

NATIONAL RAIL INFRASTRUCTURE FINANCING PROPOSALS

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RAILROADS
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TRANSPORTATION AND
INFRASTRUCTURE
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CONTENTS

TESTIMONY

	Page
Becker, Christopher, Executive Director, OnTRAC Joint Powers Authority, Orange County, California	36
Boardman, Joseph, Commissioner, New York State Department of Transportation	6
Clark, Sharon, Chair, Railroad Shipper Transportation Advisory Council, RSTAC	42
Gillespie, Thomas, Representative OF Alstom Transportation, Inc., on behalf of the Railway Supply Institute	47
Hamberger, Ed, President, Association of American Railroads	6
Happ, John, Jr., Vice Chairman, Texas High Speed Rail and Transportation Corporation	47
Hays, Hon. Patrick Henry, Mayor, North Little Rock, Arkansas	30
Jones, Hon. Vernon, CEO, DeKalb County, Georgia	39
Milloy, Ross, President, Greater Austin-San Antonio Corridor Council	33
Nober, Roger, Chairman, Surface Transportation Board	6
Platz, Charles E., CEO, BASELL, North America	47
Rutter, Allan, Administrator, Federal Railroad Administration	6

PREPARED STATEMENTS SUBMITTED BY MEMBERS OF CONGRESS

Cummings, Hon. Elijah, of Maryland	90
Lipinski, Hon. William O., of Illinois	158

PREPARED STATEMENTS SUBMITTED BY WITNESSES

Becker, Christopher	60
Boardman, Joseph	65
Clark, Sharon	78
Gillespie, Thomas	92
Hamberger, Ed	105
Happ, John, Jr.	131
Hays, Hon. Patrick Henry	135
Jones, Hon. Vernon	155
Milloy, Ross	164
Nober, Roger	168
Platz, Charles E.	177
Rutter, Allan	184

SUBMISSION FOR THE RECORD

Happ, John, Jr., Vice Chairman, Texas High Speed Rail and Transportation Corporation, letter, Robert Eckels, Chairman, Texas High Speed Rail and Transportation Corporation, June 26, 2003	133
--	-----

ADDITIONS TO THE RECORD

Ohio Association of Railroad Passengers, Edward J. D'Amato, President, statement	205
Rail Advocates for Infrastructure Legislation, Stephen E. Schlickman, Coalition Manager, statement	196

NATIONAL RAIL INFRASTRUCTURE FINANCING PROPOSALS

Thursday, June 26, 2003

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON RAILROADS, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, WASHINGTON, D.C.

The subcommittee met, pursuant to call, at 10:00 a.m., in room 2167, Rayburn House Office Building, Hon. Jack Quinn [chairman of the subcommittee] presiding.

Mr. QUINN. Good morning. We are going to ask if our witnesses would take their seats.

The subcommittee will come to order. I want to welcome all of the members and witnesses to today's hearing on proposals for rail infrastructure financing.

America's 571 railroads carry 40 percent, as we know, of our Nation's freight, including 70 percent of all newly manufactured automobiles, 30 percent of the grain grown by our farmers and 65 percent of the coal produced in the United States.

According to the Association of American Railroads, one of our witnesses this morning, rail carriers operate over 140,000 miles of road and earn \$36 billion in freight revenue annually.

More importantly, the rail industry is a source of good jobs. Take it from someone who can attest to that. Railroads directly employ over 180,000 workers at an average wage in excess of \$77,000 a year including benefits.

In recent years, the rail industry has come under competitive pressure from other modes of transportation, particularly the trucking industry. At the same time, congestion on the rail system has continued to build and increase. Without appropriate investment, the rail system will begin to approach the limits of its capacity in the very near future.

While rail traffic has grown over the past few years, revenues have been squeezed. On most railroads, including many of our major carriers, profits have been insufficient to cover the capital costs of new tracks and facilities. In particular, our shortline railroads have found it difficult to raise sufficient funds to provide new infrastructure or upgrade existing track to meet the needs of the Class 1 railroads. This problem must be addressed if we are to maintain a safe and efficient rail system.

Last Congress, I introduced legislation, H.R. 1020, to provide \$1 billion to the shortline railroads for infrastructure improvements. In addition, we have continually pressured the FRA to approve loans under the Railroad Rehabilitation and Infrastructure Financing Program and we have also repeatedly supported repeal of the

4.3 percent per gallon diesel fuel tax that the railroads currently contribute to the Treasury.

The combined effects of these three proposals would drastically improve our Nation's freight rail operations. We are going to remain committed to their passage and look forward to working with all of our colleagues to that end.

Our witnesses this morning will present other proposals for new railroad financing mechanisms. We are looking to find as much information as we possibly can.

With that as opening remarks for me, I would like to yield to my partner here on the Railroad Subcommittee, Ms. Brown from Florida.

Ms. BROWN. Thank you, Chairman Quinn.

First of all, let me thank you for your leadership on this issue. I know you are butting heads with some powerful people in trying to bring a bill to the floor that will make money available for rail infrastructure improvements.

As I have said repeatedly, our passenger and freight rail system have been the stepchild to our transportation system and is repeatedly being shortchanged by Congress. The Transportation Committee passed legislation last year providing \$15 billion in direct aid to the airline industry, and the House acted this year to add \$3 billion more to the total. We passed legislation to protect over-the-road buses, pipelines, and water supplies, and created a grant program for the national ports.

Unfortunately, we have done little to protect and improve our rail infrastructure. Nobody in this room disagrees that we have a serious need to improve our railway infrastructure, and today we will be discussing several options for providing funding for this purpose.

I am a cosponsor of Mr. Lipinski's rail trust fund bill, and I strongly support Mr. Quinn's plan to provide direct funding for rail infrastructure improvement, and will work with the Chairman to reintroduce this legislation. Although I don't think it is the best method, I would be willing to support a tax credit, if that is what it takes and needs to do to fix the dangerous problems.

Rail infrastructure improvements are critical if the rail industry is to continue to grow and continue to play a major role in our economy. I understand that there are concerns with all of the funding proposals today, but I know that we all agree that these improvements are vital to the long-term viability of our rail system. I hope that we can come to a compromise that is fair for all of the stakeholders in this issue, and I pledge I will do everything I can to make this happen.

I want to welcome our distinguished panelists and I am looking forward to hearing their solutions.

Thank you, Mr. Chairman.

Mr. QUINN. Mr. Lipinski, opening statement?

Mr. LIPINSKI. Yes, Mr. Chairman. I apologize both to you and Ranking Member Brown for being late this morning, but I was in another meeting.

I thank both of you for holding this hearing today. I appreciate the opportunity to be here, and I certainly am appreciative of all the witnesses being here. I look up and I see my good friend Mr.

Hamberger is here. I didn't realize he was on the first panel though. Has he been appointed to some governmental position?

Mr. QUINN. He is here so often, we are going to make him a committee member.

Mr. LIPINSKI. I think that would be a good idea. He would make an excellent committee member.

Strong investment in our Nation's rail infrastructure is long overdue. It is time to make rail transportation part of the strong transportation triad which includes highway, air, and rail. The freight rail industry is one that provides services that are key to the operation of practically every other industry.

In an atmosphere of mounting highway congestion and pollution, rail is the most sensible way to absorb the growth in freight traffic. Therefore, there ought to be an increase in the number of loads changing over to rail. However, due to the fact that trains are not moving fast enough, these switches to rail are not being made. With 19th century signaling systems and antiquated grade-level junctions, railroads are often unable to deliver a truck-competitive service for many shippers.

Last fall, the Federal Railroad Administration and the American Shortline and Regional Railroad Association commissioned a study that found shortline railroads need nearly \$7 billion to upgrade tracks and structures to handle the newer 286,000 pound railcars used by the Class 1 railroads. The recent report, "Freight Rail Bottom Line," commissioned by the American Association of State, highway and transportation officials, estimated that \$175 billion to \$190 billion of investment is needed over the next 20 years just to address the worst bottlenecks and main rail's current mode share.

The capital rail needs are great and rapidly growing. The current unreliable, piecemeal approach to this need is just not working. Rail transportation is currently the only major mode that does not currently have a coordinated Federal investment program comparable to the National Highway, Air Traffic and Maritime Development Network Programs.

Therefore, I have introduced H.R. 1617, the National Rail Infrastructure Program, to create a stable, dedicated source of funds that would ensure the planning and construction of long-term rail projects with public benefit. In addition, the increased efficiency and capability that would result from my legislation would encourage shippers to use rail over other modes.

