Letter from the Secretary of the Interior, communicating, in answer to a Senate resolution of October 22, 1877, a copy of the report of the government directors of the Union Pacific Railroad for the year ending June 30, 1877.
LETTER
FROM
THE SECRETARY OF THE INTERIOR,
COMMUNICATING,
In answer to a Senate resolution of October 22, 1877, a copy of the report of the Government directors of the Union Pacific Railroad for the year ending June 30, 1877.

OCTOBER 25, 1877.—Referred to the Committee on Railroads and ordered to be printed.

DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D. C., October 25, 1877.

SIR: Pursuant to Senate resolution of the 22d instant, I have the honor to transmit herewith a copy (in print) of the report of the Government directors of the Union Pacific Railroad Company for the year ending 30th of June last.

I am, sir, very respectfully, your obedient servant,
C. SCHURZ,
Secretary.

Hon. WILLIAM A. WHEELER,
Vice-President, and President of the Senate.


WASHINGTON, D. C., October 12, 1877.

SIR: Three of the Government directors of the Union Pacific Railroad (Brewer, Millard, and Wilson) made the regular annual inspection of the road in the month of July last. The entire line was passed over and examined by daylight, and found to be in good condition. The Western Division had suffered severely from high water and wash-outs during the early part of the season of 1876, and the Eastern Division had suffered much from like causes during the spring of the present year. The fall and flow of water on the two divisions had been unprecedented, and it was a gratifying surprise to find them in so good condition when the inspection was made. The general condition of the road, shops, equipment, &c., was quite satisfactory. The improvements, which the Government directors have noted and reported from year to year, indicate the steady advance of the road toward the standard maintained by first-class roads in the Eastern States.
During the year ending June 30, 1877, the company expended for the renewal of rails $504,827.13; and in the month of July of present year, $147,244.73; total, $652,071.86. Since July 1, 1876, there have been renewed 5,154 tons of steel rails to August 1, 1877, and during the month of August 985 tons; or, in all, 6,139 tons; and it is expected that an aggregate of 140 miles will be reached for the year 1877 before its close. Steel rails are being placed on the heavy grades and mountain divisions. From 1st of March last to August 1, there have been rerolled at Laramie mill 4,942 tons of iron rails, at a cost of about $15 per ton. On the lighter grades, bad iron is being replaced with the rerolled rails. For the year ending June 30, 1877, ties have been renewed as follows: viz: Pine, 410,721; hard wood, 89,424; total, 500,145; and the renewal is constantly going on.

In the same period of time the company has constructed at its shops: Outfit and boarding cars, 4; small baggage-cars, 2; box freight-cars, 42; total, 48. The company has not a sufficient number of cars of its own to meet the demand for shipment of cattle, but the deficiency is met by the roads leading from Council Bluffs to Chicago sending large numbers of their cars out to points of loading on the Union Pacific Road.

The company has long needed commodious and safe general offices at Omaha. This want is now being met, and when the work on the building shall have been completed the general offices of the company will be exceedingly well and safely provided for.

There had been expended on the general office building at Omaha to August 1, 1877, $13,468.38; amount additional necessary to complete it, $27,000; total, $40,468.38. The building will be amply provided with fire-proof vaults for the safe-keeping and preservation of the company's records, books, papers, &c., and will be very complete in all of its appointments.

The decision of the Supreme Court of the United States, hereinafter mentioned, having determined that the eastern terminus of the road is on the Iowa shore of the Missouri River, and requiring the company to operate its road to said terminus as a continuous line, rendered it necessary for the company to provide a building therefor for the accommodation of its large and growing business, and for the comfort and convenience of the public. The work is under way and rapidly progressing toward completion, and the company has expended on the same to August 31, 1877, $13,208.68; amount required to complete it, $70,000; total, $83,208.68. This work is necessary, and the outlay judicious, as the want of proper accommodations at the terminus of the road has been a constant source of complaint.

During the month of August the Missouri River bridge sustained serious damage. A wind-storm of almost unparalleled force carried away bodily, and cast into the river, the two eastern spans of the bridge. Fortunately, neither the abutment nor piers were injured; and the company at once put in a temporary structure for use until a permanent one can be put in place, which will be done without delay. The accident interrupted business for a time, and occasioned considerable cost to the company. On the 18th of September trains commenced crossing of the temporary structure, and there has been no delay since that time. The temporary structure will cost $31,216.78; amount necessary to replace permanent structure, $50,000; total, $81,216.78.

A large expenditure has been made for the protection of the Missouri River bank on the east side. This was required for the preservation of the eastern approach to the bridge. The total amount expended for
this purpose to August 31, 1877, is $190,992.14, and the tendency of the river to encroach upon its banks will require constant watchfulness and a continuous expenditure in greater or less amount.

During the present year the Missouri River made a "cut off" just north of the cities of Council Bluffs and Omaha, through which an exceedingly rapid and forceful current was set directly against the west bank of the river, threatening the large general shops of the company. The company has expended $30,000 to avert the present danger, and a subsidence of the water has, for the present, afforded relief; but a large expenditure will be required to protect and preserve the shops in their present location. The work will need to be substantial and thorough, and will probably cost about $250,000. The city of Omaha and the Omaha Smelting and Refining Company are both directly interested in averting this danger, and will doubtless provide for the greater part of the necessary outlay. If this should not be done, then the railroad company must elect between paying the entire expense, with the risk of ultimate failure, and a removal of its extensive shops to a more secure locality. In either event the cost to the company must be considerable.

It is the purpose of the company to replace the present wooden bridge over the Loupe Fork of the Platte River with an iron structure, but the estimate of cost is not yet received.

