WRITTEN STATEMENT OF

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BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

APPROPRIATIONS SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES

REGARDING

"STRENGTHENING INTERMODAL CONNECTIONS AND IMPROVING FREIGHT MOBILITY"

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I. THE SCOPE AND GROWTH OF SMALL FREIGHT RAILROADS

Mr. Chairman and Members of the Committee, I appreciate the opportunity to testify today on behalf of the U.S. short line railroad industry in my capacity as President of the American Short Line and Regional Railroad Association.

The short line industry is not the largest segment of our national transportation system; indeed, in market share and annual revenues we may be among the smallest. Our importance is not our size or our total market share but in who and where we serve. For large areas of the country both in major metropolitan areas and in small town America short line rail service is the only connection to the national railroad network. For the small businesses and farmers in those areas, our ability to a take a 25-car train 75 miles to the nearest interchange connection with a large Class I railroad is just as important as the Class I's ability to attach that traffic to a 100-car train and move it across the country.

There have always been short lines, but today's short lines are far different from the short lines of the past. They come in all shapes and sizes, some privately owned, some government owned, some traded on the national stock exchanges. Some are members of rail holding companies, some are large regional entities, some are small family owned businesses. Together they represent a diverse, dynamic and entrepreneurial collection of small businesses that have moved well beyond the traditional short lines of America's railroad lore. These are agile companies who have invested in modern equipment and new technologies. They employ a skilled, productive workforce, and offer them a good quality of living with emphasis on training them to be as safe as possible.

Today's short line industry was launched by the federal government's decision in the 1980's to alter policy to save light density branch lines instead of abandoning them. Short lines have grown from 8,000 miles of track in 1980 to nearly 50,000 miles today. There are over 550 short lines operating in 49 states. In five states short lines operate 100 percent of the state's rail network. In 10 states they operate more than 50 percent of the railroad network and in 30 states at least one quarter of the rail network. In the Chairman's home state of Massachusetts short lines operate 74% percent of the state's total network. In the Ranking Member's home state of Iowa, short lines operate 34% percent of the state's total railroad network. Every member of this subcommittee save one represents a short line railroad, and I can assure you we are working to acquire a short line in Rep. Pastor's district as quickly as possible.

The long-term success of short lines is directly related to sustained economic growth, to investment in infrastructure improvements, and to our capacity to adapt quickly to changing conditions in the marketplace. Change is always challenging, and it is particularly challenging in today's very difficult economic climate. It is our responsibility to understand and adapt to that change. Our customers expect short lines to meet this challenge by moving freight consistently, efficiently, safely and at competitive rates. This is important if the railroad system is to handle the large freight increases expected over the next 10-15 years once our economy recovers.

II. STRENGTHENING INTERMODAL CONNECTIONS AND IMPROVING FREIGHT MOBILITY

Short lines not only play a critical role in improving freight mobility for railroad customers, but railroads also play a critical role in preserving and strengthening freight mobility for America's highway users as well. In recent years, state Departments of Transportation have recognized that a strong short line rail network provides tremendous congestion reduction benefits while reducing highway pavement damage costs.

The diverse traffic base of short lines is focused on bulk goods that form the foundation of industry and agriculture. Over 70 percent of short line traffic is composed of coal, food and agricultural goods, steel and metals, paper and forest products, chemical, minerals and ores, and automotive goods. Transporting these heavy bulk goods by rail creates dramatic savings for state and federal highway expenditures, and reduces the pressure on this subcommittee to fund major highway and bridge improvements.

The Kansas Department of Transportation conducted two illuminating studies that asked, "What would happen to roads and highways if traffic moved by road instead of rail?"[1] These studies found that if four of the eight short line railroads serving Kansas grain shippers were abandoned, the resulting diversion of grain traffic to trucks would cost the state of Kansas over $50 million annually in additional pavement damage costs.