The total revenue stream in my legislation would amount to about \$3.3 billion per year. Some may claim that much of these revenues would be collected from the freight railroads. However, this is simply not accurate. The legislation's reallocation of the current 4.3 cents per gallon diesel fuel tax and the other tax measures that affect freight railroads make up a total of only 21 percent of H.R. 1617's revenue stream.

My legislation has the following format: 70 percent of the bill's total funds would be appropriated to States and localities based on a formula that targets freight rail congestion problems and rail capacity constraints; 10 percent of the total funds would be part of a discretionary program with projects of national importance; 15 percent of the total funds would be designated by members for

demonstration projects in selected regions that have congestion problems of national significance.

In the near future, I plan to add language designating 5 percent of the total funds to go to projects to expand freight rail capacity in areas with a modal imbalance.

Another provision I am considering adding would allow the commuter rail operators at Amtrak to opt out of the passenger ticket tax. If they wished to participate in a project funded under this program, they would have to provide a higher level of 30 percent match versus the 20 percent currently required.

In the 104th Congress while I was the ranking Democrat on this subcommittee, I had the pleasure of being a conferee on ICC Termination Act of 1995, which abolished the Interstate Commerce Committee and created the Surface Transportation Board and the Rail Shipper Transportation Advisory Council. Therefore, I look forward to hearing Chairman Nober and Chairman Clark's testimony.

I am particularly interested in hearing Mayor Hays, Mr. Jones, Mr. Malloy and Mr. Becker's local perspective on the challenges facing freight and commuter rail and how my legislation would benefit their regions and the country as a whole.

I thank all the witnesses for being here, including my very good friend Ed Hamberger, although I am not that interested in hearing his testimony.

I thank you very much, Mr. Chairman.

Mr. QUINN. You may excuse yourself when it is Mr. Hamberger's time, if you like. Unfortunately, everything goes on the record today, Mr. Lipinski, as you know.

Mr. Coble, an opening statement?

Mr. COBLE. I have a very brief statement. I know you and Mr. Lipinski have a very intense interest in railroads. Railroads are as American as motherhood and apple pie, as you know. I know your family was railroad people. I just thought Mr. Hamberger was here to pick up his daily mail. It is good to see him again.

As usual, Mr. Chairman, I have another hearing, so I won't be able to linger personally, but I will be here for a while.

Mr. QUINN. Thank you, Mr. Coble. Let me thank you from the Chair for your interest in the subcommittee's work and your support on all rail issues. With the busy schedule you have, I don't think you have ever missed one of our subcommittee meetings.

That concludes our opening statements.

We are going to move to our first panel. We have three panels here this morning. We know we are going to be interrupted with some votes shortly. Before we get into any interruptions, I want to make certain that Mr. Lipinski understands the title of the hearing is a hearing on National Rail Infrastructure Financing Proposals, not a hearing on H.R. 1617.

Mr. LIPINSKI. I will try to remember that, Mr. Chairman, as much as possible.

Mr. QUINN. Any other opening statements? Yes, ma'am. We are waiting for you.

Ms. CARSON. Thank you very much, Mr. Chairman, and Ranking Member, for convening this hearing today. I look forward to hearing witness testimony on a subject as important as this is to the national train system.

Of course, it is one of the most vital components of this country's transportation infrastructure, and I believe it is imperative to ensure the future of the system. Our Nation's 571 railroads carry more than 40 percent of our freight, including 70 percent of all newly manufactured automobiles, 30 percent of the grain, and 65 percent of the coal produced in the United States. According to the Association of American Railroads, rail carriers operate over 140,000 miles of road and directly employ over 180,000 workers at an average wage in excess of \$77,000, including benefits.

The industry earns \$36 billion in freight revenue annually, an amount equal to approximately 9.5 percent of all intercity freight revenue. In recent years, the rail industry has come under increasing competitive pressure from other modes of transportation, particularly trucks. At the same time, after having virtually half the rail network after deregulation in the eighties, the railroads have begun to approach the limits of care and capacity, while profits have been insufficient to cover the capital investment necessary to preserve and expand infrastructure.

So I would like to commend the gentleman from Illinois, Mr. Lipinski, for his bill, the National Rail Infrastructure Program Act, of which I am a cosponsor. This bill I believe has the potential to address the growth in congestion in key hub cities and critical corridors.

If I could editorialize a bit, I have been a strong proponent of putting people to work by rebuilding the railroad systems in this country. I think it is a good idea worth exploring and advancing. It not only impacts the high rates of unemployment that we have throughout the country, but it also enables our railroad infrastructure to restore its historical presence and opportunity in this country.

In the current financially constrained conditions, the private railroads are capable of funding about \$142 billion of a program, leaving a budget shortfall of up to \$53 billion, or \$2.65 billion annually, and this shortfall has to be made up through other sources. So, without the funding, the pressures of the market will continue to streamline and downsize the railroads.

I would like to offer, Mr. Chairman, the balance of my remarks for the record and appreciate your giving me this opportunity and I yield back.

Mr. QUINN. Without objection, so ordered. Thank you very much.

Hearing no other opening statements, we are going to move to our first panel. None of our witnesses this morning are strangers to the subcommittee. We are thrilled to have you all back here. We appreciate the work you put into your full statements. They are always thorough and informative.

We would ask that you keep your opening statements, if you can, to about 5 minutes or so, and after we have heard from all four of you, we will entertain some questions from the members of the subcommittee who are here.

I am happy to welcome Mr. Allan Rutter from FRA; the Honorable Mr. Nober from our Surface Transportation Board. The entire Surface Transportation Board is here this morning. Mr. Nober, thank you for being here.

Mr. NOBER. My colleagues send their best.

Mr. QUINN. We will make you all honorable—the Honorable Mr. Joe Boardman; and, of course, Mr. Hamberger, we are welcome to have you here.

TESTIMONY OF ALLAN RUTTER, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION; ROGER NOBER, CHAIRMAN, SURFACE TRANSPORTATION BOARD; JOSEPH BOARDMAN, COMMISSIONER, NEW YORK STATE DEPARTMENT OF TRANSPORTATION; AND ED HAMBERGER, PRESIDENT, ASSOCIATION OF AMERICAN RAILROADS

Mr. QUINN. Mr. Rutter, how about if we begin with you? Try to keep your oral statement to about 5 minutes, please.

Mr. RUTTER. We will do our best.

Mr. Chairman, Ranking Member Brown, Members, thank you for the opportunity to appear before you this morning. Since I have provided written testimony, albeit much later than I would have preferred, I will respond to questions on that testimony after a few brief words.

Members of your other panels can capably make the argument that taxing railroads, rail suppliers and rail shippers to finance public rail infrastructure exacerbates an already uneven playing field relative to their competitors. I want to point out something about your subject that you might not readily consider: that the extensive, systemic safety approach for freight and passenger railroads requires significant investments that are not required of their competitors in automobiles or trucks.

Much like aviation, the railroads are regulated extensively because of a very low public threshold for accidental deaths and injuries of passengers or employees. The railroad industry has certainly delivered on those expectations; 2002 was by all accounts one of the safest years on record.

But allow me to walk through three short examples of how our railroad regulations also add additional costs to rail carriers that their competitors do not incur.

First, let's think about equipment condition and inspections. We require railroad cars and locomotives to meet stringent reliability and safety standards. We require locomotives to undergo varying levels of inspections on daily, periodic, and annual bases. Our agency conducts inspections of the equipment and audits records to make sure required inspections take place. We require carriers to build time into their schedules to allow car men to perform mechanical inspections of high-value, time-sensitive intermodal trains. All this activity requires spending for personnel and facilities and affects asset utilization.

On the other hand, consider the level of maintenance and condition required of the average personal automobile. Most of you have seen current inspection stickers on vehicles that look like they will shake apart if they brake too fast. These inspections are annual, at best, and some States are considering whether the safety benefits of annual inspections are worth the inconvenience for motorists.

Imagine instead if your auto inspection mechanic popped the hood and checked all the hoses and connections for leaks, checked the suspension and your brake pads, and asked for your mainte-

nance records before you could drive away. People would have to invest more time and money maintaining their vehicles and their records if we treated cars like trains.

Second, let's consider infrastructure maintenance. We have complicated regulations on railroad track, covering the spacing of the rails, the rails themselves, connections between rails and to the ties, condition of ties, and making certain that rails are maintained to withstand weather-related conditions.

