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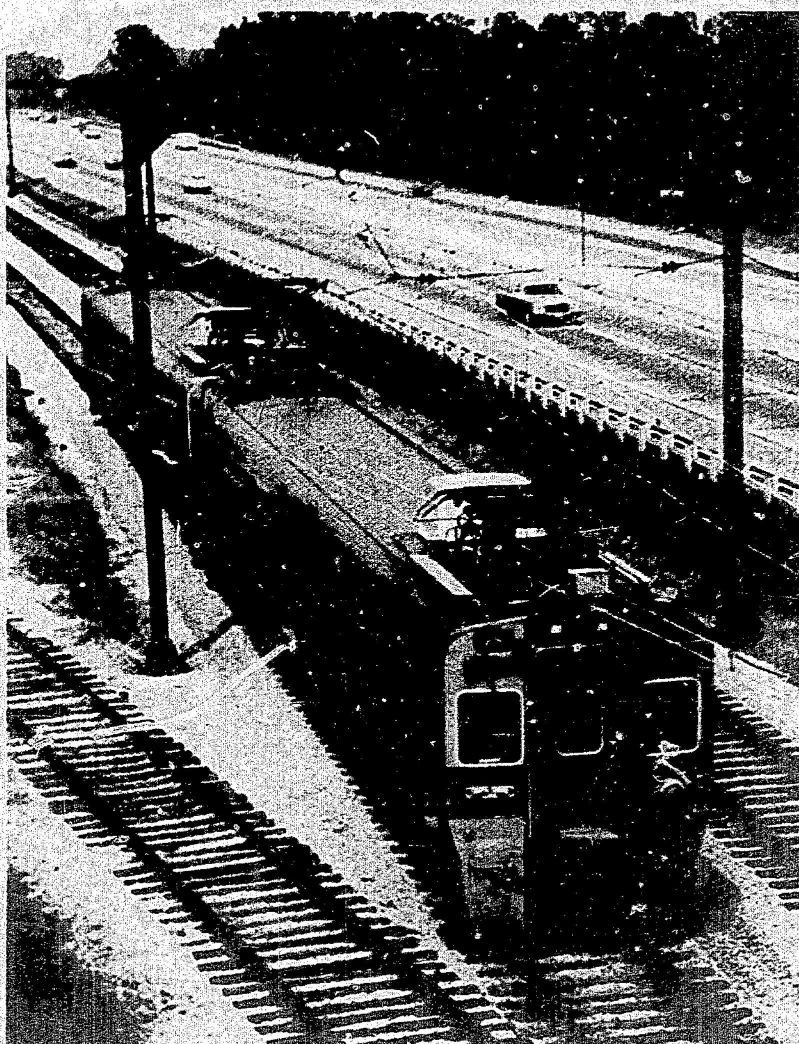

The Electric Interstate: An Update on the South Shore Railroad

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The Electric Interstate

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Photos (including cover photo) by Donald R. Kaplan.

At 7 a.m. on December 30, 1989, a dispatcher employed by the Northern Indiana Commuter Transportation District (NICTD) entered the dispatcher's office of the Chicago South Shore & South Bend Railroad at Michigan City, Indiana, and took control of the operation of all freight and passenger trains. With that symbolic act the future of both the South Shore Railroad and NICTD changed dramatically. After years of merely supporting the service by providing public funds under contract with the railroad, NICTD became the operator of the South Shore. If all goes according to plan, NICTD hopes soon to become the owner of the railroad. At present, the South Shore is owned by the Anacostia & Pacific Corporation, which operates the freight service.

The NICTD takeover of operations was the culmination of years of uncertainty for the electric commuter rail service that links South Bend with the Chicago Loop at Randolph Street Station. Stability of the rail service and control of costs were the animating forces behind NICTD's action. It was also following a pattern that evolved during the last several decades in the provision of commuter rail services in the United States. At one time, commuter rail service was operated and supported—and subsidized—by private railroad companies. As the service deteriorated and discontinuation was threatened, the privately owned services operated under contract with public agencies, usually beginning in the 1960s and early 1970s. Finally, these services were taken over by public agencies through ownership of the rail commuter lines. At the beginning of 1990, NICTD did not yet own the South Shore Railroad but was moving steadily in that direction.

The 1980s saw substantial increases in ridership on the South Shore, from about 1.6 million riders per year in 1980 to about 3.5 million in 1989. There was even better news for the economy of northwest Indiana served by NICTD's South Shore trains. Studies by NICTD show that the South Shore trains helped Hoosier commuters bring $120 million a year in wages and salaries (in 1987 dollars) back into Indiana from jobs in Chicago. The future promises to enlarge that role, thanks to stabilization of South Shore service and the opportunity for NICTD to make increasingly positive changes in the service.

History of the South Shore

The South Shore line was constructed in the heyday of interurban electric railways in the Midwest. In 1906 the Chicago, Lake Shore & South Bend Railroad was projected to operate between South Bend and Hammond with the eventual goal of extending its service to Chicago. With the assistance of Cleveland financiers, service between South Bend and Hammond commenced on June 30, 1908, when the first electric car ran between the Michigan City shops and South Bend. The hope of the CLS&SB was that the Illinois Central Railroad would build a connection between Hammond and its main line tracks near Pullman, Illinois. This hope was realized when the Illinois Central built the Kensington & Eastern Railway between 115th Street at Kensington, just south of Pullman, and the Indiana/Illinois state line at Hammond.

Regular passenger service between South Bend and Hammond began on September 6, 1908. At that time passengers bound for Chicago transferred to the Lake Shore & Michigan Southern Railroad to complete their trips. When the Kensington & Eastern was completed, service on the CLS&SB was extended to Pullman, Illinois on April 4, 1909. At Pullman passengers changed to Illinois Central suburban trains for the remainder of the trip into the Chicago Loop.

One of the most important factors for the future of the South Shore in the original construction of the CLS&SB was that it was built to steam railroad standards, with modest curvature and grades. Rather than curling around every courthouse along the way, as was a common practice of Midwest interurban electric railways, the CLS&SB was relatively straight, avoiding all sharp curves in its street running in South Bend, Michigan City, and East Chicago.

Samuel Insull

The CLS&SB did not do well financially; despite much patronage and high revenues during World War I, it was in tattered financial and physical shape by the early 1920s. After soldiering on for a while, the railroad entered receivership on February 28, 1925.

Public utilities tycoon Samuel Insull became interested in the potential of the South Shore, both as an operating railroad and as a right-of-way to use in connecting parts of his electric utility holdings in the northwest part of Indiana. Insull incorporated a new railroad named the Chicago South Shore & South Bend on June 23, 1925. A few days later the Chicago, Lake Shore & South Bend was sold to the CSS&SB for $6,470,000. Samuel Insull took charge on July 15, 1925, and immediately began to make major capital improvements to the railroad that would stand it in good stead for more than 50 years. Heavy investments were made to the track and the electric power supply. All-steel cars replaced the wooden interurban cars that had been the original equipment of the railroad. As the physical improvements were completed, service was refined to attract more passengers. Dining-car service was offered on the South Shore, and a vigorous campaign of marketing and promotion was undertaken as the railroad blossomed under Insull dollars and the Insull touch of first-rate management.

