

THE STIMULATION OF EXPENDITURES ON RAILROAD WAY AND EQUIPMENT

In order to aid recovery and to rehabilitate the railroad system it is proposed that the Government provide new money for the roads at such terms and on such conditions as will ensure its being availed of.

1. Maintenance and the Betterment of Way and Structure of Solvent Railroads

The R. F. C. shall be empowered to buy three per cent non-cumulative preferred stock of railroads to finance (a) maintenance expenditures equal to the difference between such expenditures in 1936 and 1933, (b) new additions and betterments to way and structures not charged to maintenance account. Dividend payments will be scheduled to begin two years after the issue of the stock and will be payable thereafter to the extent earned. The stock will be retired over a period of twenty years, beginning two years after issue, in varying amounts each year on the basis of a percentage of the operating revenues. Authority to buy such stock for such purposes shall expire two years after the date of the passage of the Act.

2. Equipment of Solvent Railroads

The purchase of equipment by the railroads shall likewise be financed through the purchase by the R. F. C. of non-cumulative preferred stock on the same terms and conditions as above, with the addition that title to the equipment shall remain vested in the R. F. C. until the preferred stock shall have been retired.

3. Maintenance, Betterments and Equipment of Insolvent Railroads.

The R. F. C. shall be authorized to purchase junior receivership certificates of insolvent railroads to finance maintenance expenditures

equal to the difference between such expenditures in 1936 and 1933, to finance betterments and additions to way and structure not charged to maintenance account, and to finance the purchase of new equipment. The title of new equipment acquired through the sale of junior receivership certificates to the R. F. C. shall remain vested in the R. F. C. until the certificates, or equivalent succeeding obligations, shall have been retired. The certificates shall bear interest at three per cent, starting two years after the date of the loan, and thereafter shall be payable only if earned. The maturity shall be twenty years, with the rate of retirement, beginning two years after the date of the loan, being a percentage of operating revenues. In the event that the insolvent road is reorganized and discharged from receivership, the receivership certificates issued to the R. F. C. shall be senior to all obligations except senior receivership certificates as to principal, but junior to all fixed interest obligations as to interest.

Alternative Suggestions

1. Authorize the R. F. C. to advance to the railroads, under equipment trust certificates, 100 per cent of the cost of new equipment. The certificates would bear interest at two per cent beginning two years after the date of the loan. The maturity of the certificates would be twenty years, the rate of retirement varying with the operating revenues of the road in question. Title to the equipment would remain vested in the R. F. C., the trustee, until interest and principal is repaid in full. Authority to loan on equipment trust certificates on the above terms shall be limited to two years after the date of passage of this act.