In 1869 the then management of the company contemplated farming out the express business over the road to Wells, Fargo & Co. This was objected to by the Government directors, and finally, on motion of Mr. Wilson, (then and now a Government director,) the company resolved to do its own express business. The result of this action has proved most satisfactory. The earnings from that source have been as follows, viz:

- 1870 ........................................ $231,626.00
- 1871 ........................................ 307,751.00
- 1872 ........................................ 336,333.00
- 1873 ........................................ 410,190.00
- 1874 ........................................ 392,107.00
- 1875 ........................................ 444,473.00
- 1876 ........................................ 592,904.00

Total to January 1, 1877 ........................................ 2,369,444.00

The expense, loss, and damage account has been exceedingly light, probably in all, to date given, not exceeding $250,000. In the month of September of the present year a loss fell upon this department of the company's service of some $60,000. A band of train-robbers stopped the express-train, robbed the express-car, and carried off about the amount stated of money being forwarded east. About $20,000 of the money has been recovered to present date, and every effort is being made to recover the remainder. In making the recovery mentioned, two of the robbers were killed.

It would have been well for the company had it pursued the same course with the sleeping-cars on the road that it did with the express department. But, instead of doing so, it contracted this interest away at a very early day in its history. The Pullman sleepers were put upon the road under said contract. The terms of the contract were most favorable to Mr. Pullman. He furnishes the cars, conductors, and porters. The railroad company keeps the cars in repair. The total amount expended by the company for repairs under the contract from time the cars were placed on the road to the present time is $144,509.31. During the last year, the amount expended on reconstruction and re
pairs was $14,764.32. It would have been far better for the company
had it placed its own sleepers on the road, and run the same to its own
profit. The present management is anxious to be rid of said contract,
and certainly will not renew it, as it is now plain to be seen what a
grave mistake was made by entering into it at all. The contract will
expire October 1, 1882.

As stated in former reports of the Government directors, the company
is operating its own coal-mines. The coal produced during the
year was 264,779 tons, at a cost of $1.29½ per ton on cars. Of the
amount produced the company used 183,337 tons, and sold for general
use 81,442 tons.

The land granted to the company is mortgaged to secure the payment
of the land-grant bonds. Number of acres sold, 1,341,779.30;
amount due company on contracts, $3,049,134.53. Principal received,
$2,618,293.71; interest, $442,681.79; total, $3,060,775.50. Acres sold
during last year, 67,971.53; average price per acre, $2.92.

In view of the grasshopper-scourge which has afflicted Nebraska for
several years past, the number of acres of land sold by the company
during the last year is a gratifying surprise, and now that the scourge
seems to have passed away, and immigration is again pouring into the
State, the sales in the future must increase rapidly.

The amount of land-grant bonds originally issued was.................. $10,400,000 00
Amount outstanding June 30th, 1877........................................ 7,374,000 00

Amount retired from sales of land........................................... 3,026,000 00

Undoubtedly the land-grant will retire the land-grant bonds, and
leave a large surplus over for the extinguishment of other indebtedness
of the company.

The number and class of employes of the company is as follows, viz:

<table>
<thead>
<tr>
<th>Class</th>
<th>No. of men</th>
</tr>
</thead>
<tbody>
<tr>
<td>In shops at Omaha</td>
<td>725</td>
</tr>
<tr>
<td>In shops at Grand Island</td>
<td>15</td>
</tr>
<tr>
<td>In shops at North Platte</td>
<td>76</td>
</tr>
<tr>
<td>In shops at Sidney</td>
<td>15</td>
</tr>
<tr>
<td>In shops at Cheyenne</td>
<td>50</td>
</tr>
<tr>
<td>In shops at Laramie</td>
<td>100</td>
</tr>
<tr>
<td>In shops at Rawlins</td>
<td>85</td>
</tr>
<tr>
<td>In shops at Green River</td>
<td>28</td>
</tr>
<tr>
<td>In shops at Evanston</td>
<td>100</td>
</tr>
<tr>
<td>In shops at Ogden</td>
<td>15</td>
</tr>
<tr>
<td>Engineers</td>
<td>160</td>
</tr>
<tr>
<td>Section and track men</td>
<td>1,250</td>
</tr>
<tr>
<td>All others</td>
<td>1,350</td>
</tr>
</tbody>
</table>

Total .......................................................... 3,969

This statement does not include coal-miners nor men connected with
the Laramie Rolling-Mill, but only railroad employes proper.

In their report of last year, the Government directors criticised the
action of the company in reducing the track-force, and said: "There has
been too great reduction of the section-gangs, which should be in-
creased by from one to three men to the gang on the greater part of the
line. In reducing the track-force, the company has but followed the
policy adopted by most railroad companies since the panic of 1873 and
the unfriendly legislation of several of the States. There has been a
general effort to economize all round, which is well enough in most re-
spects, but in the one indicated is a mistake."