A major enhancement was direct service by the South Shore into downtown Chicago. At the same time that Insull made improvements to the South Shore, the Illinois Central Railroad elevated its tracks along the west shore of Lake Michigan and electrified its commuter service. Both the ICRR and the South Shore used 1500-volt direct current to power their electric cars. Insull management moved aggressively into the freight business—which was to be critical in the South Shore's survival—and purchased a fleet of electric locomotives. The South Shore bought land for a bypass around the heart of East Chicago to eliminate extensive street running there. But that improvement was delayed by events beyond Insull's control.

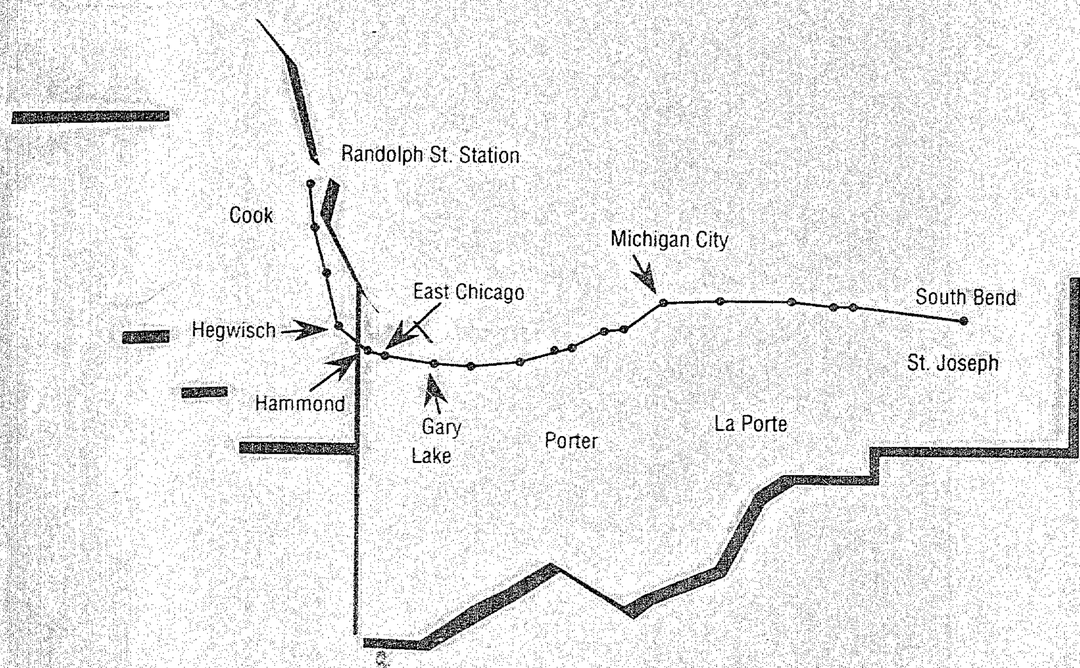
The Great Depression struck the South Shore very sharply, and the railroad declared bankruptcy at the end of September in 1933. Reorganized by 1938 as prosperity began to return to the country, the South Shore, as an independent company, moved ahead, buoyed by a profitable freight service. During the war years both freight and passenger service boomed, with a high of six million passengers carried by the South Shore during 1945. So great was the demand for service that a number of the 1920s-vintage 60-foot-long steel cars were cut in half and a 17-1/2-foot section spliced in the middle to provide more room for patrons.

After the Second World War, the South Shore continued to operate with a successful freight service. Passenger service began to lose a little more money each year as ridership slowly but certainly dwindled, wooed away by the blandishments of the automobile. Nevertheless, the construction of the Indiana Toll Road presented the South Shore with a major opportunity for long-sought improvements. The railroad land around East Chicago was purchased by the Toll Road Commission. The commission constructed an elevated right-of-way for the joint use of the highway and the railroad. When the bypass was opened for rail service on September 16, 1956, the South Shore was able to cut ten minutes from its schedules.

The Chessie Era

In the 1960s, predominantly interested in the freight potential of the South Shore resulting from construction of new steel mills, the Chesapeake & Ohio Railway—the Chessie System—purchased the South Shore. In the proceedings before the Interstate Commerce Commission, the Chessie noted its interest in freight but promised that it would continue the passenger service. There was support for the Chessie takeover from communities along the line; the hope

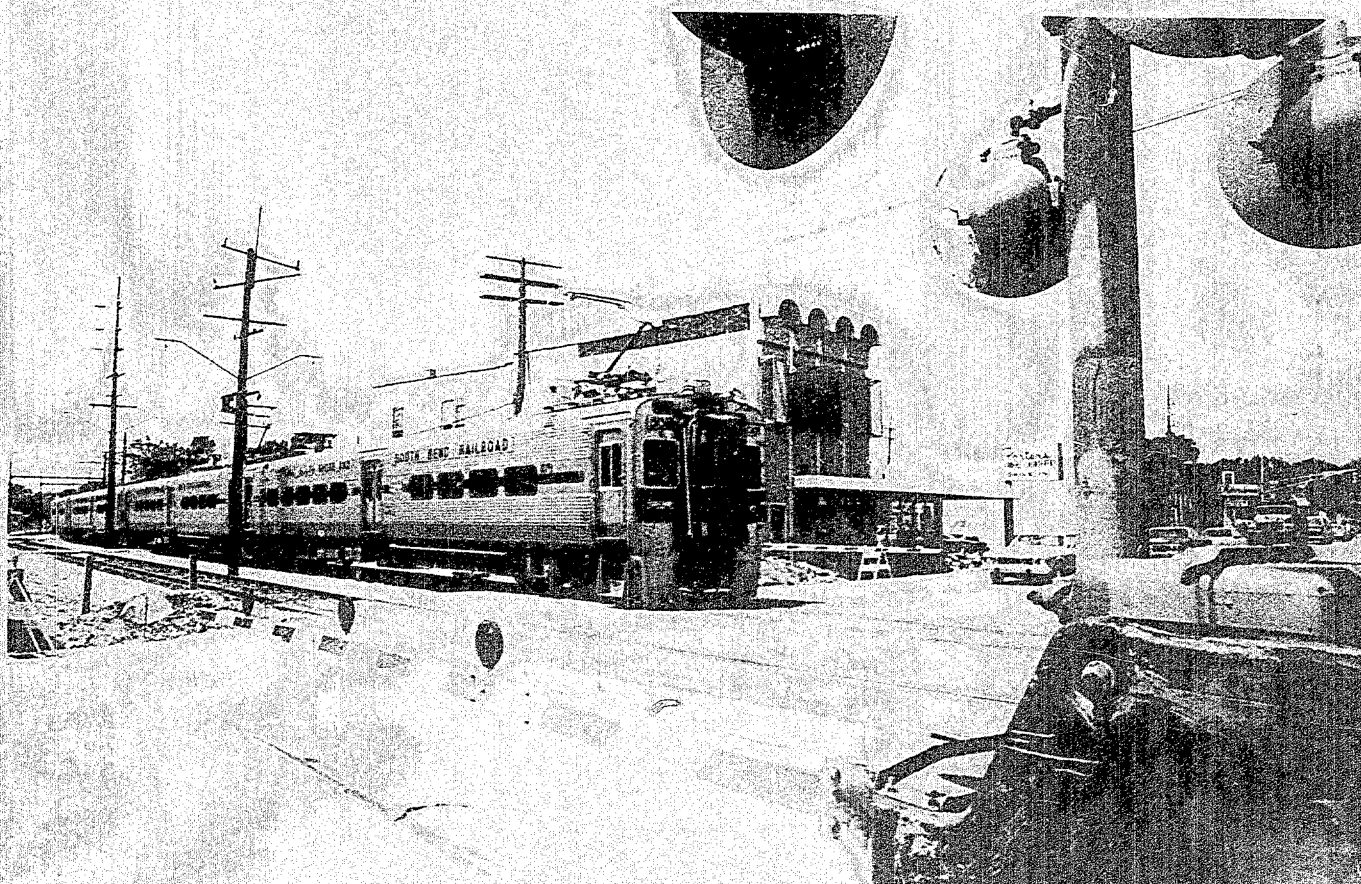
The Route of the South Shore Line



was that the prosperous Chessie would continue to improve the passenger service.