We require railroads to inspect the tracks themselves, to repair defects immediately or place speed restrictions until repairs are completed. We follow up by inspecting tracks on our own, often using technologically sophisticated detection vehicles. When track conditions worsen, railroads must spend more to repair and maintain their infrastructure, affecting the carriers' bottom lines.

On the other hand, contrast highway pavement regulation. State transportation departments maintain pavement management systems to keep track of pavement conditions and aim scarce maintenance resources at highest problem areas. The Federal Government, since TEA-21, no longer mandates that these systems be in place. Nor does the Federal Government require that highway maintenance crews regularly patrol highway segments and immediately repair pavement failures.

To be fair, Commissioner Boardman will tell you that he has millions of customers with cell phones who notify his agency quickly about potholes and pavement failures. In another difference with railroads, when transportation departments have to spend more on pavement maintenance, user fees do not automatically increase. This means that motor carriers face no changes to their profitability as infrastructure conditions change.

Finally, I point to the training required and knowledge expected of railroad train and engine crews, yard crews and dispatchers. Railroad engineers undergo extensive classroom and on-the-job training. If you have been invited into a cab of a locomotive, you have seen the large catalogue-sized briefcases each crew member must carry with them that hold our regulations and the even more complicated operating codes of the railroad.

Moreover, the train crews must carry special instructions governing the section of track they will operate over. All crews on the trains, if in the yards or in the dispatch centers, are regularly tested to make sure they follow these voluminous rules. Train crews and other safety-critical staff are subject to pre-employment, post-accident and random drug and alcohol testing. The costs of this technical training and testing are incurred by the railroads.

On the other hand, think about the training requirements of the average automobile driver. We require a modest amount of knowledge at an early age to receive a license and then assume that drivers know all they need to know for the rest of their lives. Driver registration is a State responsibility, as is traffic law enforcement.

We don't test driver performance, but rather penalize driver incompetence by fining people after they violate some of the rules of the road. Instead of giving drivers advance information on changing road conditions and particular hazards for given road segments, we inform them of hazards just before they reach them, with advisory

roadside signs. As a result, the up-front costs of operation for an individual driver on any given trip is fairly low.

These are just three examples of the many features of the railroad safety regime that imposes costs on the railroad sector. It is important to consider these various safety requirements in the context of the relative safety problems faced by various modes. In 2001, just over 1,000 people were killed in rail-related incidents, the vast majority of which were trespasser and grade-crossing related. In that same year, more than 5,000 people were killed in crashes involving large trucks. More than 40,000 people died in motor vehicle accidents.

The good news is that Secretary Mineta is resolutely focused on making a difference in safety, as is his entire senior leadership team at the Department. This is reflected in the strong safety emphasis on our surface transportation reauthorization bill, SAFETEA.

I am in no way advocating stricter driver testing or variable user fees, nor am I trying to beat up on other modes lest I be accused of offending the good friends of the railroad industry, now that Mr. Hamberger and Governor Graves of the ATA have signed a mutual non-aggression pact. Rather, I am trying to make this point: Differences in costs of operation have effects on modal choice. Passengers traversing a modest distance between points will choose between driving an auto at low cost or paying for a passenger train ticket. Shippers will choose between service provided by trucking firms or that of the railroad, whose reliability is often affected by safety-related infrastructure constraints.

Given the head start in lower operating expenses enjoyed by railroad competitors, and the fact that railroads do not earn their costs of capital now, we should be that much more careful as we consider financing schemes that make railroad operations more expensive.

Thank you for your attention, and I will be happy to respond to any questions you may have.

Mr. QUINN. We are going to, as you know, interrupt our proceedings here. We have been called to a vote on the House floor. I will inform the witnesses there is a series of three votes, so it is likely we will be away for a half-hour to 45 minutes. We will recess now and as soon as we come back, Mr. Nober, we will begin with you. We will recess for a half-hour.

[Recess.]

Mr. QUINN. We are back. Thank you for your patience and your understanding. We get about an hour window before we get called back for more votes.

What we would like to do is begin with Chairman Nober and hear from Mr. Boardman and Mr. Hamberger and then entertain questions from the panel before we move on, hopefully.

Mr. Nober, welcome back. You may begin.

Mr. NOBER. Thank you very much.

Good morning Chairman Quinn, Congressman Lipinski. My name is Roger Nober, and I am the Chairman of the Surface Transportation Board. I appreciate the invitation to discuss rail financing infrastructure with you today.

I would first would like to say it is my particular pleasure to appear with my colleague, friend, and now traveling partner, Admin-

istrator Alan Rutter of the Federal Railroad Administration. Congressman Duncan, who is not on the subcommittee, is fond of saying if you can't make anything of yourself, at least associate yourself with someone who does. So I appreciate Mr. Rutter letting me do some things together.

The STB is an economic regulatory agency, but the state of railroad infrastructure is inextricably intertwined with every rate and service matter we address. Upkeep of rail infrastructure is a key part of a conundrum that has faced the rail industry for several generations, and the problem is as follows: The service railroads provide and the rates they charge customers are directly limited by the capacity and reliability of their network.

Now, in order to increase their business or to charge premium prices, railroads must improve their service. But they can only improve their service if they increase their capital investments. Railroads cannot increase infrastructure spending, because they are not earning their cost of capital, and to earn their cost of capital and be revenue adequate, railroads must increase their revenue, which is, of course, limited due to the condition of their networks. And thus the problem comes full circle.

Now, I would first like to address the fundamental matter of revenue adequacy. The Board is required by statute to quantify the revenue needs of railroads and to assist them in obtaining adequate revenues. Each year we determine whether each Class 1 railroad is revenue adequate, and since 1980, individual railroads have been found to be revenue adequate in particular years, but the industry as a whole is not. From 1982 to 1991, only one to three Class 1 railroads were revenue adequate, and since 1991, no railroad has been.

Now, when we resolve rate and service disputes, we must balance the interests of railroads and their customers. Our rate standards allow railroads to price their services in a way that will permit them to earn a reasonable return on the facilities needed to serve the singly-served traffic, and that is a fundamental principle of railroad economics.

But the board has heard from shippers who are concerned that singly-served customers disproportionately subsidize the railroad's networks or their infrastructure problems, and impair service; and we have worked on a formal and informal basis to help address these rate, infrastructure, and service issues, such as in Houston in 1998 and more recently in Chicago.

Next, when considering infrastructure financing proposals, we must remember that our freight system is a capital-intensive network that has been maintained for years by private companies. Unlike most countries, we do not have a government-subsidized freight rail system, and in fact it is the envy of most of the countries.

Now, since the enactment of the Staggers Act in 1980, railroads' financial health has improved through market-based pricing, productivity improvements, and refinements in the network. A significant percentage of these cost savings have been passed on to rail customers, and railroads have also invested nearly \$96.5 billion in their own infrastructure. To put this in context, between 1997 and 2001, railroads spent an average of more than 18 percent of their

revenue on capital investments, with still more needed. By contrast, the manufacturing sector as a whole averaged a bit more than 3 percent.

Now, while railroads need capital spending, the return on these investments has generally fallen short of the cost of capital, and as publicly traded companies, freight railroads must listen to their investors and their investors are concerned about these returns.

Since I became chairman, I have met with most major figures in the railroad investment community. They all agree that railroads are not meeting their cost of capital, but disagree on the solution. Some urge increased capital spending, some say that current levels are about right, and others believe they should cut back. Many urge railroads to increase revenue by raising prices to existing customers rather than by investing to grow their traffic. And railroads face a difficult decision, then, rooted in the conundrum I referred to earlier.

As freight and passenger traffic grows, there will be infrastructure improvements that should not be deferred if our Nation is to maintain a health rail industry. Many of these may not be able to be made under our system of privately financed railroad infrastructure, and I would like to briefly outline what some of those infrastructure needs are.

First, the demand for railroads to move more ton miles of freight must grow. As Administrator Rutter outlined in his testimony, both DOT and AASHTO estimate that freight rail traffic will grow by as much as 50 percent by 2020, putting significant pressure on rail capacity and infrastructure. Our railroads must expand and enhance their infrastructure to meet growing demand.

Second, as this committee's actions yesterday demonstrate, demand is increasing for commuter and intercity rail which primarily operate over freight lines. Since the number of trains that can pass over a line of track is limited, each passenger train takes some capacity away from freight operations, and growth in passenger services will further constrain freight capacity.

Third, to make measurable improvements in railroad service, the gateways, hand-offs, and interchanges between them must be improved, since nearly one-third of all rail freight is transferred between carriers.

