

these mortgages, either by receiving payment for the whole interest due, or in part, and if in part, the settlement to be approved by the Board of Public Works, and it also authorized the Board of Public Works to renew the over-due mortgages at such reduced rate of interest, as in their judgment, would best subserve the interest of the State.

Repeated conferences, between this department and the representatives of said canals and their lessee, the Philadelphia and Reading Railroad Company, have taken place in Baltimore and elsewhere, before and since the passage of the Act above referred to, yet, owing to the embarrassed financial condition of said railroad company, no settlement could be effected, and it was not until within the past few weeks, that anything of a definite character, on the part of said railroad company was proposed.

The financial condition of the railroad company, under the management of its receivers, has recently improved. Reorganization, we are told, is assured, and the railroad company's ability, under such circumstances, to pay a portion of these arrearages at least, can hardly be questioned. Indeed, the railroad company now expresses a readiness, to adjust the arrearages which it owes the canal companies as lessee of said canals. While it would be very gratifying to me after my effort to effect a settlement, to exercise the authority conferred in and by the Act of Assembly hereinbefore referred to, but in as much as the said railroad company does not propose to pay the arrearages in full, nor is it willing to agree that the mortgages shall be renewed, at the rate of six per cent. interest per annum, but insists that the interest for the future shall be greatly reduced; I have concluded that as the Legislature is now in session, to refer back to your honorable bodies the question of settlement, between the State and the Philadelphia and Reading Railroad Company, that you may determine what shall be the terms and basis of that settlement.