As a small independent railroad, the South Shore was unable to make the investments needed to maintain and improve its service. The passenger equipment in service when the Chessie took over was 40 years old and showing definite signs of its age. There was also deterioration of fixed facilities. The Chessie purchase was authorized by the Interstate Commerce Commission on November 10, 1966. The Chessie took over the South Shore on January 3, 1967. The passenger operating deficit, which had been relatively modest (ranging from $300,000 to $600,000 per year), began to increase during the inflation spurred by the Vietnam War. Pleading financial problems, the South Shore successfully petitioned for a fare hike and a substantial reduction in passenger service in 1971. Regular weekday train service was cut back from 72 trains to 36. Hourly service to South Bend was reduced to only a few round trips a day. Despite the savings from the cutbacks, South Shore management continued to talk openly of eliminating the passenger service.

In 1975 the State of Indiana began to provide funds to help match federal grants of capital and operating aid from the Urban Mass Transportation Administration. The Institute for Urban Transportation (IUT) at Indiana University worked under contract to the office of Governor Otis R. Bowen to manage the state's program, there being no state agency to handle that task at the time. Hearing noises from the South Shore that passenger service would be discontinued shortly, IUT questioned the wisdom of providing scarce state funds to a service that was about to quit. Officials in the governor's office also pondered the value of the service to the state. In the summer of 1976, IUT secured federal and state funds and commenced a cost/benefit study of the transportation corridor in northwest Indiana to determine if preserving the South Shore service was worthwhile. The find-



At a street crossing in Hammond

ings of the study showed that continuation of the service was indeed of benefit to the state and to the local communities; this study eventually became the justification for a federal capital grant to make substantial improvements to the South Shore.

Meanwhile, on March 19, 1976, the Chessie System filed with the Interstate Commerce Commission a petition to discontinue all passenger service on the South Shore Railroad. Passenger losses for 1975 had amounted to $2,580,000. The railroad was also spending $1 million for emergency repairs to the seriously deteriorated cars. On a more positive note, the Regional Transportation Authority of Northeastern Illinois had agreed to cover 18 percent of the South Shore passenger operating deficit, based on the percentage of South Shore riders living in Illinois.

While the IU study continued, the ICC held hearings across northwest Indiana and in Chicago. Noting that the state of Indiana was attempting to take steps to provide support, the ICC held that the South Shore had to continue to operate until February 8, 1978. After that the ICC would determine whether or not the passenger service should continue.

NICTD

In the General Assembly of 1977, the Indiana legislature passed enabling legislation for the creation of commuter transportation districts. The passage of the law received strong support from county officials in the area served by the South Shore and from state legislators representing the area. Governor Bowen also supported the measure.

Using this law, representatives of Lake, Porter, La Porte, and St. Joseph counties, along with the appointee of the governor, met on June 24, 1977 and formed the Northern Indiana Commuter Transportation District. NICTD was to be the public agency through which public funds would flow to continue the operations of the South Shore Railroad. NICTD had no taxing authority, but a special appropriation of $3.6 million from the General Assembly was to pay half of the local share of a capital improvement program for the South Shore that was expected to cost about $36 million. The four counties matched the state money dollar for dollar.

NICTD got under way with no money and no staff of its own. The initial staff was supplied by the Northwestern Indiana Regional Planning Commission (NIRPC), which had—and has—a fine history of acting as an incubator for worthwhile public activities in that part of the state. In addition to acting as the pass-through agency for operating subsidies from the federal and state governments, NICTD was to develop the proposals for federal aid and state matching aid for much-needed capital improvements to the railroad.

From its very first meeting, NICTD's goal was to preserve the South Shore commuter service. It was imperative that improvements should be made as soon as possible because of the serious deterioration of the rolling stock and the threat to passenger safety and service that continued deterioration would pose. The NICTD staff focused on three items for immediate capital improvement: new cars to replace those of vintage 1926 and 1928; improvements in the power supply to upgrade the 1500-volt DC power system that had been installed by Insull in the mid-1920s and was seriously outmoded and expensive to operate; and upgrading of the 1920-vintage shop facilities at Michigan City to care for the new rolling stock. The small NICTD staff immediately began the process of applying for federal capital and operating assistance.

New rolling stock was obviously an urgent matter. Despite NICTD's best efforts in 1978 and 1979 to get a competitive bid from an American manufacturer, the successful low bidder was the Sumitomo Corporation of America, which acted as agent for Nippon Sharyu Siezu Kiesha, the Japanese Rolling Stock Company. The cars were to be 85-foot-long stainless steel vehicles, a design based essentially on the cars supplied by the Budd Company to the Pennsylvania Railroad commuter service in the Philadelphia area in the 1960s. NICTD wanted to purchase a well-tested design so its new cars would be robust, easy to maintain, and free of the difficult problems often found in unproven designs.

The prototype car was delivered to the South Shore in early January 1981; extensive and intensive testing began in February. With the new car being tested and deliveries of regular production line cars about to start in the early fall, the NICTD board and its small staff held a retreat in the summer of 1981 to take a look at the future. Its upshot was that the Institute for Urban Transportation was to develop a strategic plan for the immediate future of NICTD and the South Shore. A matter of major concern was the proposed cutback in federal funding for urban mass transportation threatened by the Reagan administration. Elimination of federal operating aid, as proposed in the Reagan budget, would be disastrous for any hope of continuing the South Shore service.

As the strategic plan was in process, it was clear that NICTD needed to develop its own image by moving out from under the aegis of NIRPC. It was also evident that the profitable freight service could, if the South Shore were owned by NICTD, help bail out the money-losing passenger service. With substantial cuts or elimination of federal operating aid, and with no local taxing authority, the purchase of the railroad seemed to be a wise idea.

NICTD was not without some financial means despite its lack of local taxing authority. In 1979 the

Indiana General Assembly established the Commuter Rail Service Fund, placing the indefinite situs tax on leased rail cars under the jurisdiction of the office of the governor, where it was supplied to commuter railroads in Indiana. In 1980 the Electric Rail Service Fund was established, stipulating that the taxes paid by the South Shore Railroad in the counties in which it operated would be distributed by the governor's office to electric railroads in Indiana. NICTD was the exclusive beneficiary of both sources of funds from the state.

The strategic plan was delivered in June 1982, and NICTD immediately began to work with Governor Robert Orr and the General Assembly to empower NICTD to purchase the railroad. After a strong lobbying effort in the General Assembly, NICTD received the powers it sought in April of 1984. Earlier, NICTD had begun talks with the Urban Mass Transportation Administration for a grant of capital to secure the purchase of the South Shore. The federal procedures were expected to take about a year to complete before any funds would be available.

The Dark Days of Venango River

Hardly had the smiles of victory from the power to purchase the South Shore begun to fade than a new player arrived on the scene. The Venango River Corporation (VRC) was made up of five individuals, four of whom had been employed by the Atchison, Topeka & Santa Fe Railroad. VRC arranged a highly leveraged loan from Chicago banks and purchased the railroad, securing control from the Chessie on September 28, 1984.