Now, our freight rail network is really a series of regional systems that connect at several interchanges. The most significant of these is Chicago, but other important points are Kansas City, St. Louis, Memphis and New Orleans. For many reasons, these gateways are not always the first place railroads look when making capital investments, but I believe if we are to improve rail service, we must focus on them.

Chicago is by far our most important gateway with more than one-third of our traffic converging there. Starting in 1999, the Board urged the railroads, cities, and States to work together in a cooperative effort to improve operations and settle on a master capital plan. The good news is these efforts are working. Between 1999 and 2002, the average time it took a car to move through Chicago dropped from 45 to 30 hours, and dwell time dropped from 41 to 23.

I am also pleased that the railroads, the city, and State recently agreed to a major infrastructure project to make lasting improvements to the area's rail system. The Chicago project will improve freight and passenger transportation, as well as remove numerous grade crossings. It is an ambitious proposal, and I commend Congressman Lipinski and everyone else involved for their vision and tenacity in seeing it through.

Fourth, we continue to see continued demand for new rail lines, particularly build-ins, which can bring competitive service to singly-served customers and thereby benefit railroads, customers, and the freight system. In the past 2 years, we have had two major such cases, the DM&E in Wyoming, and the San Jacinto in Houston. The Board approved each of these privately funded projects based on their transportation merits. The proponents believe they are good for their companies, but undertaking such a project is time consuming, expensive, and ultimately uncertain.

For example, both of these have encountered strong local opposition of the sort usually reserved for highway or airport projects. Now, it is unfortunate that that despite their transportation benefits, fewer of these types of projects get proposed because the companies must factor this uncertainty into their decision to tie up private capital.

Finally, we must be mindful of the needs of shortline railroads. Today there are more than 500 of them which operate more than 50,000 miles, or one-third of the railroad routes in the United States. Nearly 10 percent of the railroad industry's gross revenues are for shipments that begin or end on a shortline. As the members well know, today many shortlines have significant infrastructure needs because their tracks were not built to handle modern, larger-capacity railcars.

Now, in conclusion, our country and the economy will benefit from greater investment in rail infrastructure. Expanded capacity and more efficiently aligned infrastructure means customers will get better service, communities will have improved conditions, and goods will move more quickly. Those are benefits to everyone.

When considering rail infrastructure financing proposals, I urge all of you to consider the following principles: that our rail system remain primarily privately financed; that we allow railroads the flexibility to operate as businesses; that if we are to spend public monies, that they be targeted at projects with the highest return that may not be funded by our private system; and that we remember fairness to taxpayers in general and transportation taxpayers in particular.

I look forward to continuing to work with all of you on these important issues and, of course, would be happy to answer any questions you might have.

Mr. QUINN. Thank you, Chairman Nober. We appreciate you being here.

We move now to Joe Boardman, the Commissioner of the New York State Department of Transportation, but also here as Chairman of the Standing Committee on Rail Transportation for AASHTO, and he has been with us before.

Joe, thank you for being with us.

Mr. BOARDMAN. Thank you, Mr. Chairman and members. Perhaps the most significant part of me being here is the fact that AASHTO is here to talk about something other than highways, but highways and how we look at highways. And I want to talk about three things basically: Why it is important to invest in rail; what the investment needs are; and how the investment might be met for the future.

If you look at rail and competition with the other modes, or if you look at rail for its specific purposes, which the Administrator or Mr. Nober both identified, you can fail to see the real point here of investing in rail; and that is, we really need to understand that rail fits to improve our economy, our communities, our way of life in the United States, and it needs to be invested in both on the freight side and on the passenger side.

I congratulate this committee and Chairman Young as well with the RIDE-21 bill approved yesterday and also the stability for Amtrak that was approved at \$2 billion a year. Those are things that AASHTO recommended. Those are things that we need in this country today to understand that both the freight side and the passenger side bring things to the communities that we operate in.

A third of the rail freight traffic, as the Chairman talked about, being through Chicago, the recent announcement in Chicago of about \$1.5 billion in the next 6 years being invested to make those improvements was identified in the AASHTO Freight Bottom Line Report as one of the critical areas that we needed to invest in for freight transportation.

We also looked at passenger transportation. Multimodal needs in this country really start with passenger transportation with rail, kind of making sure that we connect with not only the highways, but the transit systems and the intercity bus operations to make sure what we are really talking about today is we have a connected service.

With the changes that have occurred in our economy, our technology, and those kinds of things that are driving the world today, we need to think about faster responses to the things that we need to maintain our economy and our quality of life in the communities that we all live in today, and that takes flexibility in the way we look at whether we finance or whether we provide service by rail, by truck, or by water.

It is all the assets, the ports, all the assets that transportation has today, with the trade agreements that we have and the technology that we have today to improve the visibility of the supply chain that are required.

We looked at not just the Freight Bottom Line Report, but we also looked at what the intercity passenger rail needs were in the Nation today. In those reports—and we looked at a real need right now of about \$42.9 billion for the next 7 to 20 years in the intercity passenger services, a total of \$60 billion over 20 years, which is about \$3 billion a year.

On the freight side, we looked at it four different ways: a no-growth case; a constrained investment case; a base case; and an aggressive investment case. And we came out with a recommendation that said we ought to be thinking about base case. And base case is that we maintain a fair share of freight for rail. If you had no

growth, the volume that we have today would be the same volume that you have in the future, no more; and there would be a huge shift to the truck side.

When you look at the constrained investment, you get about a half of the fair share that rail freight ought to have, and the rest would shift, again to the truck side.

But with the base case, you maintain the same percentage of freight moving by rail in the future as what you have today, and that is going to take a huge private investment, and also assistance from the public level as well.

As a matter of fact, what you can really look at if you stopped using rail to provide service for freight, then the highway industry would have a huge bill, 92 billion additional truck vehicle miles and require at least \$64 billion in improvements, and that doesn't include cost of bridge improvements, spur changes, and local roads and other enhancements that were necessary.

So what we are really talking about on that fair share is 9- to \$10 billion per year, mostly to be provided by the railroads, with a gap in the neighborhood of \$2.8 billion to \$3 billion a year. Those are the needs.

How do you meet those needs? Well, you have got a short-term problem and a longer-term problem. You have taken action already on the passenger side. You have talked about what RIDE-21 is, and certainly AASHTO has supported that, and we need the stability for the passenger side as well for the future.

But there is a longer-term future that needs to be thought about here, because of those trade agreements, because of those changes in technology today, because of this new economy and the safety and security concerns that we deal with.

It has been a generation since we really looked at transportation policy across the Nation; as a matter of fact, across North America today, with the North America Free Trade Agreements. That transportation policy and those policies that are necessary for the future really need to be looked at again, and financing is part of that for the future. But also so is the security and visibility of the supply chain and what we do with maintaining the flexibility necessary for the railroad industry or for the freight industry for the future.

So what I would ask that you consider as you are looking at this is another commission, another study, to look at transportation policy for the future. It is a key part of what needs to happen.

Summing up for AASHTO, I would like to tell you a story. It is a story about a duck. I know staff probably doesn't want me to tell this story.

A duck walks into the pharmacy and he said, have you got any grapes? The pharmacist says, I am oh sorry, we don't sell grapes. You go out the door around the corner to the grocery store and you can get some grapes.

The next morning the duck walked back in and he says, you got any grapes? The pharmacist looks at the duck and says, I told you yesterday we don't have any grapes. The duck leaves.

The third morning he comes, the pharmacist is busy. Congress is busy. He says, you got any grapes?

Look, duck, I told you for the last two mornings I didn't have any grapes, and if you come in here again I am going to nail those little web feet of yours right to the floor. The duck leaves.

The duck came back in the next morning. You got any nails?

We don't sell nails.

Got any grapes?

Today what we are really looking at is the railroad industry coming in to Congress, and has been coming into Congress and saying we need help. We need to think about the flexibilities that we need to make sure that we have the investments for our economy and our communities to thrive and survive. And we don't get the answers that we need to make sure those investments are made. Sometimes we get answers. Sometimes the pharmacist says, we got a little grape-flavored milk of magnesia here. That ought to keep things running for a while.

But the answers that we need today go beyond that.

We appreciate the time, and I appreciate your sense of humor.

Mr. QUINN. Thank you, Mr. Boardman. We appreciate your sense of humor.

Mr. Hamberger.

Mr. HAMBERGER. Mr. Chairman, thank you for the opportunity to appear before you today to testify on railroad infrastructure and the reauthorization of TEA-21. I also appreciate your flexibility in accommodating my schedule to allow me to appear with such an august body here this morning on the first panel.