Each carload of traffic handled by a short line railroad is equivalent to 3-4 truckloads. A 40-care train equates to at least 120 truckloads and moving that freight by highway would result in roadway damage equal to the traffic of more than 1 million automobiles. In 2008, the roughly 10 million carloads of divertible freight handled by short line railroads would have required 28.4 million trucks to deliver, resulting in an estimated pavement damage savings of $1.2 billion dollars.[2]

I do not highlight these facts in order to cast aspersions upon truckers or highway transportation. With changes in the transportation network and development patterns over the last century many shippers are no longer located along a rail line and trucks are required to serve those customers, frequently in partnership with rail. However, the fact remains that when the opportunity presents itself to use rail transportation, significant federal and state highway cost savings can be realized.

Railroads in general and short lines in particular are exceptionally capital intensive industries that are maintained overwhelmingly by private investments made by small companies. Of the 550 short line railroads in America, 305 of them have *gross* revenues of under $5 million per year, while only 16 enjoy gross revenues in excess of $40 million. These small businesses reinvest on average nearly 30 percent of their annual gross

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[1] Babock and Bunch, "Impact of Kansas Grain Transportation on Kansas Highway Damage Costs", Kan. St. Univ., Univ. of Kan., Kan. Dept. of Trans., March 2002, Report No. K-TRAN: KSU-01-5; Babcock, et al., "Economic Impacts of Railroad Abandonments on Rural Kansas Communities", Kan. St. Univ., Kan. Dept. of Trans., July 2003, Report No. KS-03-4.

[2] "Short Line and Regional Facts and Figures – 2009 Edition", ASLRRA

revenues in repairing and upgrading their infrastructure.[3] We believe this is higher than almost any other industry in the country.

III. Opportunities for Federal Support of Public Benefits of Freight Rail

With some notable and praiseworthy exceptions that I will discuss momentarily, the public benefits of freight rail transportation have gone largely unnoticed in federal transportation planning and funding. The overwhelming majority of federal transportation spending serves to create infrastructure for the benefit of our competitors, frequently at the expense of small, privately funded railroads.

It is the belief of America's small freight railroad companies that the tools currently exist in federal law to make significant improvements for the benefit of shippers and our transportation network by making modest investments in freight rail transportation. At the same time, Congress must act cautiously to avoid unnecessarily distorting the transportation marketplace by imposing undue burdens on both small and large freight railroads.

A. Support for Rail Line Relocation Program

With the passage of SAFETEA-LU in 2005 Congress created the section 20154 program for capital grants for rail line relocation projects.[4] This program allows state and local governments to receive grants for improvements to freight railroad infrastructure where those construction projects are carried out for the purpose of mitigating the adverse effects of rail traffic on safety, motor vehicle traffic flow, community quality of life, economic development, or for a lateral or vertical relocation of any portion of a rail line.[5]

This Committee has funded improvements to freight and passenger railroads under this program in each of the last three fiscal years. In additional to substantial funds for specific projects in the public interest, significant funding has been left to the discretion of the Federal Railroad Administration to administer in a competitive fashion.

America's small freight railroads commend this action by the Committee. At the same time, small freight railroads believe that this program has untapped potential, and that dramatic improvements to freight mobility could be realized if this program were funded at its authorized level of $350 million per year.

The FRA has announced that it will conduct a competition this year for $20.5 million in remaining discretionary funding appropriated from FY2008 to FY2010.[6] As local governments compete for this funding, ASLRRA members are confident that it will result in meaningful freight rail infrastructure upgrades that deliver public benefits.

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[3] "Short Line and Regional Facts and Figures – 2009 Edition", ASLRRA
[4] 49 USC 20154
[5] 49 USC 20154(b)(1) and (2)
[6] http://www.fra.dot.gov/Pages/2008.shtml

B. CAPITAL GRANTS FOR CLASS II AND CLASS III RAILROADS

As a part of the Clean Energy Act of 2007[7], Congress authorized a program of capital grants for Class II and Class III railroads (a/k/a “short line” and “regional” railroads). This program envisions a competitive grant process at the FRA that would empower the Secretary to make grants for freight railroad improvements that facilitate railroad transportation, increase fuel efficiency, and reduce greenhouse gas emissions. Grants under the program may be made to either a railroad, or to a state or local government.