Almost immediately NICTD became disturbed. Under the contractual agreement with the Chessie System, which continued under VRC ownership of the South Shore, NICTD agreed to pay all passenger-related expenses that were not covered by fares. The expenses began to rise substantially throughout 1985 and seriously threatened NICTD's ability to continue to subsidize the operating costs of the South Shore and sustain the passenger service. In the fall of 1985 the situation was sufficiently desperate that the NICTD board and staff decided to approach the 1986 General Assembly. NICTD sought from the General Assembly powers to tax locally to continue to support the service. Instead of such powers, the 1986 General Assembly created a legislative study commission to investigate the situation and report back to the governor and the General Assembly on what should be done. The outcome of the study, which was carried out in the summer and fall of 1986, was authorization of a $2.67 million loan. As directed, NICTD sought the money from the Indiana Board of Depositories. The Board of Depositories is not unlike the Federal Deposit Insurance Corporation, except that in Indiana it is for Indiana banking institutions that hold public money of Indiana governmental institutions. From the Depression days, such banks had placed funds in an account that acted as insurance in case a bank should fail and jeopardize the money of a city, county, or the state. The Board of Depositories had loaned funds to Chrysler and to certain other private firms during the 1980s, so a loan from the fund was not unusual.

The legislative study commission also recommended that the NICTD board be reorganized. Under the original legislation, the governor named one representative for the State of Indiana, and the commissioners of Lake, Porter, La Porte, and St. Joseph counties named a person to the board, often one of the commissioners. Under the changes that eventually became law in 1987, the four county councils were also to name a NICTD board representative, bringing the total number of board members to nine.

Relations with the Venango-owned South Shore continued to deteriorate in 1986 and grew even worse in 1987 as operating costs continued to skyrocket. NICTD board and management speculation as to why the South Shore was hiring more people than seemed necessary for a 90-mile railroad was vindicated when the Venango River Corporation bought the Chicago, Missouri & Western Railroad in April 1987. The increase in personnel and other VRC activities had been for the purpose of expanding VRC holdings from a single short line to a small railroad empire. The CM&W ran from Joliet, Illinois to St. Louis with a long additional main line from Roodhouse, Illinois to Kansas City, Missouri.

The CM&W did not fare well, and by April 1988 it was bankrupt. This proved to be a serious threat to the South Shore, which, although a separate company under the aegis of Venango, had guaranteed $4 million of the loan that Venango received to purchase the CM&W. Moreover, there was some $4 million in accounts receivable for work done by the South Shore for the CM&W. VRC was in financial difficulty; it had borrowed heavily and was still very highly leveraged. It rolled over the loan originally obtained to purchase the South Shore and, with Citicorp as the major lender, borrowed in the neighborhood of $130 million to purchase the CM&W and make capital improvements on that railroad. The large amount of money borrowed and the interest rates on the loan soon brought VRC enormous problems.

Buying the South Shore

By mid-1988 it was clear that the constant friction with the VRC was a growing burden to NICTD management and staff. Worse yet, audits showed that VRC had overcharged NICTD by more than $1 million in 1986 and 1987, and preliminary audits showed the situation in 1988 was much the same. The South

Shore was technically bankrupt. It owed other railroads $3 million; to pay interest on its loans, it had stopped paying interline settlements on freight shipments. At one point, Union Pacific went to court and froze the South Shore's assets. Something had to be done, so the NICTD board and management resolved to move decisively to purchase the South Shore Railroad. As originally planned in 1983, federal funds would be sought with state matching funds to help. In the meantime, NICTD had managed to stash away some funds, thanks to the sale of depreciation on its new cars under the Safe Harbor leasing arrangements made possible in the early 1980s under the Urban Mass Transportation Act of 1964, as amended.

In the fall of 1988 the Anacostia & Pacific Corporation contacted NICTD to see whether an arrangement could be worked out for joint purchase of the railroad. Other operators or financiers of short-line railroads also contacted NICTD. The private firms were interested in the South Shore freight service, which they thought to be potentially quite lucrative, but uninterested in a passenger service that would have to be subsidized. The idea was to have NICTD operate the passenger service while a private rail company managed the freight service.

On October 18, 1988, the South Shore management petitioned the Interstate Commerce Commission to discontinue passenger service, contending that it operated at a loss because NICTD refused to pay its rightful costs. Citicorp, taking a dim view of the prowess of Venango management after VRC defaulted on a loan payment on October 31, 1988, pushed Venango out and in its place installed the Stratford Partners to control the railroad and take over day-to-day management. In a surprise decision in late November, the ICC granted the South Shore permission to discontinue passenger service unless NICTD and the railroad could agree on a basis for continuation.

At the same time these troubling events were unfolding, the South Shore service and NICTD were enjoying high levels of patronage. At its low point in 1976, South Shore had only 1.3 million passengers; by 1981 it was only carrying about 1.6 million riders. However, the improved service and reliability, thanks to the new rolling stock, shop facilities, and power distribution system, had increased patronage to 3 million in 1988 and 3.6 million passengers in 1989. The closure of the Dan Ryan Expressway in Chicago for repairs had helped stimulate this traffic, but it had been growing rapidly even before work on the Dan Ryan took place. On the positive side, as noted earlier, NICTD studies indicated that the value of the wages and salaries earned by people using the South Shore commuter service was approximately $120 million a year. Clearly, the NICTD/South Shore commuter service was an excellent deal for Indiana.

The shaky condition of the South Shore continued until April 7, 1989, when it declared bankruptcy. A month later Leroy Inskeep, a Chicago attorney, was named trustee in bankruptcy, and NICTD immediately began to negotiate with the trustee for the continuation of the passenger service. From the start of 1989, NICTD had worked with the South Shore and arrived at an agreement that continued the service on virtually a month-to-month basis.