I just observe—it is a testament to you, Mr. Chairman, and this committee—I remember testifying here about 3 years ago on freight rail infrastructure, and I think we were the only ones in the room. Today, there is behind me here a roomful of people who have come to understand the importance that freight rail plays in the economy not only of this country but also of North America, and I understand in the other body there is committee action today also on freight rail legislation. So thank you for paying attention to this industry.

U.S. railroads move more freight, more efficiently, and at lower rates than any other freight rail system in the world. Lou Thompson, the Railway Adviser to the World Bank, says, "Today's U.S. freight railroads give the world's most cost-effective rail freight service."

They are, in fact, a tremendous national asset that will become even more valuable as the demand for efficient, safe and environmentally friendly transportation continues to grow.

Today, the freight rail infrastructure is in its finest condition in history, and this is reflected in the level of service we are able to provide to our customers.

I would just give one quote from Phil Yager, the chairman of the hub group: "Service in a broad sense is as good as I have ever seen it."

This is a direct result of the action Congress took in 1980 when it passed the Staggers Rail Act, which partially deregulated the freight railroads. Prior to Staggers, the industry was tottering; in fact, 25 percent of it was in bankruptcy. Roger Nober's predecessor agency, the ICC, actually kept track of something called "standing derailments," when, without moving, the engines would just fall off

the track because there was no capital available to reinvest in the infrastructure.

As you consider rail policy, I urge you not to turn back the clock to the 1970's by reregulating the railroads and undoing all of the progress that has been made since then. And progress indeed has been made. Railroads were able to rely on market-based competition and able to improve earnings and invest more than \$300 billion over the past two decades to maintain and improve infrastructure and equipment, to the point where it is in fact the best service that many of our customers have ever seen.

As Roger Nober mentioned, railroads are one of the most capital-intensive industries in the United States. From 1997 to 2001, Class 1 railroads spent 18.8 percent of revenue on capital investment. The comparable figure for U.S. manufacturing as a whole is 3.8 percent.

Because intense competition does limit profitability, internal cash flow is not sufficient to meet all these investment needs. Since 1981, 34 percent of our capital expenditures have come from outside capital markets. Those markets will fund only those investments that promise direct economic benefit to the railroad. Of course, that is appropriate, because that is indeed the way our country's economic system is designed to work.

It is worth emphasizing again that railroads, unlike other modes, rely on private funds for almost all of their infrastructure investment. Let me say right here that that is the business model. We embrace that business model. That business model is working, and it is far preferable to moving to a system relying on government subsidies.

Nonetheless, this does not address the question of how to encourage investments that would yield primarily public benefits, such as reduced congestion, cleaner air, improved safety and enhanced mobility. Many potential freight rail projects would provide these public benefits but would not meet the hurdle rate, would not provide enough economic benefit to the railroad to justify the private investment.

Let me just digress for a second and praise you again, Mr. Chairman, and your colleagues, for endorsement of H.R. 1020, because the shortline railroad industry does not have the economic strength to make the necessary investment to move 286,000-pound cars. I understand, again, over in the other body that the companion legislation to H.R. 1020 is going to be reported out of committee this morning.

As to the Class 1's, the AAR believes the best way to realize public benefits is through a greater reliance on public-private partnerships in which railroads pay for the benefits they receive, an important point to remember—the railroads pay for the benefits they receive—but the public pays for the public benefits that flow primarily to them, consistent with I believe Mr. Boardman's testimony and the AASHTO Freight Rail Bottom Line Report, which calls for a new national partnership of state-local-Federal Governments and the private railroads.

In fact, just last week, the six major freight railroads that serve the Chicago metropolitan area joined with the City of Chicago and the State of Illinois to announce an ambitious, historic \$1.5 billion

public-private partnership to overhaul Chicago's freight rail transportation network. The Chicago Regional Environmental and Transportation Efficiency Project, or CREATE, will modernize track connections, expand rail routes, improve rail commuter service, and separate tracks and highways to improve traffic flow and reduce both congestion and pollution.

Let me echo Chairman Nober's comments. This would not have been accomplished without the leadership of Mr. Lipinski, without the leadership and vision of Mayor Daley and his Commissioner of Transportation, Miguel d'Escoto, who I believe is in the audience today, as well as the leadership of Secretary Tim Martin of the Illinois Department of Transportation, as well as the guiding hand of the Surface Transportation Board in helping get all the parties together over the past several years.

It creates public benefits. It will amount to a stream of billions of dollars of public benefits. It will also improve rail traffic flow through the area and allow railroads to efficiently handle an expected 80 percent increase in Chicago rail traffic in the next 20 years. Based on the benefits they receive, the freight railroads have pledged \$212 million towards the cost of the projects. That is on top of the \$1.2 billion the industry has invested in Chicago over the past 5 years, and another \$400 million to be invested in 2003. So we believe the public-private partnerships provide an efficient way to realize public benefits from rail service.

Now the part that Mr. Lipinski did not want me to go into. Some people have suggested that a rail trust fund is another method of realizing those benefits while alleviating rail capacity constraints. We believe that while that is well intentioned, that such an approach would be a mistake. The concept of transportation trust funds is rooted in the fact that the government must step in to impose through taxes upon the user to get the revenue necessary to pay for the infrastructure. As I have outlined, the freight rail industry has already stepped up to this responsibility and is willing to cooperate with the government to fund our portion of public-private partnerships so that the public may reap the benefit of increased rail freight use. Further, history shows that trust fund investment decisions would be made by the government, which cannot possibly be in a better position than rail management to make investment priority decisions.

Finally, new taxes on railroads, their customers and suppliers, would increase the cost of shipping by rail, tilting the already tilted playing field on which we compete against trucks even further, and needlessly divert rail traffic to trucks, with negative impacts on economic efficiency, congestion, the environment and safety. In the end, we believe that a rail trust fund would be inefficient and counterproductive.

Thank you, Mr. Chairman and the committee, for the opportunity to be here and share AAR's views on these issues. I look forward to answering any questions.

Mr. QUINN. Thank you very much, Mr. Hamberger, and I want to thank all the panel members here this morning.

I am going to begin with one question, Mr. Rutter, getting back to your testimony. It actually has something to do with our discus-

sion here in this room yesterday with RIDE-21 and the Amtrak proposal that we talked about.

Your statement says, "I think that the administration would oppose any use of tax credit bond financing for passenger or freight rail infrastructure."

Just yesterday we approved 2571, which includes both tax exempt and tax credit bond issuing authority for States and any interstate compacts where States wanted to get together to accomplish all of that. We put I think about \$12 billion in each of those categories.

In your critique of that, I think you further mentioned you would expose the Treasury, if that system was to be used or we to go forward with that.

Could you comment on your fear there, the dangers? I am not sure I am straight on why we would expose the Treasury to something that wouldn't help the railroad industry.

Mr. RUTTER. Well, a lot of that depends on the type of tax credit bond you create. I think the thing that gives— and, here again, I not a professional economist. Certainly Secretary Snow and his guys can defend themselves pretty well. But as I understand it, if you structure a tax credit offering with a substantial amount of sinking fund to pay off principal, not only does the Treasury end up taking an ongoing hit from the tax credits that are offered, but the principal is also paid with tax-free money. So while it is a fairly low-cost borrowing option to the people borrowing the money, the burden of that debt falls on the Treasury, which is the one ending up paying for it.

Mr. QUINN. If in the plan, though, the bonds or obligations are issued by and owned by the States or a State compact, it doesn't affect the U.S. Treasury.

Mr. RUTTER. That is certainly something that we can review. One of the things we will do prior to that bill reaching the floor is work with our colleagues throughout the government, both OMB and the Treasury, in looking at exactly what it is that you did pass.

Mr. QUINN. Sure. Let me just say, not to interrupt your response, but if it would be helpful for you to convene people at Treasury and others to get some answers before that goes to the floor, I—and I know my colleagues on the subcommittee or full committee—would be happy to do that.

Mr. RUTTER. I appreciate that. We will take you up on that.

Mr. QUINN. Thank you very much.

Mr. Nadler.

Mr. NADLER. Yes. I am puzzled by the position of the administration apparently, and, I must say, the AAR.

Mr. Rutter, the testimony of the head of the STB, the Bush administration appointee, said, "I believe that freight railroads are unable to make the level of capital investment in their networks that those systems presently need. This is primarily the result of the fact that, as I discussed earlier, the return on railroads' past capital investment has fallen short of the industry's cost of capital."