The foregoing statement shows that the company has heeded this
criticism, and placed 1,250 section and track men on its line of 1,038
miles, or more than a man to the mile.
The floating debt of the company June 30, 1877, was as follows, viz:

- Notes payable: $605,790.45
- Omaha drafts: 59,118.16
- Shoe and Leather National Bank, Boston: 50,000.00
- Land department, special account: 173,000.00
- Town-lot department, special account: 28,000.00
- O. F. Davis, land agent: 2,822.42
- Land-grant coupons outstanding: 4,301.06
- Sinking-fund: 11,300.00
- Interest on fractional certificates: 64.00

Less cash assets:
- Cash: $133,068.36
- Gold account: 47,603.42
- Union Trust Company, New York: 208,185.18
- Union Trust Company, gold account: 102,681.92
- Baker & Morrell: 25,000.00

The company hold other assets, which, after eliminating from its statement:

<table>
<thead>
<tr>
<th>Amount from operating department</th>
<th>$2,426,858.36</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount from half transportation from United States</td>
<td>1,901,677.07</td>
</tr>
<tr>
<td>1,205 shares of unissued stock</td>
<td>88,814.18</td>
</tr>
<tr>
<td>5,000 Omaha bridge bonds</td>
<td>5,161.35</td>
</tr>
<tr>
<td>Wyoming Coal Company stock</td>
<td>100,000.00</td>
</tr>
<tr>
<td>13,000 first-mortgage bonds held by the company</td>
<td>13,455.00</td>
</tr>
<tr>
<td>1,000 sinking-fund bonds held by company</td>
<td>935.00</td>
</tr>
<tr>
<td>First-mortgage-bond coupons held by company</td>
<td>420.00</td>
</tr>
</tbody>
</table>

And taking the company’s estimate of the value of the remaining assets embraced in the statement, amount to $3,911,443.85.

These assets consist of stocks and bonds in other railroad companies, telegraph and steamship shares, county bonds issued by counties in Nebraska and Colorado, &c. The railroad stocks and bonds are of companies which the Union Pacific Company have aided in constructing their roads, in order to bring business to its line mainly, though in some cases, but in no great amount, of companies with which it has no connection. It is deemed proper to eliminate from said statement of assets the items specified above, because the amount from operating department would be required to meet payments of dividends and interest falling due in July, the amount due from United States for half transportation, because it is held to await the determination of the suit now pending by the Government for the recovery of five per cent. of net earnings, and to discharge such judgment as may be obtained; the first-mortgage bonds, bridge-bonds, &c., because, if issued, they would be but an addition to the debt of the company; the shares of the company’s own stock not issued, as the same may fall under the inhibition of the act of March 3, 1873, and the interest in the Wyoming Coal and Mining Company, because it never should be accounted a distinct asset to be used for the discharge of any indebtedness of the company, and may be entirely destroyed as a distinct property by the result of litigation now pending. But in any event, there is an abundance in the asset-account to extinguish the floating debt, with a remainder over.

Upon the subject of the aid extended by the Union Pacific Company to other companies, the Government directors, in their report for 1873, remarked:
With regard to the advances which the Union Pacific Company has made in aid of the roads mentioned, we can but repeat what we said in our report of 1872: 'We do not question the wisdom of a policy which tends, to secure to the trunk-line the business which the said several roads may command. It could not well afford to have said business diverted from it. The policy, however, should be so ordered as not to interfere with whatever present or future claim the Government may have for re-imbursement.' The ability of the company to make the advances referred to show that it could have returned more to the Government than it has, and raises the question of the power of the company to divert its means into channels not authorized by the law.'

The total advances made, and the companies aided, appear in the following table and those in last year's report:

| Investment in Summit County Railroad Company: $134,500 bonds; 622 shares full-paid stock; 2,759 shares assessable stock, and valuable coal-lands. Estimated value and cost: $60,000. | $1,610,497 86 |
| Colorado-Central Railroad has been aided to the extent of: | $767,156 20 |
| Balance, without interest | $843,341 66 |

The investments in the Utah Central, Utah Southern, and Utah Northern Companies have not been increased during the past year, and remain as stated in the report of the Government directors for the year ending June 30, 1876.

The statement of investments in the Republican Valley Railroad has not yet been received, and will not be in time to be embraced in this report. The Union Pacific Company's investment in this road is regarded as a safe and remunerative one, as very considerable aid has been secured from the counties into which it has been constructed, and the country will supply it with a large local business.

The Utah Central, Utah Southern, and the Colorado Central are the most important of the roads aided. These, and the Utah Northern, are reported quite fully in the reports of the Government directors for the years 1872, 1873, and 1876. The Republican Valley road in Nebraska, and the Summit County road in Utah, involve investments of more recent date.

Aid to other roads is in contemplation by the company; one to the Black-Hills region, and one to secure the business of Montana. The Government directors believe that this policy of the company should at all times be held subordinate to its obligations to the United States. When this is assured, the policy may result in public as well as corporate good. It would seem to be definitely settled that national aid in the construction of railroads, by grants of public lands or otherwise, is at an end. Still, there are important regions of our country to be developed by the construction of railroads. If this can be done by corporations whose interest it is to secure the business of those regions, without endangering repayment to the Government in such cases as that of the Union Pacific Company, an important public interest would be subserved. Wherever railroads go, the Indian question is practically settled. From the vast domain covered by the Union Pacific Road, its connecting lines, and the settlements included by them, Indian troubles have disappeared, and the cost of the Indian service, generally, has been greatly reduced. The roads above mentioned as held in contemplation by the Union Pacific Company would, if constructed, tend strongly to further simplify said service and reduce its cost. If the policy can be carried out without hazard to the claim of the Government, it involves possibilities of great moment to the country at large, and of
almost incalculable advantage to the sections of our Western Territories most directly interested. (See letter of General Crook, at conclusion of this report.)

The extension of the Colorado Central Railroad to a junction with the Union Pacific at Hazzard Station, and with trains running directly to and from Cheyenne, is an enterprise of great importance to the latter, and to the people of Colorado. It will place the business of that State in much better position than it has ever been; for an active competition must result between the Kansas Pacific and Union Pacific Companies for the business of that State, especially the northern portion of it; and harmonious connections between the Union Pacific, the Colorado Central, and the Denver and Rio Grande Companies will secure like advantages to the southern part of the State through the competition which must arise between the roads named and the Atchison, Topeka and Santa Fé Railroad. The Union Pacific Company has no special running arrangements with the several roads hereinbefore named under which earnings are apportioned. Each company makes its own rates, but the relations existing between them are such as to maintain harmony in their business connections, and to enforce a healthy competition with other lines. This must result in great advantage to the people depending on the several lines for transportation to and from points affected by the competition, and tend to develop the resources of the country tributary to the roads.