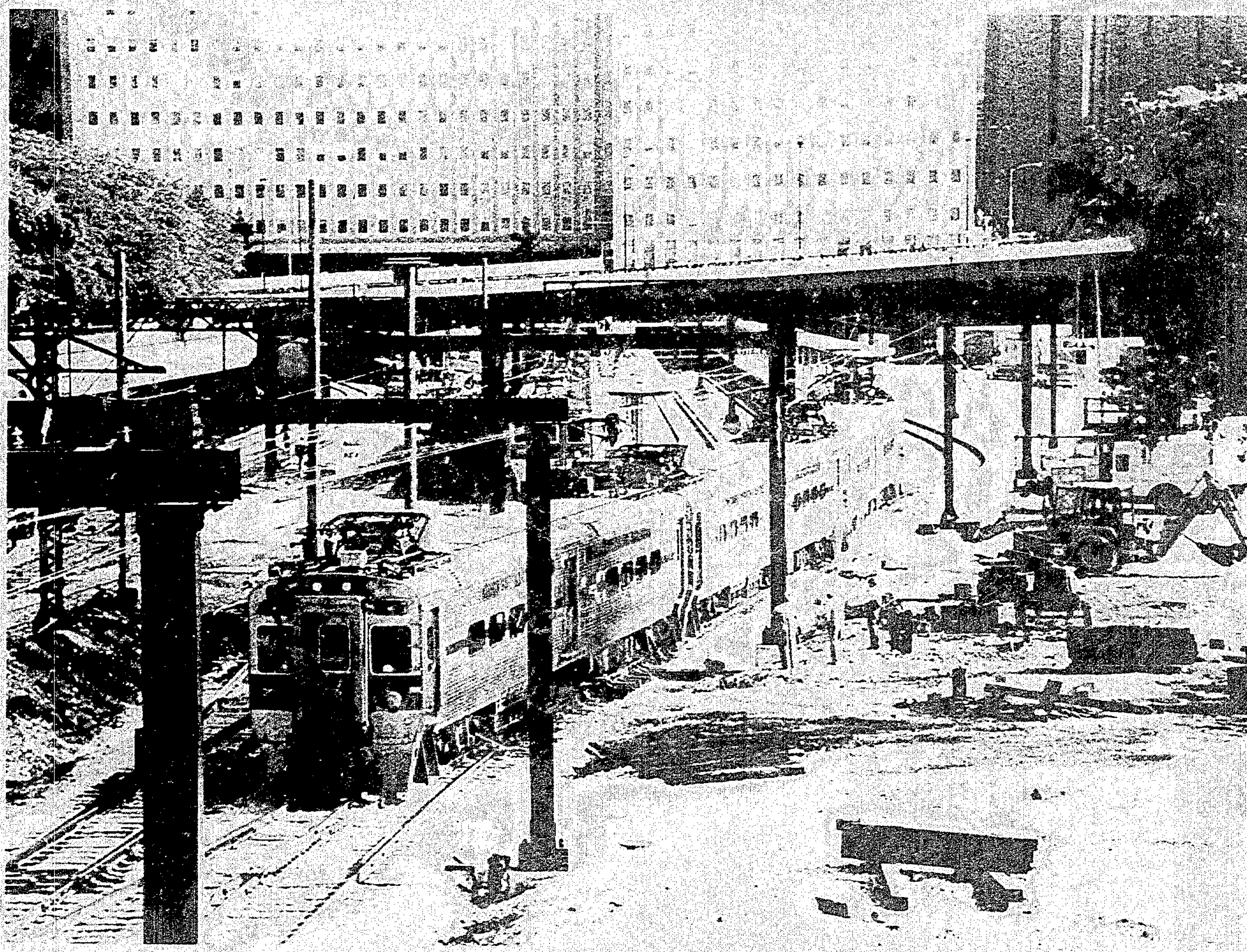
Meanwhile, in early 1989 negotiations with the Anacostia & Pacific commenced in earnest. The bargaining, now even more complicated because it included the bankruptcy trustee and the bankruptcy judge, was aimed at putting together a package that would satisfy the judge and eventually yield the railroad to NICTD. Under the proposal finally worked out, the A&P would buy the railroad and NICTD would have an option to purchase the line within three years. A&P would operate all freight, while NICTD would operate the passenger service. As part of the package, A&P would bid $34.6 million for the bankrupt South Shore. Of this, approximately $27 million would be in cash and the remainder would be in the acceptance of South Shore liabilities.

After months of intense and dedicated negotiation by NICTD management, Federal Bankruptcy Judge John D. Schwartz accepted the NICTD/A&P offer on December 11, 1989. All-night sessions of agreement signing continued and, finally, on December 30, 1989, the South Shore operations fell into the hands of NICTD.

NICTD as Operator

The first sign of the NICTD takeover of South Shore passenger service was a vast increase in the number of NICTD employees. NICTD staff, never totaling more than 11 full-time people, suddenly shot up to 230. The agreement with A&P included NICTD responsibility for dispatching all trains and for all maintenance of way, as well as NICTD direct operation of the passenger service. At the time of signing the final agreements, NICTD put slightly under $4 million in an escrow account to act as either a match for a federal grant or as a down payment if a federal grant was not received. For that sum, NICTD received ownership of the shop facilities at Michigan City, all passenger facilities, and the catenary portion of the power distribution system. (NICTD already owned all of the electrical substations and new power distribution cables along the line.) NICTD's aims were to improve the management substantially, enhance the South Shore service over time, and exercise strong cost control.

NICTD already exerted a strong presence on the South Shore and northern Indiana. The new cars were the most visible evidence of NICTD's efforts. Forty-four new cars were purchased; they began to arrive in



At the Randolph Street Station

1981, and by Thanksgiving of 1982 all South Shore trains in operation were new cars. Three cars were lost from the fleet due to wrecks, badly limiting the passenger capacity. Since 1985, NICTD has leased a diesel-powered train from the RTA to augment South Shore service with a daily round trip between Michigan City and Randolph Street Station.

In the 1980s NICTD began improvements on the South Shore property, primarily through parking lot and station refinements. New platforms were installed in the refurbished Randolph Street Station in downtown Chicago over Memorial Day, 1988. A new station/office building was built at Dune Park (Indiana 49 and U.S. Highway 12) in Porter County. Plans were also made for a new terminal in South Bend to be located at the Michiana Regional Airport.

Major parking lot improvements were made at East Chicago in 1988 and 1989. Additional parking space was added at Dune Park, and property adjacent to the Hammond Station was acquired to expand parking. Improved platforms and a shelter were installed at the Michigan City Shops Station. The maintenance shop at Michigan City was expanded substantially and new lighting and heating installed, along with a new overhead crane, a new car washer, and other new machinery. Yard trackage was rearranged.

On the electrical side, NICTD acquired all nine substations (as mentioned earlier) and introduced the most modern equipment for converting high-voltage alternating current into 1500-volt direct current. Thirty miles of heavy-duty power distribution cable were installed, as was a computer-based power control system to operate the substations from the South Shore offices in Michigan City.

The Future

Looking ahead toward the year 2000, there are a number of things that NICTD must do to secure its role in transportation and as a major force in the economy and development of northwest Indiana. That economy was seriously threatened by the strong recession of 1981-82, when thousands of people in heavy industry lost their jobs. As the economy recovered, the attractiveness of northwest Indiana as a dwelling place for people working in the Chicago Loop also became apparent. NICTD conducted studies revealing that a significant number of riders were new to Indiana and had moved into the state because the South Shore commuter service provided a convenient link to good, high-paying jobs in Chicago.

Opportunities for expansion of service and increased support may come from the elimination by Amtrak of its one-round-trip-a-day commuter service between Valparaiso and Chicago. It is expected that Amtrak will petition to discontinue this service some time in 1990. NICTD is the logical operator, and will probably take steps to see the service continued and possibly expand it substantially over the next decade. This line holds high potential for eventual expansion of service because it is located in the most rapidly growing portions of Lake and Porter counties.

The West Lake Corridor is the name given to the rail line of the old Monon Railroad running south from Hammond toward Lowell, Indiana and then on to Louisville. Now owned by the Chessie System, a portion of this line in Hammond is threatened with abandonment. The area between Hammond and Lowell is experiencing significant population growth. At this writing, NICTD is working to lease the threatened trackage from the Chessie to preserve it, with the eventual aim of working with Hammond and other communities to begin a rail commuter service into Chicago probably after the middle of the 1990s.

NICTD has already purchased substantial amounts of land in the area of the Hammond station to improve parking, and plans are being developed to make important improvements at other stations. The problem, however, has been the lack of sufficient matching funds for a federal grant. NICTD had money enough to match the purchase of the railroad, or to buy additional cars to solve the problem of overcrowding and improve stations. But NICTD could not do both. Purchase of the railroad appeared to be a higher priority in order to stabilize the railroad and the passenger service.