Mr. Hamberger says essentially the same thing. He brags, quite properly, about how much money the railroads have invested since the Staggers Act, but does in the fine print admit that they can't raise enough internally for various reasons, none of which reflect

on the management, but simply the system, and they can't attract enough from Wall Street. And the fact of the matter is that when you really look at what is going on, despite the best efforts of the railroads to invest as much money as they can raise internally and from the private markets, the system is shrinking.

We know the need for rail freight is going to go up by 70 percent in the next 20 years, and we don't want a market share shift to trucks, which would be catastrophic for the country, and yet the railroads can't raise enough money. And if it continues in this way, every year more mileage from Class 1's goes to shortlines, and every year more shortline mileage goes to rails-to-trail. The system is slowly shrinking.

What does the administration propose to do? Yet I gather from your testimony the administration doesn't think we should have a trust fund bill, or not a trust fund, maybe we should just appropriate money to invest in capital.

How should we finance? I must say it is nice to talk about private-public partnerships, but that gets you only so far. Aside from hiding your head in the sand, how does the administration propose to enable the railroads to do adequate capital investments so the system expands rather than shrinks?

Mr. RUTTER. Well, one of the ways you don't do it—

Mr. NADLER. Never mind how you don't do it. How do you do it, please? What are you proposing to do?

Mr. RUTTER. The administration is really focusing more of its efforts right now on trying to find a way of revamping and redeveloping the intercity passenger systems.

Mr. NADLER. Excuse me, I am interested in the freight system. We have had a number of hearings on passengers. I want to talk about the freight system. I only have 5 minutes. I am going to ask you to answer the questions I ask.

How do you propose, given the national defense needs, given infrastructure needs for homeland security, given the fact that you obviously don't want to shift a lot of stuff to the highways, how do we start expanding or at least keeping the rail freight system from contracting, as it is contracting now?

Mr. RUTTER. Well, there are a couple of things we can do. One is make financing systems that you have already put in place work better. This committee has created the RIF program, which is primarily aimed at those shortline operators, and we at the FRA are trying to do and can do better a job of getting those dollars out to the people they were intended for.

Mr. NADLER. That is the shortlines. How do we prevent more miles every year from becoming shortlines? We are balkanizing and slowly eliminating a national rail freight system. How do we stop that?

Mr. RUTTER. Some other ways we are thinking about are included in the SAFTEA proposal, the surface transportation bill the administration has proposed, which provides increasing eligibility of existing innovative funding for gateways, freight, truck connection points. We think that the best way of applying limited public financing is to put those dollars at the points where rail and truck and ports meet.

Mr. NADLER. All right. But those are basically loans of one sort or another, low interest loans. The testimony, uncontradicted testimony, from everybody here, from the FRA— not from the FRA, from the STB, from the railroads, from AASHTO, is there is at least a \$2.5 billion shortfall in dollar investment, there is no prospect that the railroads can pay back that kind of money in loans.

Let me be very blunt. I am getting the impression that you are simply saying this is as far as we are going to go, and if the system slowly falls apart, it slowly falls apart; we are not going to deal with it. Why am I wrong?

Mr. RUTTER. That is not what we are saying.

Mr. NADLER. Why is that conclusion not the one to draw?

Mr. RUTTER. Well, we are not proposing large amounts of investment to add on to the current private funding of freight railroads. What we are doing is providing governmental support and credit programs to add capacity and to provide lower interest funding.

Mr. NADLER. Do you think that low-interest loan programs can deal with this \$2.5 annual capital investment shortfall? Is there any prospect of that?

Mr. RUTTER. I certainly think it makes a dent in it. And where it makes a—

Mr. NADLER. Makes a dent, but is there any possibility it solves the problem?

Mr. RUTTER. It starts solving it, yes, sir.

Mr. QUINN. Mr. Nadler, I am going to stop you at this point because we are into 6 or 7 minutes. We will come back for a second or third round.

Mr. NADLER. Thank you, Mr. Chairman.

Mr. QUINN. You are very welcome.

Mr. Miller.

Mr. MILLER. Thank you very much, Mr. Chairman.

I don't believe there is any part of the Nation more impacted by rail and truck than southern California because of the Ports of Los Angeles and Long Beach and what is called the "Alameda Corridor." these trains are being loaded with containers and trucks are being loaded with containers, and the infrastructure is not there to accommodate it. People in southern California are being impacted tremendously.

Mr. Nober, the investment in new infrastructure is lagging behind continuing growth in freight and passenger train traffic. If this continues, where are we going to be 10 years from now?

Mr. NOBER. Well, I would first—obviously, the capacity and the ability of freight railroads to handle growing freight volumes is something that we all have an interest in, and that is important. I don't want my testimony to be interpreted as saying that I back any specific public funding or grant for private railroads, because I also expressly say that our railroads principally need to remain privately funded and that if we are going to—if the members decide—

Mr. MILLER. That sounds good. That sounds good.

But if you look what the government did about 8 years ago, they put major funding into part of the Alameda Corridor, trying to force more imports through those ports. And they improved part of it, but—from the port to commerce they improved it; they are in

great shape. But when you look at commerce all the way down through Orange County, part of L.A. County and San Bernardino County, they said, you are out of luck.

And today, in Orange County, you have a track that takes 50 trains a day. In a matter of few years, it will take 135 trains a day. How can we say that it is their responsibility, especially when you look at the fact that no Class 1 railroad really has generated enough revenue to do these improvements. And what is happening in Los Angeles today is because of disparity between what we charge to haul a container—containers are being put on trucks that would go on trains. As the impact increases over the years, that is going to average out. We are being impacted both with trucks and trains.

So based on us improving the harbors and improving part of the way that the trains are loaded and trucks are loaded, we have created a situation where the cargo is going to come in; and now the communities are burdened with the impact. How can we say that that is a public process that should be funded alone?

Mr. NOBER. Well, I certainly agree that if they were—.

Mr. MILLER. I am not criticizing you. I am just—.

Mr. NOBER. I certainly agree that if there were to be public funding—and I leave it to Administrator Rutter and the rest of the administration to speak for the administration on that—that it should be targeted at gateways and choke points.

Certainly the Alameda Corridor, like Chicago, is one of the Nation's big choke points where seaborne transportation, truck and rail all come together. And the private financing systems sometimes—you know, they don't always invest in that because the benefits that an individual company will draw from that may be difficult to quantify.

I think those that have been involved, both in the Alameda Corridor project, which I was part of back in the early 1990's, as well as the Chicago Project, it is difficult to apportion out exactly how much a private company draws from that. And that is—you know, that is reasonable and I think we should all understand that.

Mr. MILLER. But we made a mistake. We partially funded it. So the cargo gets to the port and gets loaded. And everybody else is stuck scratching their heads saying, now what do we do with the impact.

Mr. NOBER. The Alameda Corridor is, I think, in many ways, you know, a very useful project to look at. It was over a \$2 billion one. It had a mix of grants, State funds, private capital coming in through a tax on containers that were transported over the railroad as well as loans to make up the gap. All of those, together with the Federal Government working together with the States, the locals and private railroads, were able to settle on an important project and build it.

Now, is that every bit of infrastructure that should or needs to be built in southern California? I don't know. And I will defer to Administrator Rutter.

Mr. MILLER. But the problem we had was, when they did that, they considered it a two-phase project, and now nobody is concerned about phase two because the cargo is getting loaded. And that is my concern.

The argument to begin with, in the 1990's, was, we have to increase the imports coming into this port because it is good for the economy, it is good for the Nation, it is good for the flow of goods throughout our Nation. We looked at a very limited portion they called the "choke hold point," but that wasn't the whole choke point; and we took care of a portion of it, and we said to everybody else, you are kind of out of luck.

Now we are facing that today, and it is a severe crisis for our economy in southern California because at these at-grade crossings you have commuters trying to go to work, you have trucks trying to haul goods. All this is impacting businesses. If people can't get to work or are spending more time on work, it is increasing the air pollution. If businesses can't load goods on trucks and get them out of the area in a reasonable time, it is costing them money.

And it just—you know, I think it was a huge mistake trying to partially fund a project calling it a two-phase project because now we are stuck with phase two. And to be honest, if I lived in Kentucky or Georgia or Arizona or Nevada, I would say, well, I want that money for my State. Why do I care about California? We spent all that money on California.

So I think we made a huge mistake.

Mr. QUINN. Mr. Miller, your time has expired. Glad you don't live in New York, but appreciate that as well.