It is now expected that the Colorado Central will be completed to its connection with the Union Pacific, and trains placed upon the entire line, by the 20th of October, 1877.

The earnings of the road for the year ending June 30, 1877, show a considerable increase over the preceding year, and largely more than any other year in its history.

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings</th>
<th>Increase 1877 over 1876</th>
</tr>
</thead>
<tbody>
<tr>
<td>1876</td>
<td>$12,113,990.69</td>
<td>$1,605,363.13</td>
</tr>
<tr>
<td>1877</td>
<td>$13,719,343.82</td>
<td></td>
</tr>
</tbody>
</table>

Operating expenses, as claimed by company, for year 1876: $5,447,819.27
Operating expenses, as claimed by company, for year 1877: $5,402,252.24

Gain for 1877 over 1876: $45,567.03

Net earnings for the year 1877: $8,317,091.58
Net earnings for the year 1876: $5,402,252.24

Increase for 1877 over 1876: $2,914,839.34

This is a surprising result, considering the general depression which has rested upon the business of the country, and fully justifies the opinion expressed in former reports by the Government directors relative to the immense possibilities of this road.

The net earnings of the year ending June 30, 1877, being $8,317,091.58, it is readily ascertained what amount is due the Government for the year under the 5-per-centum reservation, as heretofore estimated by the Government directors. The case is this:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net earnings</td>
<td>$8,317,091.58</td>
</tr>
<tr>
<td>Less interest on first-mortgage bonds,</td>
<td>$1,732,273.26</td>
</tr>
<tr>
<td>reduced to currency at 6 per cent., about the</td>
<td></td>
</tr>
<tr>
<td>average for the year</td>
<td></td>
</tr>
<tr>
<td>Net subject to 5 per cent. on above basis</td>
<td>$6,584,818.32</td>
</tr>
<tr>
<td>Five per cent. on this amount</td>
<td>$329,240.91</td>
</tr>
</tbody>
</table>
We understand, however, that the counsel representing the Government in the suit now in progress for the adjustment of the 5 per cent. controversy and for the recovery of the amount due the United States thereon claim that no reduction should be allowed for interest on first-mortgage bonds. If this claim should be sustained by the court, then there should be added to the above.

Making a total due for the year, under the 5-per-cent. reservation, of...

The amount estimated by an expert of the Treasury Department as due for the year ending June 30, 1876, from the 5 per cent. on net earnings is

Making, on above basis, an excess for 1877 over 1876 of

Upon this subject there is a wide difference between the Government and the company, the latter claiming (as the Government directors have stated in two former reports) that, in determining what its net earnings are, it is entitled to deduct from its gross earnings all payments of interest, and all other payments and liabilities coming within the rule laid down in Saint John vs. Erie Railway Company, 22 Wallace, 136. This controversy has been one of great annoyance and vexation, and it is a cause of great congratulation that it is so near an end by judicial determination.

Should the Government maintain its claim by a judicial construction of the law concerning the five-per-centum clause of the act of July 1, 1862, in harmony with that upon which the Secretary of the Treasury and the counsel conducting the case are insisting, the payment of the resulting judgment is provided for by the terms of the following stipulation entered into between the counsel of the respective parties in the cause, commonly known as the "Transportation case." The stipulation is as follows, viz:

"It is hereby stipulated on behalf of the plaintiffs that no judgment against the United States which may be rendered in this cause shall be collected until after final judgment in the suit brought in the circuit court for the district of Massachusetts by the United States against the plaintiffs, under direction of the act of Congress of June 22, 1874, to recover sums claimed to be due as the 5 per cent. of the net earnings of the railroad of the plaintiffs, and in case of a recovery by the United States in this latter suit, the judgment may be offset against any judgment for the plaintiffs in this cause; but nothing herein shall be construed to affect the right of recovery by either party in either of said suits.

"G. BARTLETT,
"For the Union Pacific Railroad Company.
"JOHN GOFORTH,
"Assistant Attorney-General.

The amount covered by this stipulation, added to the amounts which have become due to the company from the United States on account of transportation since the date of the judgment in said suit down to June 30, 1877, is stated to be $1,901,677.07, a sum large enough, it is supposed, to pay a judgment to be rendered on the basis of the claim made by the Government, and largely in excess of one sustaining the company's position. So that, in any event, the judgment will at once be paid.

Section 6 of the act of July 1, 1862, provides that "after the road is completed, until said bonds and interest are paid, at least five per centum of the net earnings of the road shall also be annually applied
to the payment thereof." The date of the completion of the road has been, and still is, a controverted question between the Government and the company. Upon this question the Government directors expressed their opinion in the annual report for the year 1872. From that report the following paragraph is quoted, viz:

"Here arises an important question: Is the road completed? We think it is, within a fair and reasonable signification of the term. In our judgment, it has been completed for a period long enough to embrace the two years ending June 30, 1872."

The Government directors have never changed from this position. This opinion covers the entire period from the connection of the tracks of the Union Pacific Railroad and the Central Pacific Railroad of California in 1869, and is followed by the Government in the preparation of its claim in the suit above referred to. The company has always contested this position of the Government directors; and now that it is maintained by the United States in said suit, the same contest is making therein. The company claims that, because of certain action by Congress in 1869, and subsequent executive action, the date of completion of the road and from which the 5 per cent. of net earnings was to commence running, did not occur until the 1st October, 1874, as determined by a special commission appointed by the President of the United States, (referred to in the report of the Government directors for the year 1874,) if not entirely repealed by implication by the act of July 2, 1864. Happily this and all other questions relative to the 5-per-cent. clause of the act of July 1, 1862, are in process of judicial determination in the suit mentioned, and need not be treated further here.

