

MAINE STATE LEGISLATURE

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FINAL REPORT OF THE
SPECIAL LEGISLATIVE COMMITTEE
TO STUDY THE FEASIBILITY OF
STATE ASSISTANCE TO THE RAIL INDUSTRY

Sen. Georgette B. Berube
Sen. Charles G. Dow
Sen. Jerome A. Emerson

Rep. Donald V. Carter, Chair
Rep. Joseph W. Mayo
Rep. Raynold Theriault

Jim Clair
Legislative Budget Analyst

January 1986


January 28, 1986

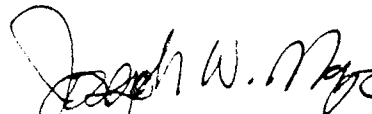
Representative John N. Diamond, Chair
Legislative Council
State House
Augusta, Maine 04333


Dear Representative Diamond:

Enclosed is the final report of the Special Legislative Committee to Study the Feasibility of State Assistance to the Rail Industry. The Special Legislative Committee has fulfilled its obligation as directed by Chapter 74, Private and Special Laws of 1985.

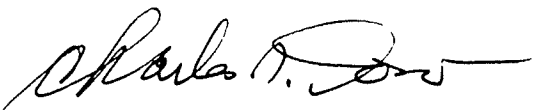
Respectfully submitted,

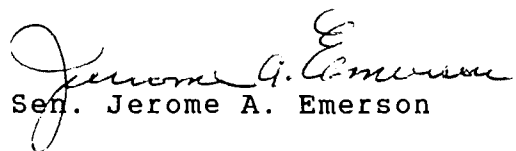

Rep. Donald V. Carter
Committee Chair


Rep. Joseph W. Mayo


Rep. Reynold Theriault


Sen. Georgette B. Berube


Sen. Charles G. Dow


Sen. Jerome A. Emerson

INTRODUCTION

The 112th Legislature, in its First Regular Session, enacted Private and Special Law, Chapter 74 which created a Special Legislative Committee "... to study the feasibility of state assistance to the rail industry in response to existing and developing rail transportation problems." That legislation instructed the Special Legislative Committee to report its findings to the 112th Legislature in January 1986.

The Special Legislative Committee is comprised of six legislators, two each from the following Joint Standing Committees of the Legislature: Appropriations and Financial Affairs, Taxation and Transportation.

To accomplish the study, the Special Legislative Committee held four meetings to discuss the problems facing Maine's railroad industry in general and the role of the State in response to these problems in particular. More specifically, meetings were held in order to:

- (1) Review "rail legislation" enacted during the First Regular Session of the 112th Legislature;
- (2) Obtain information from the railroad industry, railroad users and the general public concerning problems facing Maine's railroads; and
- (3) Discuss the possible financial impact facing the State as a result of future line abandonments and related industry problems.

It should be noted that the Special Legislative Committee, as part of its deliberations, did not discuss the sales tax exemption for rail track materials or the railroad excise tax (including the treatment of long-term freight car leases). The 112th Legislature authorized the Joint Standing Committee on Taxation, in P.L. 1985 Chapter 477, Section 3, to study the excise tax issue and report its recommendations to the Second Regular Session of the 112th Legislature. The Special Legislative Committee deferred any review of this issue to the Joint Standing Committee on Taxation.

FINDINGS

1. Maine's rail industry has experienced a business downturn in recent years due, in part, to trucking deregulation, rail deregulation, and a business downturn in the pulp-paper industry.
2. The problems faced by Maine's rail industry have not been caused solely by external factors. Some of the present problems facing individual Maine railroads are the result of internal company decisions. Some Maine railroads, for example, appear to be unresponsive to customers' emergency requests for service or complaints about ongoing service problems.
3. Maine's rail industry will continue to adjust its operations, via line abandonments, the leasing of branch lines to short line carriers, service cutbacks and personnel cutbacks, in order to maintain its profitability.
4. The proposed sale of Conrail to the Norfolk-Southern Corporation may, through the accompanying divestiture of certain Conrail trackage to Guilford Transportation Industries (parent company of the Maine Central and Boston and Maine railroads), open Maine products to new markets, particularly in the mid-West. This may help to stabilize Maine's rail industry.
5. The four bills enacted by the 112th Legislature during the First Regular Session have implemented many of the recommendations of the "Railroad Transportation Policy and Plan" as recommended by the Governor's Advisory Committee for the Development of a Rail Transportation Policy for the State of Maine, including:
 - \$850,000 bond issue to purchase three branch lines up for abandonment at one-half net liquidation value (P. & S. 1985, C. 75);
 - General Fund appropriation to administer MDOT's "Railroad Assistance Program" (P. & S. 1985, C. 74);
 - Highway Fund allocation to MDOT to implement State-Rail Industry cost-sharing agreement for maintenance of railroad grade-highway bridge crossings (P.L. 1985, C. 442); and
 - Sales tax exemption of rail track materials and one-year extension of the excise tax exemption of freight car leases (P.L. 1985, C. 477).

6. The fiscal impact to the State of the "rail legislation" enacted by the First Regular Session of the 112th Legislature is \$4,725,000. This amount includes General Fund appropriations, General Fund revenue losses and Highway Fund allocations in the FY 1986-1987 biennium, as well as the total five-year cost for the rail line acquisition bond issue.

The ability of the State to incur these expenses in the future must be weighed carefully against the benefits received by the State.

7. The "Railroad Transportation Policy and Plan" established a process for defining Maine's "essential rail system" which includes the Maine Department of Transportation conducting a benefit-cost analysis of any line under consideration for abandonment. The analysis is intended to determine what action, if any, MDOT will recommend to the Legislature (e.g., preservation of the rail line through a state purchase; service subsidy to the owning railroad; or line abandonment). This process will allow the Legislature, on a case-by-case basis, to determine the course of action for any rail line placed under abandonment proceedings.
8. Railroad officials in Maine have indicated that more branch lines in the State will be abandoned in the near future, particularly those carrying one million gross tons-mile or less of freight.
9. The purchase of rail lines by the State, as in the recent example of the 206 miles of track purchased with proceeds from the \$850,000 bond issue, must occur at net liquidation value (or less) if the State is to protect its ability to recoup its investment if necessary.

RECOMMENDATIONS OF THE SPECIAL LEGISLATIVE COMMITTEE

- Based on the information that the Special Legislative Committee obtained and the findings derived from this information, the Special Legislative Committee does not propose any legislation to amend the "rail legislation" enacted during the First Regular Session of the 112th Legislature. Nor does it propose any new rail assistance programs aimed at assisting Maine's rail industry.
- The Special Legislative Committee recommends that the Maine Department of Transportation report to the Legislative Council immediately upon finding that an owning railroad has proposed to abandon or lease any rail line in Maine.
- The Special Legislative Committee recommends that the Maine Department of Transportation report to the Joint Standing Committees on Appropriations and Financial Affairs, Taxation and Transportation during the First Regular Session of the 113th Legislature as to the effectiveness of the programs enacted by the 112th Legislature and the status of the three branch lines purchased via the \$850,000 bond issue.
- The Special Legislative Committee recommends that the Joint Standing Committee on Transportation conduct a study examining the impact that trucking deregulation has had on Maine's railroad industry and report its findings to the First Regular Session of the 113th Legislature.
- The Special Legislative Committee recommends that each Maine railroad develop a marketing response capability. The intent of this capability would be to allow the railroads to better respond to new or changing markets, emergency requests for service, and customers' complaints about ongoing service problems.