Mr. Lipinski.

Mr. LIPINSKI. Thank you, Mr. Chairman.

First of all, there has been a lot of talk about the Chicago Rail Project here today. I am extremely supportive of that project. And Chairman Nober mentioned my name and Ed Hamberger mentioned my name, but there is probably no one more involved in that project and there is probably no one that has done more for that project, really, than Ed Hamberger; and I publicly salute him for all the help that he has been to all of us.

He had a couple of conspirators with him, one from the Illinois Department of Transportation and one from the city of Chicago Department of Transportation. They are Miguel Descoto and Dick Smith, and they are sitting here in the audience also.

They are looking over your shoulder, Ed, to make sure you are saying the right things with regard to the Chicago rail plant.

I want to say, too, that "only in America"—America is a great country, and to demonstrate to you what a great country it is, Ed and I are working very, very closely on the Chicago rail plant; and we are great strong allies, and we meet on a very regular basis. On the other hand, in regards to a railroad trust fund infrastructure program, Ed is by far my strongest, most articulate, most forceful opponent to that idea. And only in America could people be working hand in hand on one side and so vehemently against one another on the other side.

But in that light, I want to ask my good friend Ed Hamberger, if the railroads cannot keep up with the need for their infrastructure—and everyone seems to agree to that—aren't the railroads ultimately going to drive themselves out of business because of the fact that the poorer the infrastructure becomes, the more goes to the trucks, the less business you have, the less profit you make, the

less ability you have to improve your infrastructure, expand your infrastructure, repair your infrastructure?

And you are not going to be saved by the bell there, Ed. I would like to have an answer before we have to go vote the next time.

Mr. HAMBERGER. Thank you very much for your kind words. I appreciate your leadership on the Chicago Project.

I think your question is very similar to that asked by Mr. Nadler. Are we—

Mr. LIPINSKI. Yes, but I asked you. He asked a couple of other people.

Mr. HAMBERGER. And that is correct. I appreciate your giving me the opportunity to respond. I wanted to jump in there.

And really the question is, are we in a slow fire sale going-out-of-business sale, as Mr. Nadler I think put the question. And the answer is no. In fact, we are narrowing that gap between our cost of capital and the returns we are getting.

Will we eventually—the view is that we will eventually get to that point where we do earn our cost of capital, and the question is, what will the network look like at that point. And we will continue to try to rationalize the network. We will continue to try to cut our expenses. We will continue to try to improve our operating ratio so we can invest more in it.

The question, as I tried to pose it in my testimony, is, if Congress and the public believe that the public benefits of having a broader, bigger, more expansive network are such that those public benefits would be lost if we reach equilibrium at a network of a certain size, then, in fact, a public-private partnership is the way to go forward to make sure that we can meet that level of public demand.

I think that Chicago Project is an excellent example because the State, the city—to your point Mr. Nadler, where is the money going to come from? It sounds nice, public-private partnership, the city and State are going to put in the dollars, Metro is going to invest.

On the Federal side, we are here talking about the need for a Federal partnership share as well. What we have identified in the current TEA-21 structure would be the Borders and Corridors program, the Intermodal Connector program, and of course, on the tax side, the accelerated depreciation that is already in place, which lowers the hurdle rate for the railroads and therefore allows us to invest more. And then that is leveraged with the investment by the national, local and State partnership.

So that is, I think, the way to go forward and try to make sure that where we reach our equilibrium is in keeping with where the public policy demand is as well.

Mr. LIPINSKI. Ed, when you were meeting your cost of capital, when you were investing robustly in your infrastructure, was probably the most prosperous times we have had in this country, perhaps in our history. Right now, we are in a downturn. Perhaps we are coming out of the downturn, but I don't think there is any economist that believes that we are going to return in the near future to the robust economy we had in the 1990's when you could make a profit, when you could improve your infrastructure.

It just seems to me that even though you say you are narrowing the gap, I have great suspicion believing that—or great skepticism believing that; and I also just don't believe we will ever get back

to the prosperous times where you are going to be flush enough to do this.

To me, the Chicago Rail Project, which I am a great supporter of as we know, and the Alameda Corridor are both real examples of how the freight railroads in this country need government involvement. I will not quarrel with you that what you put into the Alameda Corridor or what you are going to put into the Chicago Project is the benefit that you are receiving out of it, but in neither one of those cases would you have been able to improve and benefit your own railroads if it hadn't been for the overall participation by the Federal Government, the State government, perhaps some county governments within the city.

Within the Chicago rail plant it is the State, it is the city, it is the commuter railroads; they all have to be part of the project. Those are the only—those are the two examples of where you are—certainly with the Alameda Corridor, it was a tremendous project.

Roger has said that the number one bottleneck in the country is Chicago. You are addressing those. But you couldn't address those by yourself; you do not have the financial resources.

Mr. HAMBERGER. Your point is well taken. The industry invested, the freight railroads alone, \$700 million in the past 5 years in Chicago. That was not a coordinated network system-wide approach, but—and by working with the city and the State, we are looking at—a number of companies are looking at Chicago a little bit differently than they had in the past, looking at it as a network, as a gateway.

There are other examples of public-private partnerships, the Shellpot Bridge in Delaware, the Norfolk Southern and the State of Delaware each paying a percentage of a new bridge. So—.

Mr. LIPINSKI. But my point is—.

Mr. HAMBERGER. My point is the same as yours, I guess. But there is no denying that the public-private partnership does provide benefits both to the public and to the private—.

Mr. LIPINSKI. But it is a piecemeal situation now. You know, it is in California, it is in Chicago, it is in Delaware. If we were to establish a national infrastructure trust fund for railroads like we have for aviation, like we have for highways, we would have a much more coordinated approach to the situation, and we would know where we're going, you know, from day to day, year to year, decade to decade.

My time is up for now, but I would like to get back to this Mr. Chairman.

Mr. QUINN. The gentleman's time has expired.

I am going to yield my 5 minutes to Mr. Miller for follow-up questions. Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman. Once again, I want to thank you for holding a hearing on this important issue.

As our economy grows, so too does our need for a safe and efficient system of railroads. We must consider alternatives for improving and rehabilitating our rail infrastructure. I look forward to hearing the next panel and the proposals to achieve this goal from distinguished members of our panel.

People throughout United States and the world count on freight shipped from the Ports of Los Angeles and Long Beach via the

transcontinental railway. This economically vital corridor, which runs through my district in California, is responsible for the distribution of nearly \$250 billion in trade every year. More than 50 trains travel through Orange County alone each day with rail traffic, expected to increase to 135 per day by the year 2020.

Like many communities across America, the increased rail traffic has placed a strain on many of the areas the tracks run through. Some of these effects include a delay in road traffic caused by train crossings, increased noise and air pollution. And most recently, as many of you saw on the national news last week, increased rail traffic through our communities can have devastating effects when something basically goes wrong.

In the case of a runaway train in the city of Commerce last week, six houses were destroyed; miraculously no one was injured. And in recent years we had a freight train run into a commuter train in Placentia. These accidents provide us with a stern warning that we must address realities of our Nation's decaying rail infrastructure before it is too late.

I am particularly pleased that Mr. Chris Becker, the Executive Director of the Orange-North American trade rail access corridor called OnTrac is here today to discuss rail infrastructure needs in California. I hope my colleagues will agree, after hearing his testimony, that OnTrac projects have tremendous potential to mitigate the effects of increased rail traffic to the Ports of Los Angeles and Long Beach.

I look forward to hearing from all of the witnesses on the next panel and hope the committee can move expeditiously to address rail infrastructure needs of our Nation.

I thank you, Mr. Chairman.

Mr. QUINN. Mr. Nadler, do you have a follow-up question for this panel? We will do a second round here.

Mr. NADLER. Thank you, Mr. Chairman. I don't want to belabor the point I was making—

Mr. QUINN. OK, then.

Mr. NADLER. —but I do want to add one thing. I do want to add to—and I think Mr. Lipinski was driving at the same time—same thing. I have to say, the fact is that this country, you know, Mr. Hamberger, whose efforts I very much applaud in all these things; but nevertheless, Mr. Hamberger says that the private-public partnerships are the way to go, for instance in Chicago.

Most local governments—State of California, State of New York, City of New York, God knows, all the others—there is a total, just in the States this year, of \$100 billion in budget deficits. It is hard to see in the near-term future where States and local governments are coming up with money for more participation in public-private partnerships.