The administration of Governor Evan Bayh provided an early Christmas present to northwest Indiana and NICTD on December 1, 1989. By means of a letter to NICTD from Indiana Budget Director Frank Sullivan, Governor Bayh promised that funds would be found to provide the match to purchase at least 14 additional rail commuter cars and make major station improvements at Hammond, East Chicago, and South Bend. Grant applications have already been filed with UMTA. Hammond will get a new station with high-level platforms. The East Chicago facility will receive major upgrading, including a new station and high-level platforms. Both stations will probably enjoy other enhancements. The South Bend terminal will be moved from its present poor location to the terminal building of the Michiana Regional Airport. This will make the Michiana facility one of the few true multimodal facilities in the U.S.

NICTD has always been faced with enormous challenges. It has been able to survive under very difficult conditions because of its highly supportive board and a small but top-notch staff and management team. That team evolved from merely supporting the service and acting as a conduit for funds to effectively managing the commuter rail service.

The 1990s will prove to be perhaps even more challenging than the past, but the situation is now clearer. With strong efforts being made to gain approval of the federal capital grant, NICTD hopes to own the South Shore Railroad outright by the end of 1990. At that time, the A&P freight service will become a tenant of NICTD and the service of both carriers will be handled on a solid and safe railroad.

The people of northwest Indiana and of the whole state have already enjoyed significant benefits from the work of NICTD. Free from the bickering inherent in working under a contract with the railroad, NICTD management can now turn its attention to major long-term improvements in service.

Indiana and Federal Highway Dollars

Richard Michels

Research Assistant, Indiana Business Research Center

The U.S. Department of Transportation recently announced a new initiative to increase state participation in the financing of the nation's transportation infrastructure. Indiana receives less in total dollars than many of its neighbors. When examined in terms of population, income, registered vehicles, or road miles, however, this discrepancy is much smaller (see **Table 1** and **Figures 1** and **2**).

In 1988, Indiana sent nearly $320 million into the Federal Highway Trust Fund, while just over $270 million was apportioned back to Indiana (see **Table 2**). That is a "deficit" of almost $50 million. For each dollar sent to Washington, 85 cents was returned. Year-to-year variations in contributions and receipts are to be expected: in 1985 the Hoosier state received $1.02 for each dollar contributed to the fund. The 1985 receipts seem to have been an exception to the pattern, however. In the five-year period 1984-1988, Indiana was granted $1,362,708,000—or 88.22% of the dollars paid by businesses and individuals in the state to the federal government in highway taxes and fees. Since the inception of the program in July 1956, Indiana has had a shortfall of more than $652 million.

A more detailed breakdown of the allocation of funds for Indiana over the last four years is also found in Table 2. A larger-than-average percentage of Indiana's funds go toward the elimination of hazards at rail-highway crossings. However, a smaller-than-average percentage of the funds received by Indiana are allocated for bridge replacement and rehabilitation. The account entitled 85% Minimum Allocation Funds arises because each state is guaranteed to receive at least 85% of its estimated tax contributions paid into the fund.

The apportionment of federal highway dollars to the states is based on complex formulas designed to