In their reports for the years 1874, 1875, and 1876, the Government directors treated at some length the relations of the United States and the company growing out of the advance by the former to the latter of bonds to aid in the construction of its road. The total amount of bonds so advanced is $27,236,512... The duty of the company to re-imburse this amount, with all interest paid and to be paid by the United States, is clear and undisputed. In the reports named the Government directors endeavored to present fully every feature of law and fact springing from the undisputed duty of re-imbursement by the company. It is unnecessary here to retraverse the grounds gone over in those reports. Aside from the consideration of the clear legal duty involved, there are great equities on both sides; but they no more than counterbalance each other, leaving the case still resting on the original legal obligation. As shown in those reports, the Government has received vast remunerative advantages already from the construction of the road, and will, through all the future of the great work, feel in increasing ratio the beneficial results flowing therefrom. On the other hand, the road has, to the surprise of almost every one, proved itself to be a strong, growing, remunerative property, capable of carrying all its burdens and discharging all its obligations. There ought to be no conflict between the United States and the owners of the road. There is no just reason why there should be. The United States advanced the bonds in the sum named, and has paid and is still paying the interest thereon. This is a debt which ought to be paid; but under the decision of the Supreme Court of the United States it will not become due until the maturity of the bonds, thirty years from the date of their issue. To let it run on, accumulating to the end of this time, will be the worst possible policy and ruinous at last. If a just accommodation can be arrived at, for the avoidance of this result, it would be wise for all the parties concerned to avail themselves of it.
The plan suggested by the Government directors in their report for the year 1876 is believed to be a practicable one, which, if adopted, insures absolutely a full return to the Government of every dollar of its investment in the road. That plan differs from all others that have been proposed by the company in two important respects: It proposes to retain the one-half transportation and 5 per centum modes of payment now provided for, and a termination of the sinking fund at the maturity of the bonds, and security for the remainder due and unpaid at that time, the same to be discharged at the rate of not less than one-tenth per annum. A further consideration of the subject has led the Government directors to the conclusion that the said plan can be modified to some extent without being unduly burdensome to the company in the conduct of its affairs, and shorten the time for the full re-imbursement of the Government.

The amount of bonds issued to the company by the United States is...

$27,236,512 00
Interest on the same at 6 per cent. for thirty years.................. 49,026,000 00

Total at maturity of bonds............................................ 76,262,512 00

Presuming that the United States will receive a judgment on the basis of its claim in the pending 5 per cent. suit, and estimating upon like basis 5 per cent. of net earnings from commencement of suit to June 30, 1877, the Government will receive from that source to said date about.................. $2,250,000 00
And will have paid to said date by one-half transportation about.................. 4,273,705 30

Leaving a total remainder of............................................ 69,738,806 70

Estimating the annual average arising from half transportation and 5 per cent., on the basis claimed by the Government in the pending suit for the remainder of the term at $1,000,000, we have a total from these sources of.................. 20,000,000 00
Leaving a balance due the Government at the maturity of the bonds of.... 49,738,806 70

How can the payment of this large amount be provided for? It will not be due, under the law as construed by the Supreme Court, until the maturity of the bonds, when there will also be due the first-mortgage bonds, amounting to $27,232,000, or a total of $77,070,806.70.
This is a sum beyond possibility of payment in money without refunding at date of maturity. And the additional practical fact exists that the first-mortgage bonds have precedence of the Government lien. The holders of the first-mortgage bonds are amply secured. The Government alone is in danger of loss. Can this danger be avoided? The Government directors think it can be. The establishment of a sinking fund is a practicable scheme, and opens a way out of this difficulty.

A sinking fund, established on the basis of semi-annual payments of $500,000 each, commencing on the 1st of January, 1878, compounded at the rate of 6 per cent. per annum for the term of twenty years, or until the maturity of the bonds, would give a total result, to be applied to the payment of the Government claim, of $40,418,256.86, and leave still due the Government $9,520,549.84. This balance could be discharged either by the plan suggested in the report of last year, or by the simple operation of the half transportation and 5 per cent. of net earnings, as now provided by law. The adoption of such a plan of adjustment as is here outlined, by the Government and the company, with the approval of Congress, would render the payment of the principal and interest of the bonds advanced by the Government absolutely certain. It would be useless to exact more than the company can perform; and it is not un-
Just to require so much as it can comply with without embarrassing its affairs and depriving the owners of the property of a fair return in form of dividends on the capital invested. It is believed that the company can accept and perform the plan here presented.

The net earnings for the year ending June 30, 1877, were $8,317,091.58.
Annual interest, first-mortgage bonds, is $1,633,920.
Annual interest, sinking-fund bonds, is $1,146,080.
Annual interest, land-grant bonds, is $566,180.
Annual interest, bridge-bonds, is $182,320.
Six per cent. dividend on capital stock, $36,762,300, is $2,206,728.
Estimated average amount to Government from half transportation and 5 per cent. of net earnings is 1,000,000.

Leaving a balance over for contingencies, extraordinary betterments, &c., of $1,662,853.58.