To date no funding has been appropriated for this program. Because of a lack of funding the FRA has not yet promulgated regulations to govern the program. The Congress is authorized to make appropriations of $50 million for each of the fiscal years 2008 through 2011. ASLRRA members believe that this program is an unutilized tool that could facilitate investments in areas where private financing alone cannot overcome the freight transportation challenges facing communities and rail customers.

C. DISASTER GRANT FUNDING

This Committee is to be commended for its action to support the reconstruction of critical infrastructure damaged as a result of serious flooding in 2008. When a short line bridge is washed away by flooding, repairs can quickly run into the millions of dollars. To small companies grossing only a few million dollars in annual revenue, the recovery effort required can jeopardize the financial survival of the railroad and jeopardize rail service to communities that are connected to the national rail network by damaged infrastructure.

This Committee included $20 million in disaster recovery assistance for short line railroads in the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009.[8] The FRA acted quickly and commendably to award this funding on a competitive basis to state Departments of Transportation to aid railroads that had incurred significant financial hardships while restoring service.[9] ASLRRA hopes that any awarded funding not yet disbursed can quickly be released to allow the recovery of these small railroads.

D. FLEXIBILITY OF GENERAL FUND FUNDING

As the Members of the Committee are painfully aware, the ability to fund necessary federal transportation improvements has been impeded in recent years by a shortfall in revenue in the Highway Trust Fund, and by the expiration and short term extension of the federal transportation authorization bill, SAFETEA-LU.

In an effort to avoid interruption of critical transportation work, and in an effort to stimulate the economy, Congress included infrastructure funding as a part of the

[7] Public Law No. 110-140
[8] Public Law No. 110-329
[9] http://www.fra.dot.gov/Pages/2081.shtml

American Recovery and Reinvestment Act of 2009.[10] When appropriating $27.5 billion in Federal Highway Administration funding, ARRA stipulated that funding would be available specifically for "passenger and freight rail transportation and port infrastructure projects" at the discretion of a state DOT.[11]

State DOTs are well positioned to recognize when and where a dollar spent on freight railroad improvements can generate public benefits in excess of a dollar spent on traditional highway construction. Many states took this opportunity to make funding available for public interest freight rail improvements that could not have been funded under traditional transportation programs.

For years, small railroads have been told that "trust fund money" should be spent solely on highways, even when larger public benefits can be generated from rail investments. ASLRRA would urge the Appropriations Committee to grant similar freedom to state DOTs whenever general fund resources above and beyond the highway trust fund are appropriated for transportation purposes. To do otherwise would further unfairly subsidize our highway competition at the expense of public benefits that can be generated by increased freight rail investment.

E. TRUCK SIZE AND WEIGHT ISSUES

In recent appropriation legislation an effort has been afoot to use appropriations riders to waive the federal weight limits on trucks in certain states. These provisions are usually put forth as "rifle shot" exclusions marketed as only impacting limited states, highways, or commodities. Unfortunately, these appropriations riders have the impact of not only increasing highway pavement damage costs, but also threatening the continued economic viability of small freight railroads.

Advocates for heavier trucks argue that more commodities in one truck will reduce the number of trucks on the roads. These arguments of heavy truck proponents selectively ignore the diversion from rail to truck caused by heavier trucks and the negative impacts that heavier trucks will have on short line and regional railroad traffic. A 2007 study by M.I.T. Engineering Research Affiliate Carl Martland[12] concluded that short line and regional railroad traffic would be heavily diverted to truck if sizes and weights of trucks increase. Short line railroads have a high proportion of their traffic in the categories most susceptible to diversion from rail to truck.