Figure 1
Highway Funds Per Capita

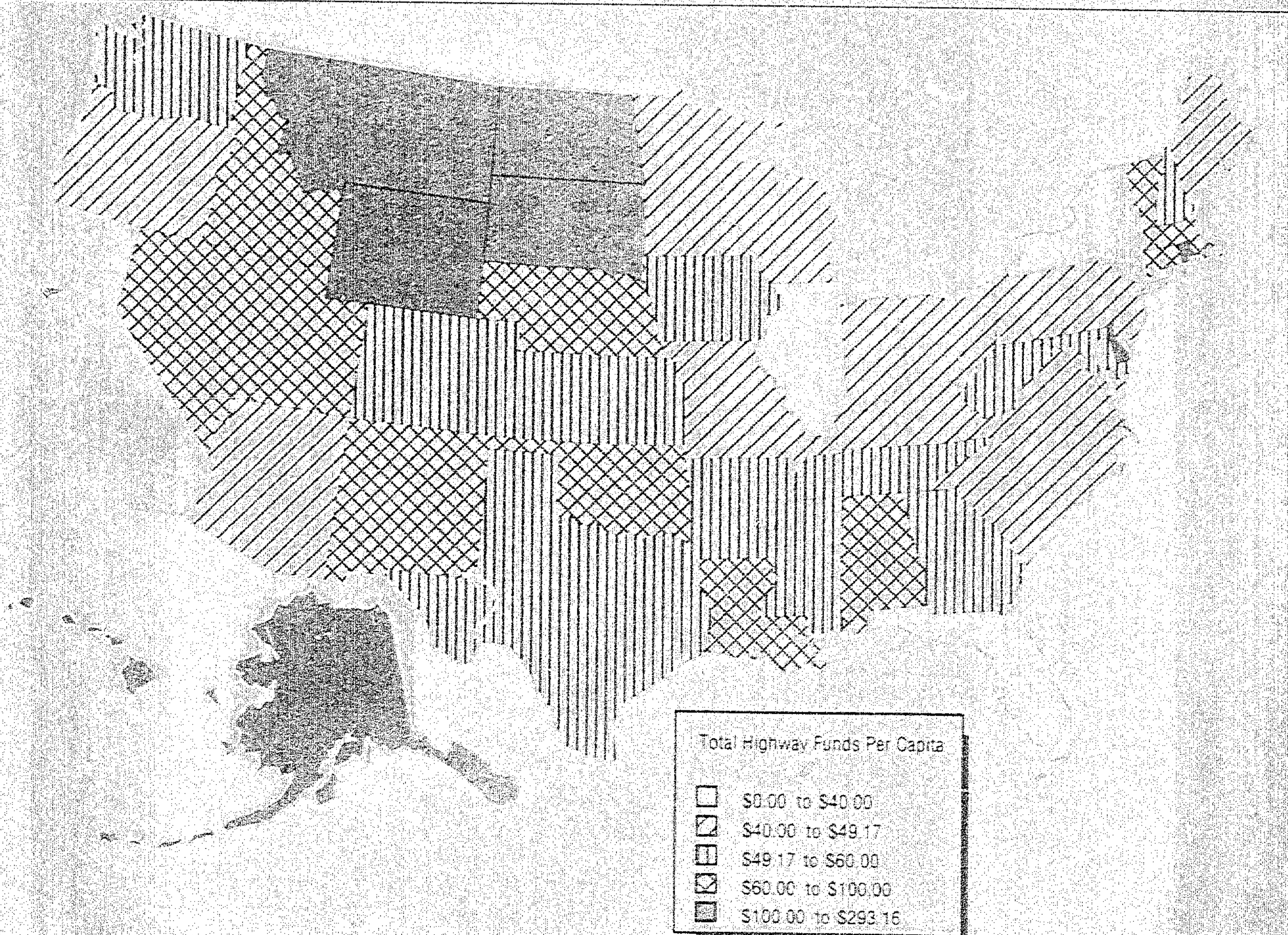


Table 1
Apportionment of Federal-Aid Highway and Safety Funds

	TOTAL FEDERAL-AID HIGHWAY FUNDS		TOTAL FUNDS PER REGISTERED VEHICLE		TOTAL FUNDS PER CAPITA INCOME		TOTAL FUNDS PER MILE		TOTAL FUNDS PER CAPITA	
STATE	DATA (000 $)	1988 RANK	DATA	1988 RANK	DATA (000 $)	1988 RANK	DATA	1988 RANK	DATA	1988 RANK
ALABAMA	$266,822	18	$68.75	26	$20.76	12	$2.95	24	$65.05	17
ALASKA	$153,616	28	$424.49	1	$8.05	39	$12.60	6	$293.16	1
ARIZONA	$145,001	29	$53.61	45	$9.69	31	$2.06	34	$41.56	43
ARKANSAS	$124,025	35	$86.91	17	$10.15	30	$1.61	42	$51.78	29
CALIFORNIA	$991,506	1	$46.47	49	$52.87	2	$6.10	10	$35.02	49
COLORADO	$186,651	25	$63.85	35	$11.34	28	$2.42	31	$56.54	26
CONNECTICUT	$281,361	13	$106.10	11	$12.20	25	$14.21	5	$87.03	11
D. OF COLUMBIA	$85,108	43	$322.35	2	$3.98	47	$77.23	1	$137.94	3
DELAWARE	$50,129	51	$97.92	13	$2.84	50	$9.31	9	$75.95	13
FLORIDA	$436,333	7	$39.73	51	$26.28	7	$4.17	14	$35.37	48
GEORGIA	$334,967	9	$64.46	34	$21.95	8	$3.12	22	$52.82	28
HAWAII	$139,329	32	$197.71	3	$8.32	38	$34.14	2	$126.89	5
IDAHO	$85,354	42	$90.78	15	$6.74	41	$1.41	46	$85.10	12
ILLINOIS	$373,007	8	$47.43	48	$21.22	10	$2.75	27	$32.12	51
INDIANA	$270,098	16	$64.78	33	$18.10	14	$2.95	25	$48.61	33
IOWA	$167,117	26	$65.08	30	$11.40	27	$1.49	45	$58.97	23
KANSAS	$144,035	30	$65.18	29	$9.14	34	$1.08	50	$57.73	25
KENTUCKY	$164,841	27	$58.98	38	$12.86	23	$2.36	32	$44.23	39
LOUISIANA	$267,389	17	$91.02	14	$21.75	9	$4.58	12	$60.66	20
MAINE	$58,106	48	$61.73	36	$3.85	48	$2.65	30	$48.22	35
MARYLAND	$271,475	15	$78.27	20	$13.93	21	$9.62	7	$58.74	24
MASSACHUSETTS	$549,971	4	$144.04	7	$26.42	6	$16.27	4	$93.39	10
MICHIGAN	$322,430	10	$45.15	50	$19.48	13	$2.73	28	$34.90	50
MINNESOTA	$208,800	22	$65.04	31	$12.52	24	$1.61	41	$48.48	34
MISSISSIPPI	$133,729	33	$74.84	23	$12.03	26	$1.85	38	$51.04	30
MISSOURI	$246,469	20	$64.96	32	$15.95	17	$2.06	35	$47.94	36
MONTANA	$107,846	38	$149.26	6	$8.38	36	$1.51	44	$133.97	4
NEBRASKA	$101,299	41	$76.27	22	$6.86	40	$1.10	49	$63.23	18
NEVADA	$72,021	47	$89.10	16	$4.11	46	$1.61	43	$68.33	16
NEW HAMPSHIRE	$54,458	49	$58.68	40	$2.80	51	$3.70	18	$50.19	31
NEW JERSEY	$321,213	11	$55.98	42	$14.60	19	$9.39	8	$41.60	42
NEW MEXICO	$104,259	39	$82.32	19	$8.35	37	$1.93	37	$69.18	14
NEW YORK	$649,719	3	$66.04	28	$33.66	3	$5.87	11	$36.28	47
NORTH CAROLINA	$300,933	12	$59.92	37	$21.04	11	$3.21	21	$46.38	38
NORTH DAKOTA	$73,689	46	$112.49	10	$5.74	45	$0.85	51	$110.48	7
OHIO	$441,082	6	$51.22	47	$28.39	5	$3.89	15	$40.63	46
OKLAHOMA	$199,481	24	$78.10	21	$14.97	18	$1.79	40	$61.53	19
OREGON	$128,427	34	$55.46	43	$8.63	35	$1.37	47	$46.41	37
PENNSYLVANIA	$513,570	5	$66.13	27	$31.64	4	$4.42	13	$42.79	40
RHODE ISLAND	$103,621	40	$154.47	5	$6.13	43	$17.73	3	$104.35	8
SOUTH CAROLINA	$142,011	31	$58.83	39	$10.99	29	$2.23	33	$40.93	45
SOUTH DAKOTA	$82,094	44	$118.52	9	$6.44	42	$1.12	48	$115.14	6
TENNESSEE	$242,614	21	$57.42	41	$17.49	15	$2.90	26	$49.56	32
TEXAS	$894,038	2	$72.06	24	$61.29	1	$2.98	23	$53.09	27
UTAH	$115,915	36	$99.98	12	$9.51	33	$2.70	29	$68.59	15
VERMONT	$54,017	50	$119.28	8	$3.53	49	$3.83	16	$96.98	9
VIRGINIA	$256,363	19	$54.89	44	$14.50	20	$3.83	17	$42.82	41
WASHINGTON	$276,054	14	$71.01	25	$16.76	16	$3.39	19	$59.39	22
WEST VIRGINIA	$111,602	37	$86.74	18	$9.51	32	$3.23	20	$59.49	21
WISCONSIN	$201,051	23	$51.54	46	$12.95	22	$1.83	39	$41.41	44
WYOMING	$81,408	45	$168.90	4	$5.98	44	$2.01	36	$169.95	2
UNITED STATES	$12,086,439		$65.55		$14.86		$3.12		$49.17	

allocate the funds where they are needed on a supposedly fair and equitable basis. The federal-aid highway program is financed from the proceeds of motor fuel and other highway-related excise taxes. The highway funds are administered as a grant-in-aid program and apportioned to the states in accordance with formulas that give weight to population, area, mileage, and relative costs (needs). The funds are used for capital outlays, maintenance, administration, highway police and safety, interest on debt, debt retirement, and intergovernmental payments.

Naturally, each state would like to be in a "surplus" position. This would be an arithmetic impossibility and would make no sense for a national program. A federal program is expected to be redistributional in nature—moving funds from the wealthy to the poor, from the adequately served to the needy, or from the sparsely populated to the densely packed areas (or the reverse). What principle seems to be operative in the federal-aid highway program?

The system appears to clearly favor the small states. An examination of the total funds per capita data indicates that there is a close inverse relationship between the funds received by a state and its population. Two population trends seem to be at work here. First, funds are redistributed from the more heavily populated to the less heavily populated states. Second, funds are redistributed from urban states to rural states. This results in states such as Alaska, Wyoming, and Montana receiving much more in funds per capita than more populated states with large urban areas, such as Illinois, Michigan, and California.