The company's statement of earnings on account of Government earnings for the year ending June 30, 1877, is as follows, viz:

For troops $218,272.67
For mail 709,955.00
For freight 402,756.42

Total 1,330,984.09

Of this amount the Government is entitled to retain one-half for its re-imbursement, under existing law $665,492.04
Amount of 5 per cent. of net earnings for the year, as hereinbefore estimated 329,240.91

994,732.95

This is within a fraction of the foregoing estimate of the yearly average for the next twenty years. But the account, as charged up for transportation of the mail, rests upon a basis not agreed to by the Government, and the accounting officers of the Treasury will doubtless reduce the amount charged to an allowance considerably below the claim of the company. A full statement of the controversy between the Government and the company is given in the report of the Government directors for the year 1876. If, from any cause, the estimated average aforesaid should be exceeded, the result will be advantageous to the Government, as it will more speedily receive its re-imbursement. The increase in the business, both for the Government and the general public, which will as certainly come in the future as it has in the past, will surely maintain the average stated.

If no definite plan for a permanent and final adjustment of the relations existing between the Government and company, relative to the full re-imbursement of the former on account of the subsidy bonds issued to the latter be adopted, then the Government directors would respectfully suggest that Congress be recommended to pass an act authorizing the Secretary of the Treasury to receive from the company, from time to time, such sums as it may elect to pay into his hands, for the establishment of a sinking fund for the extinguishment of the liability of the company to the Government on account of said bonds. It is believed that the company would at once, upon the determination of the 5 per cent. suit, avail itself of such a provision of law and commence payments under it for the purpose named. Such a plan would be a great improvement on the present want of one, and would be preferable to the establishment of a voluntary sinking fund, with its funds remaining in the hands of the company and subject to its control.

The company is still beset with litigation growing out of some of the transactions of its earlier history. One of the most important suits
now pending is that of Thomas Wardell vs. The Union Pacific Railroad Company and others, in the circuit court of the United States for the district of Nebraska. This case is based upon a contract made between the Union Pacific Company and Cyrus O. Godfrey and Thomas Wardell, July 16, 1868, relative to the coal lands of the company, the supplying of the company with fuel, the transportation of coal, &c., and became the basis of the organization of the Wyoming Coal and Mining Company. This subject was fully reported on in the reports of the Government directors for the years 1872, 1873, 1874, and 1875. The Government directors have resisted this contract from the time it first came to their knowledge in 1869. Their reasons therefor are stated at length and in detail in their report for 1872. Nothing effective came of this resistance until 1874, when the present management entered upon the control of the affairs of the company. The action then taken is thus given in the report of the Government directors for that year, viz:

“The Union Pacific Railroad Company has taken possession of all the coal-mines heretofore in the possession of the Wyoming Coal and Mining Company, and is now working them as its own property. This has caused a resort to legal proceedings against the company by Thomas Wardell, which, if properly and earnestly resisted by the railroad company, will, in our judgment, result in the defeat of Wardell’s pretensions, and in the annulment of the so-called contract under which the Wyoming Coal and Mining Company long held possession of the vastly-valuable coal-lands of the Union Pacific corporation. The contract is copied at length in the report of the Government directors for 1872, and the legal proceedings above referred to were brought to the attention of the Secretary of the Interior by special communication in September last, in which was inclosed a copy of Mr. Wardell’s bill of complaint, with the suggestion that the subject be brought to the attention of the Attorney-General, with a view to having instructions given to the United States attorney for the district of Nebraska to give his attention to the case.”

As hereinbefore shown, the company produced for its own consumption, for the year ending June 30, 1877, 183,337 tons of coal, at a cost of $1.29½ per ton, or an aggregate cost of $227,473.41. The price which the company would pay under the contract for coal for that year would be $4 per ton, or an aggregate for the year of $733,348, making a difference in the fuel-account (which of course would be charged to operating expenses) of $505,875 for a single year. This, if enforced by a decree of the United States courts, would make a difference in the 5-per-cent. account of the Government on net earnings of $25,293.75. The contract extends over a term of fifteen years, and the price per ton is scaled from $6 to $3; and although the consumption of coal by the company in former years was not as great as in the last year, it will be greater in the future. Taking this fact and the average price per ton under the contract, it is safe to say that the difference per year for the full term would be as great as that of last year. This would give for the full term a difference of $7,588,125, and, if this be allowed as a deduction in determining the 5-per-cent. return to the Government, it would make a difference in that account of $379,406.25. The contract was an inexusable iniquity from the beginning, and it is greatly to be desired that the pending case may rid the company of it forever. The company is making a determined resistance to the affirmance of the contract. The case was argued and submitted at a special term of the circuit court in June last, and a decision is expected in November; but whatever it may then be, it is not probable that the case will be finally determined short of a review on appeal by the Supreme Court of the United States.
Two other cases, growing out of old construction-contracts, are pending in the supreme court of Illinois on appeal. These are the cases of Miller et al. vs. The Union Pacific Railroad Company, in each of which the amount claimed is $100,000. These cases were instituted in the circuit court of Winnebago County, Illinois. In one of these cases a judgment was recovered for $100,000, and in the other for $64,000. These cases have some very peculiar features, which, as they are still pending in the appellate court, it is better not to discuss in this report.

A reversal of these cases is confidently expected, and if this expectation is realized, it must result in the absolute defeat of the claims. These cases, growing out of construction, involve the 5-per-cent. account to the extent of $7,200, but it is confidently expected that they will be defeated. In the three foregoing cases, one of the undersigned (Mr. Wilson) is retained by the company as special counsel.

Other litigation is pending in Massachusetts, in which it is expected that about all of the controversies remaining over from the complications growing out of construction will be finally determined and put at rest.

