MIAMI  
NEW YORK - NEW ORLEANS  
CHICAGO - NEW ORLEANS  
CHICAGO - LOS ANGELES  
CHICAGO - SAN FRANCISCO  
CHICAGO - SEATTLE  
CHICAGO - HOUSTON  
NEW ORLEANS - LOS ANGELES  
LOS ANGELES - PORTLAND



RAIL PASSENGER CORPORATION  
STATEMENT OF PROFIT AND LOSS  
(\$ in millions)



	Year of Operation				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
<u>Operating Income (Loss)</u>					
Northeast Corridor	3.9	8.1	18.2	42.6	49.7
Other Corridors	(15.1)	(14.3)	(11.1)	( 3.4)	0.5
Long Haul	<u>(23.6)</u>	<u>(10.9)</u>	<u>( 1.0)</u>	<u> 1.0</u>	<u> 2.9</u>
Total	(34.8)	(17.1)	6.1	40.2	53.1
<u>Other Costs and Expenses</u>					
Lease Expenses (Locomotives and Metroliners)	10.3	10.3	9.5	4.7	4.0
Depreciation	3.9	7.4	11.3	15.8	17.1
Interest Expenses	--	--	3.1	6.1	6.5
Organizational Expenses <sup>(1)</sup>	10.0	--	--	--	--
Corporate General & Administrative	<u> 8.2</u>	<u> 8.8</u>	<u> 9.2</u>	<u>10.4</u>	<u>10.7</u>
Sub-Total, Other Costs and Expenses	32.4	26.5	33.1	37.0	38.3
Gross Income -- Before Taxes	(67.2)	(43.6)	(27.0)	3.2	14.8
Federal Taxes	--	--	--	--	--
Net Profit (Loss) (Excludes Special Adjustment)	(67.2)	(43.6)	(27.0)	3.2	14.8
Income from Special Train Movement	( 1.2)	( 0.1)	1.3	1.6	1.9
Income from U. S. Mail	--	3.3	6.7	6.9	7.1
Net Profit (Loss) (With Special Adjustment)	<u>(68.4)</u>	<u>(40.4)</u>	<u>(19.0)</u>	<u>11.7</u>	<u>23.8</u>

(1) Includes expenses prior to Year 1 (May 1, 1971)