There does not appear to be a strong correlation between the apportionment of funds and per capita

Figure 2
Highway Funds Per Capita Income

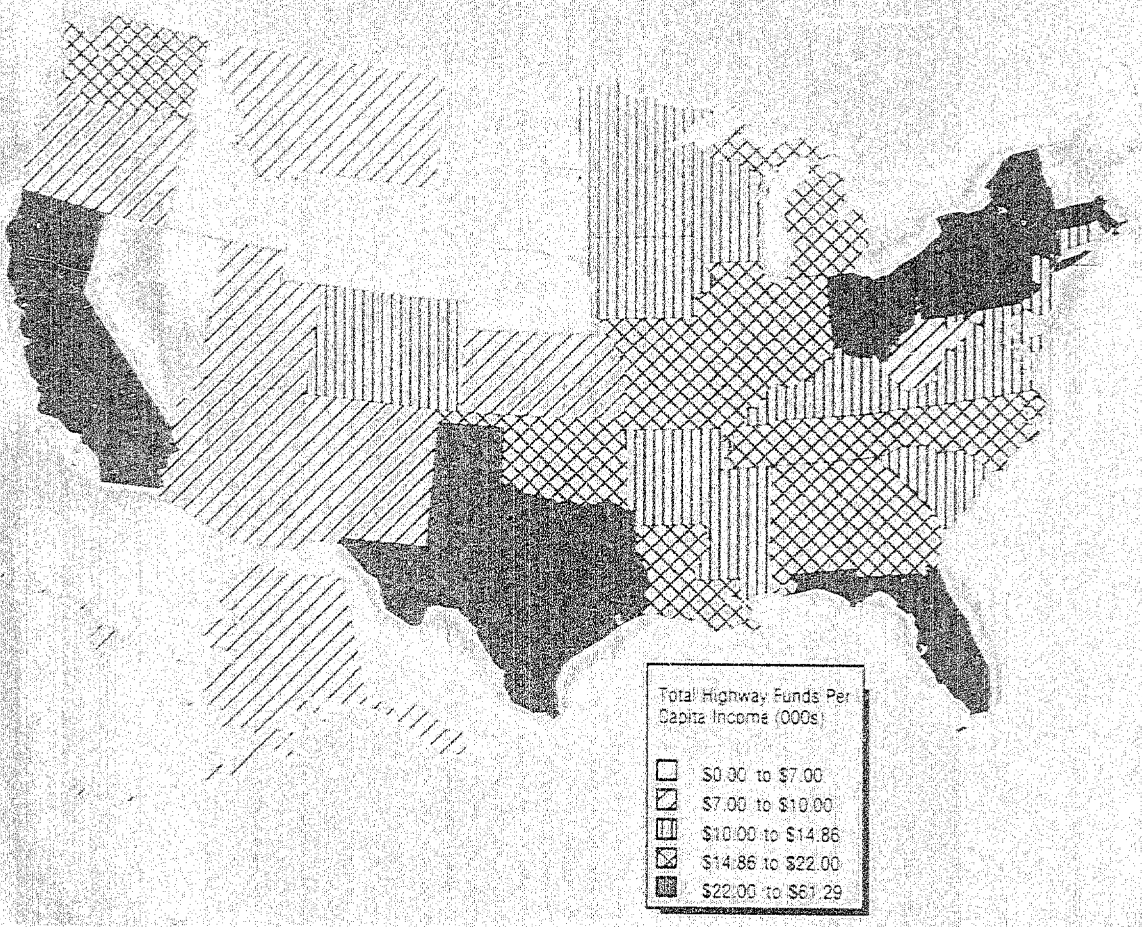


Table 2
Apportionment of Federal-Aid Highway and Safety Funds ($000)

Data Description	*Year 1988*	*Percent U.S.*	*Percent Total*	*Year 1987*	*Percent U.S.*	*Percent Total*	*Year 1986*	*Percent U.S.*	*Percent Total*	*Year 1985*	*Percent U.S.*	*Percent Total*
*Total Federal-Aid Highway Funds**	$270,098	2.2	100.00	$253,889	2.1	100.00	$281,102	2.0	100.00	$322,823	2.3	100.00
Metropolitan Planning	835	1.7	0.31	822	1.7	0.32	922	1.7	0.33	921	1.7	0.29
Total Federal-Aid Systems Funds*	151,367	1.7	56.04	155,275	1.7	61.16	234,146	2.0	83.30	268,216	2.2	83.08
Consolidated Primary	52,531	2.3	19.45	52,531	2.3	20.69	54,245	2.3	19.30	52,473	2.3	16.25
Rural Secondary	13,837	2.3	5.12	13,837	2.3	5.45	14,303	2.3	5.09	15,104	2.3	4.68
Urban System	14,534	2.0	5.38	14,534	2.0	5.72	14,988	2.0	5.33	15,661	2.0	4.85
Interstate	13,954	0.5	5.17	17,862	0.6	7.04	17,418	0.5	6.20	18,201	0.5	5.64
Interstate Resurfacing	56,511	2.2	20.92	56,511	2.2	22.26	66,472	2.2	23.65	62,711	2.2	19.43
Interstate Highway Substitute	3,769	0.8	1.40	3,807	0.7	1.50	5,213	1.0	1.85	7,898	1.0	2.45
85% Minimum Allocation Funds	77,349	9.6	28.64	58,008	8.0	22.85	61,507	9.9	21.88	96,168	10.0	29.79
Hazard Elimination	3,861	2.3	1.43	3,854	2.3	1.52	4,388	2.3	1.56	4,591	2.3	1.42
Elimination of Hazards at Rail-Highway Crossings	4,874	3.1	1.80	5,086	3.2	2.00	5,983	3.3	2.13	6,589	3.5	2.04
Bridge Replacement and Rehabilitation	25,135	1.8	9.31	24,121	1.7	9.50	32,947	1.9	11.72	39,776	2.6	12.32
Highway Safety Programs	2,908	2.3	1.08	2,906	2.3	1.14	2,716	2.3	0.97	2,730	2.3	0.85
Contributions to Fund	319,359			309,633			331,477			315,654		
Percent Returned	85%			82%			85%			102%		
Cumulated Excess Contributions Since 7/1/56: $652,560												

* *Detail may not add to total*

income. Some type of redistribution of funds from the wealthy to the poor states does seem to be at work, however. This is brought out by the fact that Connecticut and Mississippi are ranked 25th and 26th in apportionment of funds on a per capita income basis but are vastly different in per capita income.

Total funds per registered vehicle is so strongly correlated with total funds per capita that similar conclusions can be reached. Smaller states, with fewer registered vehicles, are favored over the larger states that contain a high number of registered vehicles. One difference does exist, however. Populations in large urban areas with highly developed public transportation systems tend to have fewer vehicles. Thus states with large urban areas should fare better here than when examined on a per capita basis. This is evident from such states as New York and Illinois, which have larger urban areas but are ranked higher on funds per registered vehicle than on funds per capita.

Dollars are generally redistributed from the states with more road mileage to states with less road mileage. Texas, for example, is ranked first in total mileage and second in total funds but falls to 22nd in total funds per mile. The states smaller in area benefit considerably when examined in this manner, whereas the larger states west of the Mississippi River, particularly those in the Great Plains, receive very little on a per mile basis.

Indiana ranks 32nd in apportionment of funds on a per capita basis. This results from the fact that the Hoosier state is above average in population and also has some large urban areas. The fact that Indiana is ranked 29th in per capita income but 14th in total funds per capita income seems to imply that funds are being allocated to Indiana from other states. Since Indiana is above average in both registered vehicles and road mileage, its ranking is not as favorable, indicating an allocation of funds away from the state.

The current apportionment of highway funds means Indiana is helping to fund the Department of Transportation's highway projects in the rest of the country. The Department's federal-aid highway program does appear to be redistributional in nature. In absolute terms the large states receive the most funds, but in relative terms the small states are definitely favored. Although no single factor is specifically at work, the general method is to move funds from those with to those without. The 85% rule, however, keeps total funding more or less proportionate to total population. The tendency to redistribute monies from the more populous to the less populous states may be necessary to maintain the linkages between these states. An effective highway system between Illinois and California requires quality roads in Nebraska—which that state, on its own, might not sustain.

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