During the year covered by this report, the company continued its policy of paying quarterly dividends of 2 per cent., making 8 per cent. per annum. In the report for 1876, this subject was referred to in the following language, viz: "The Government directors have not approved the dividend policy of the company. They have held that the amounts heretofore claimed as due to the Government on reimbursement account, under the several provisions of law establishing and regulating the same, should be regularly paid before the declaration of dividends." This position is here re-affirmed.

In the reports of 1872, 1873, 1874, 1875, and 1876 the Government directors called attention to the importance of a more thorough localization of the general business management of the road. Without repeating what was said on this subject in said several reports, a full re-affirmance of the same is here made. The improvements which have, in this regard, followed the several visits of the president and other members of the board of directors to the line of the road under the present management, have confirmed the undersigned in their position. The constant presence of complete power on the line of the road would greatly promote the interests of all concerned.

In their report for 1875, the Government directors called the attention of the Secretary of the Interior to the great and growing importance of the grazing interests of the plains; they said: "The herds on the plains of the Platte are constantly increasing, while the aggregate number of cattle is becoming fabulous. The plains west of Kearney Junction will soon become one of the chief sources from which the eastern markets will be supplied with beef-cattle. These plains furnish unsurpassed grazing-range, and the lands belonging to the Government and to the company ought to be placed under some well-devised system of pasturage, from which profit could be secured to both. We would respectfully call the attention of the Government and the company to this exceedingly important subject, hoping that some system may be devised whereby the growth of cattle may be fostered and the lands made immediately remunerative."

Persons engaged in raising cattle upon the plains feel the great importance of this subject, and the expression from them is very strongly in favor of some organized system which shall give greater security and permanency to the business. A very intelligent gentleman, engaged in raising cattle, in a letter upon this subject, says: "I wish to call your attention to a matter of growing importance to the stock-interests of
this section. Under existing laws, one man can only attain title to one section of land in a body within the Pacific Railroad limits, i.e., a man can purchase a full section from the railroad company, but it is surrounded on all sides by Government land, which is only open to homesteads and pre-eminences. It has been fully demonstrated that lands west of the one hundredth meridian are only fit for grazing purposes, and can only be utilized as grazing-lands when held in large tracts or ranges. The quantity of land required to support an animal by grazing alone is so great, that it would be impossible to purchase the lands at the Government price, or at any price that would look reasonable. The result is, that no lands are sold, and the stock-raisers occupy the lands without any legal rights, while the Government and the railroad company get no compensation. One evil that grows out of this system is, that the stock-grower, having no defensible right to his range, does nothing toward improving or fencing it. His buildings and corrals are of the most temporary nature, and he is prepared at any time to move his herds wherever better ranges or less crowded pastures offer.

"Another evil arising from this system is, that during the winter cattle drift before the storms, and herds, getting together in large numbers, suffer for want of grass; and in providing for this contingency it is necessary to keep a much more limited number of cattle on the range than could be supported if the cattle could be kept separated by fences.

"I think the following plan would entirely counteract all the evils mentioned, and would make a return to Government and railroad company from lands that otherwise will always remain unsold and valueless. The Government and railroad company jointly lease to responsible stock-growers all lands lying west of the one hundredth meridian of longitude in blocks of, say, from 50 to 500 square miles, at such an annual rental, and for such term of years, and with such other restrictions as will best protect the interest of the Government and railroad company, and will give the stock-raiser such a right to his range as will protect him from encroachment, and warrant him in fencing his range, besides making permanent investments in corrals and ranche buildings. The arguments in favor of some such plan as this are so many, and the objections so few, that it seems to me only necessary to have it presented to Congress in proper form to insure its adoption. The enormous increase of the cattle-interest on the western plains, and the present chaotic state of the grazing system demand that some intelligent action should be taken at once."

The suggestions here made are important, and the subject to which they relate should receive attention, and the Government directors would advise that it be brought to the attention of Congress, with a view to the adoption of some plan whereby the stock-raising interests of the western plains may be permanently and economically organized. The present land laws are wholly inadequate to reach the end. They are framed to meet the requirements of agriculture and mining, and they should now be so adjusted as to meet the new demands of the grazing-interests. There is no good reason why the grazing-lands of the Government and of the railroad company should not yield a revenue to each. Stock-raising on the plains is one of the most profitable pursuits on the continent, is well able to pay reasonably for the use of the lands, and is understood to be quite willing so to do.

The shipments of beef-cattle from the line of the Union Pacific Railroad, for the year 1877, to August 1, were as follows:

| Number of cars | 823 |
| Number of cattle | 16,410 |
From information gathered during their late progress over the line, the undersigned are of opinion that 75,000 head of beef-cattle will be shipped from the line of the road this year. The interruption to shipment by the accident to the Missouri River bridge may reduce this number, but certainly not materially.

An important market for the beef of the plains is developing in England and Scotland, and will doubtless soon appear on the continent of Europe. The shipment of slaughtered animals and live stock to those countries is a new enterprise, but its growth is rapid. In 1876 the exports of slaughtered animals were $1,855,191. In 1877, to July, the figures swelled to $4,962,850 for slaughtered animals, and over $522,000 for live stock, or a total for the period named of $5,584,850, being an increase for one-half of 1877 over 1876 of $3,629,659. It requires no argument to prove that this class of exports is destined soon to become an important factor in our foreign trade; Europe will throw open its doors to our cheap meats when they can now be placed in her markets as fresh as from her own stalls and fields. The source of supply for this cheap meat will be largely and mainly the region traversed by or tributary to the Union Pacific Railroad. Much of the great sections of Texas and the Indian Territory, from whence now come vast supplies of live stock, will in time be devoted to agriculture. This cannot be the case on the grazing-plains of the West. Hence the greater importance of the suggestion made relative to the adoption of some system for the better organization of the grazing-regions of the west. This consideration, added to the fact that in effecting the former result a new source of public revenue may be established, gives the subject double interest, and would seem to amply justify the suggestion already made, that the matter be brought to the attention of Congress. Doubtless the company would readily co-operate in any well-considered scheme for effecting this result.