When that traffic is diverted from short line to truck it means millions of inefficient trucks adding to congestion and damaging bridges and highway infrastructure. ASLRRA strongly endorses Rep. McGovern's H.R. 1618 and Sen. Lautenberg's S. 779, collectively known as the Safe Highways and Infrastructure Preservation Act (SHIPA), which would preserve limits on truck size and weight. We respectfully request that the

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[10] Public Law No. 111-5

[11] ARRA: "…for passenger and freight rail transportation and port infrastructure projects eligible for assistance under subsection 601(a)(8) of such title…"

[12] Maitland, "Estimating the Competitive Effects of Larger Trucks on Rail Freight Traffic", Sept. 10, 2007

Appropriations Committee refrain from increasing truck weight limits in annual appropriations bills absent Congressional action on weight limits nationwide.

F. UNFUNDED POSITIVE TRAIN CONTROL MANDATES

The recently passed Rail Safety Improvement Act[13] requires Class I and some short line railroads to install positive train control (PTC) systems on tracks that carry passengers or toxic-by-inhalation (TIH) materials[14]. Railroads are committed to complying with the Congressional mandate, but this well-intended legislation will have negative, unintended consequences. The FRA estimates that PTC will cost the railroads between $10 billion and $14 billion over 20 years, diverting funds from other necessary safety and infrastructure improvements.

Even where a short line railroad is not required to deploy PTC, the diversion of investment on connecting rail carriers can endanger that short line's continued viability. When Class I railroads divert billions of dollars from their capital programs to deploy this technology the associated reduction in track infrastructure investment will harm small railroads on the edge of the national railroad network.

In order to avoid the negative impacts of PTC deployment on intermodal connections and freight mobility, Congress should aid railroads as they work to implement this currently unfunded mandate. One proposal supported by the Association of American Railroads (AAR) would provide a tax credit for PTC improvements along the lines put forth by Rep. Meek of Florida in H.R. 1806. ASLRRA also strongly endorses this concept. Absent a tax credit solution the Congress should seriously consider appropriating funding to assist railroads in deploying this technology.

G. RAILROAD REHABILITATION AND IMPROVEMENT FINANCING LOANS

The Railroad Rehabilitation and Improvement Financing (RRIF) loan program[15] has provided another important tool in our effort to maximize rehabilitation spending. The RRIF loan program leverages substantial private investment in short line infrastructure. These are loans that must be paid back in full and do not require annual appropriations. The relatively low interest rate and the 35 year amortization are terms short lines cannot secure in the private market and the program has allowed those who have taken advantage of it to undertake projects that would have otherwise been unattainable. I am proud to say in the ten years the RRIF loan program has been on the books, not a single short line railroad has missed a single quarterly payment on its debt. In today's world we might be one of the only groups that can say that.

I call the Committee's attention to provisions of the RRIF statute that would allow appropriated support in the form of interest rate reductions that could leverage additional

[13] Public Law No. 110-432
[14] P. L. No. 110-432 §104
[15] 45 USC 822 et seq.

infrastructure investment.[16] At today's interest rates, each dollar of appropriated support would leverage approximately $3 in RRIF loans, which would eventually be repaid by the borrowing railroad. Spending a federal dollar to leverage three additional dollars of private infrastructure investment seems to us to be a worthwhile expenditure.

H. Support for a Strong and Professional FRA

Most petitioners who appear before this committee, myself included, are seeking additional federal funding for their own policy interests. However, I would be remiss if I did not also encourage this committee to take note of the tremendous burden that the professional staff of the FRA has been placed under in recent years, and to appropriate sufficient resources to allow this organization to advance in its mission. The rapid growth in passenger rail spending, combined with the implementation of sweeping rail safety laws threatens to overwhelm a hard working core of federal railroad experts.

As one example, I would note that the RRIF loan program referenced above could provide a tremendous economic stimulus opportunity that does not require the appropriation of a single dollar. Of the $35 billion in loans authorized by the program, less than $1 billion in loans are outstanding. By increasing the resources of the Federal Railroad Administration necessary to analyze loans, and by marrying those resources with sufficient administrative willpower from higher echelons of the Executive Branch, the RRIF loan program could generate economic activity and economic stimulus on a large scale.

I thank the Committee for the opportunity to present my industry’s view on these issues.

[16] 45 USC 822(f)(1)