It is provided in the thirteenth section of the act of July 2, 1864, that "the Government directors shall, from time to time, report to the Secretary of the Interior, in answer to any inquiries he may make of them touching the condition, management, and progress of the work, and shall communicate to the Secretary of the Interior at any time such information as should be in the possession of the Department. They shall, as often as may be necessary to a full knowledge of the condition of the line, visit all portions of the road, whether built or surveyed."

As far as the present Government directors are advised, (and one of them has been in continuous service since 1869,) there has never been but one inquiry made under this provision of law, nor in pursuance of any other, nor on any account whatever. In 1871, an active controversy arose concerning the eastern terminus of the road. The then Secretary of the Interior addressed a communication to the Government directors, requesting them to examine the question involved in said controversy, and to report to him their opinion as to where the law fixed the eastern terminus of the road. The Government directors, after considering the question, reported that the terminus was on the Iowa shore of the Missouri River. This, of course, included the bridge across said river, and its approaches, and made them a part of the main line to be operated as a continuous part thereof. This opinion was followed by the accounting-officers of the Government, so far as United States transportation was concerned; but no action was taken to enforce it as to the rights of the general public. Private parties instituted Union Pacific Railroad Company v. Hall et al., (1 Otto, 343,) in which case, after persistent resistance by the company, the Supreme Court of the United States took the same view that had been reported by the Government directors,
and held "that the legal terminus of the railroad is fixed by law on the Iowa shore of the river, and that the bridge is a part of the railroad; there can be no doubt that the company is under obligation to operate and run the whole road, including the bridge, as one connected and continuous line." The road is now so operated, and commodious buildings are in course of erection on the east side of the river for the accommo-
dation of the business, as hereinbefore stated.

All or part of the Government directors have made at least annual visitations of the entire line of the road. They have made annual reports to the Secretary of the Interior, in which they have endeavored to give full expositions of the road, its condition, of improvements needed and of improvements made, of the things possible to be realized from it, of the policies of the company, of controverted questions both as to accounts and management of the property of the company, of disagree-
ments as to the construction of the laws governing the relations and determining the rights of the Government and the company.

Indeed, it may safely be stated that not a question of controversy be-
tween the Government and company has escaped mention in one or more of the reports. The reports from 1871 down to and including the one for 1876, and excluding the present one, reduced to print in the ordinary executive-document form, would cover nearly or quite one hundred and fifty pages. They are filled with information in general and in detail, derived, in great part, from personal contact with the subjects treated of, and made with a purpose to have them as exact as such documents can be made. The filing of these reports has been, practically, their end. In many instances important recommendations have been made, with a view to the better management of the property, its business and affairs. They have rested with the reports.

These statements are not made in the spirit of complaint. The fault has arisen mainly, no doubt, from the defective character of the law. The law requires certain reports to be made by the company to the Gov-
ernment, but has provided no means for the utilization of the reports when made, and the same defect exists as to the reports of the Govern-
ment directors. If the present relations existing between the Govern-
ment and the company are to continue, some remedy should be devised for the defect mentioned. All matters relating to the connection of the Government with all of the railroad companies that have received United States bonds in aid of the construction of their respective roads ought to be organized in a special bureau in the Interior Department, in charge of a competent and responsible head. The Government directors are aware that the present Secretary of the Interior has considered this definite subject, and probably has arrived at, or doubtless will arrive at, a wise conclusion in general and in detail, and here the subject may be safely left. The Government directors can but express satisfaction with the fact that special thought is now given to this important subject. The interests involved are very great, far more so than many others which have been accorded special supervision since the foundation of the Government.

JAMES F. WILSON.
FRANCIS B. BREWER.
J. H. MILLARD.
JOHN C. S. HARRISON.
DANIEL CHADWICK.

Hon. CARL SCHURZ,
Secretary of the Interior.
HEADQUARTERS DEPARTMENT OF THE PLATTE,
COMMANDING GENERAL'S OFFICE,
Omaha, Nebr., October 9, 1877.

SIR: Referring to your communication of the 8th instant, stating that the managers of the Union Pacific Railroad propose building two branches from the main line, the initial of one east of Sherman, Wyo., with its objective point at or near Boseman, Mont., the other to start at or near Rawlings, Wyo., and join eastern branch at its terminus in Montana; the eastern branch passing through the Black Hills, and the western through the Wind River country. You request my opinion on the points explained in the following answers.

They will have a most salutary and positive effect in settling our Indian troubles, thereby saving large expenditures of public funds. They will invite to and open up for settlement most valuable farming and grazing lands; aid in the discovery of new mining sections, and promote the development of valuable mineral resources already discovered. They will save the public treasury vast amounts in economy in transportation of military supplies, troops, and mails. From my personal knowledge of the country through which the proposed lines will pass, I regard the project as eminently practicable and more easily accomplished than many of the works of similar character now in successful operation in the country west of the Mississippi.

I have confined my reply to the questions embraced in your letter, but under the head of gain, &c., I would say generally that I know of no proposed enterprise more important to the vast country they will open up, nor any that will be of more positive and enduring good to the whole country. They will, when completed, be of national importance and benefit.

I have the honor to be, very respectfully, your obedient servant,

GEORGE CROOK,
Hon. J. H. MILLARD,
Brigadier-General, U. S. A.

Government Director Union Pacific Railroad, Omaha, Nebr.
S. Ex. 2.—2