But the other point I want to make is, in addition to all the freight movement needs and the efficiency for the economy and the productivity of the economy that we have talked about, which there is no prospect of the railroads making—meeting, I should say—without some sort of additional capital beyond which they can raise and way beyond what any public partnership or loan program is going to do—there is also national security, which nobody has really looked at in the last 50 years as the railroads have consolidated.

Nobody has asked the question, hey, we used to have eight parallel rail lines that went from coast to coast, now we have got three, two of which cross at one bridge at a place I won't name in case anybody is listening. And the fact is, we have to look at these questions.

We have in New York, for example—and I am mentioning this not because I am pushing my particular project, although why not, but the fact is, it is the one I am familiar with. And there are others equally—certainly none more deserving, but—there may be others equally deserving in the country, but the fact is you have 12 million people in New York and Connecticut dependent on one bridge. God forbid someone takes out that bridge. A Berlin airlift wouldn't stop economic catastrophe and maybe even starvation.

We need some redundancy in the transportation system which we don't have now, which requires an investment, which the railroad is not about to put up. And I am not asking the railroads to put up that investment; the government is going to have to do it at some level.

So it just seems to me, whether it is Mr. Lipinski's infrastructure, the railroad trust fund bill, which I support and commend him for, or simply a new title for appropriations—and even without the question of reregulation—Lord knows, I am not in favor of wholesale reregulation, but there has to be a source of capital for the railroads to come in beyond what the railroads are in any way likely to be able to do, both for the transportation needs of the country and for the national security needs of the country.

I would urge the administration to carefully examine this, because with all due respect, what Mr. Rutter was saying, Well, we hope we can make a dent in it, well, when you are dealing with national security, when you are dealing with the economic future of the country, a dent is not sufficient.

I don't think anybody—and this is not a specific criticism of the Bush administration, because the Clinton administration and everybody else was just as derelict in this; it is just something we haven't done. I would urge you to take a careful look at the infrastructure needs of the railroads in the country, and the overall transportation needs from an efficiency—how are we going to move all this increased freight which, if we can't, is going to put a lid on economic development?

You know, we want a tax cut, or some of us at least want tax cuts to get the economy moving and increase economic growth rates, but if you can't move your goods, that is going to put a lid on economic growth rates and the national security also.

So I hope you will take a careful look at that and support some means of getting a lot more money for infrastructure investments than one can reasonably expect the railroads to be able to do. I would urge the railroads to think from that point of view on rethinking—I frankly—it is amazing to me to hear someone—and it is not amazing, because you have done it before, and we have been discussing this for years—to come in and say, don't give us any money even though we can't raise enough money to maintain the system. I think that thinking has to change a little, too.

I have no question. I yield back the balance of my time. I thank the chairman.

Mr. QUINN. The gentleman yields back the balance of his time.

Mr. Lipinski.

Mr. LIPINSKI. Mr. Boardman, no one has asked you a question. Let me ask you a question.

Do you think that a railroad trust fund similar to the highway trust fund or the aviation trust fund is a good thing for freight rail in this country?

Mr. BOARDMAN. Yes.

Mr. LIPINSKI. And why do you think it is a good thing and how would you fund it?

Mr. BOARDMAN. Well, that is the harder question. Why is it a good thing? Because it provides the kind of capital that is going to be necessary for the future.

One of the things Mr. Miller said earlier was that it is important right now, and what is going to happen in 10 years? And in 10 years, if I was sitting here, I would tell you it is critical right now if we haven't resolved things, because we are going to be inundated with congestion.

We are going to have an inability to make continuing improvements in our environmental concerns that we have in the country, but—without the balance between rail and truck beginning to shift; and I think the truckers are going to begin to realize that and, in fact, have, and that is certainly one of the reasons that AASHTO is here today. And we took a very strong look at this with the freight bottom line report. How do you do it? How do you finance it?

I was thinking that I might get that question along here, and certainly when you begin to look at taxes on commuters and when you begin to look at the kinds of things that were listed in your proposal—when you are from New York, you think, I really need to think about that, what does that do to us and how does that really affect us for the future.

And the second thing I think that certainly the private sector needs to think about is, if those taxes that come into the trust fund make me—make that service that we provide less competitive in providing that transportation; in other words, that I begin to lose business because of that, whether it is because of the add-ons—and I don't remember all the taxes, I am sorry—but the different ways that you were going to look at putting the trust fund together—

Mr. LIPINSKI. Are we talking about the—are you talking about commuters? Are you talking about freight rail?

Mr. BOARDMAN. Both. I think you had tax on both pieces of it.

So commuters was one problem, taxing on the other—the freight side was another problem.

Mr. LIPINSKI. Let me just interrupt with regards to my particular piece of legislation.

As far as the commuter lines, we are prepared to have them come up with a 10 percent greater local match for them to opt out of any additional taxes being placed on.

Mr. BOARDMAN. You did say that earlier. I don't understand the whole proposal.

But the final point I wanted to make is that we know today in the Highway Trust Fund, with the fuel efficiencies that are out there, with what is occurring today with gas taxes and the needs

that are out there for highway financing, there is an insufficient amount even in that trust fund. That is why AASHTO came up with some creative financing proposals themselves in the TFC, which I see part of being discussed in other areas as well.

Mr. LIPINSKI. OK. So you are for a trust fund? You think it is a good idea because we need it, but you don't know how to fund it. OK.

Roger, I would ask you that question, but I don't want to be that specific with you or the administrator because of the reluctance on the part of the administration that you work for to talk—anything about taxes whatsoever. But let me put it to you this way, and I am asking Mr. Nober this question:

What in—and this question was asked to Mr. Rutter before—what do we do with this situation? You know, Ed Hamberger insists that they are going to make it. But he also says they have a very significant problem. Without putting words into your mouth or the administrator's mouth or Mr. Boardman's mouth, you are really all saying that unless something is done someplace along the line, you know, the railroads are ultimately going to starve themselves to death.

Now, are there any suggestions that you have for us that within the parameters of—the limitations of your office that you might be able to give us that we might be able to start trying to solve this problem?

Mr. NOBER. Well, I would say, first off, that in many ways I agree with Mr. Hamberger that, in the end, the business model of the railroads, while difficult over the last few years, in many ways their revenues mirror the economy. And when the economy and the manufacturing sector are down, the railroads revenues are down.

So while in my testimony I said, no railroads have been revenue adequate for the past 3 years, that is a snapshot. It doesn't reflect, as Ed mentioned, the trends. The trend is, railroads are all getting better. So that, I would say, is point one.

Mr. LIPINSKI. Can I interrupt you just for one moment? Do you have the figures of the railroads that have been adequate going back, say, over the last 10 years and how many of them haven't been?

Mr. NOBER. Yes, sir.

Mr. LIPINSKI. Could we have that information?

Mr. NOBER. Absolutely. Do you want it in the record or do you want me to read it in?

Mr. LIPINSKI. I want you to read it.

Mr. NOBER. Just give me a moment to find it.

Mr. LIPINSKI. I could ask Ed a couple more questions while you are looking for it.

Mr. NOBER. OK. I promise that I will find it.

Here we are. In 1992, two railroads were revenue adequate.

Mr. LIPINSKI. Out of how many?

Mr. NOBER. I think there were eight Class 1s back then, or nine Class 1s: Illinois Central and Norfolk Southern; in 1993, the Illinois Central and Kansas City Southern; in 1994, the Illinois Central alone; in 95, the Illinois Central, the Norfolk Southern and the Union Pacific.

Mr. LIPINSKI. So finally we have got the two major railroads there.

Mr. NOBER. Well, the Norfolk Southern and Kansas City Southern both were revenue adequate.

Mr. LIPINSKI. I am talking about major Class 1 railroads.

Mr. NOBER. Yes. And that is in—UPR, they were in 1995; in 1996 the IC, the Norfolk Southern and the Soo Line—both the IC and the Soo Line have been merged and subsumed in other railroads—in 1997, the same three; in 1998—

Mr. LIPINSKI. Excuse me. What were the same three?

Mr. NOBER. Illinois Central, Norfolk Southern and the Soo Line.

In 1999, the IC was; in 1998, the IC was; in 1999, the Grand Truck Western, which is part of Canadian National was; and in 2000, 2001 and 2002, none have been.

Mr. LIPINSKI. You went through there a little quickly, so I am not so sure I am right on this. But it sounds to me like as far as the Class 1 railroads, going back over the course of the years, you mentioned there are probably only about four times a Class 1 railroad was adequate there.

Mr. NOBER. Well, we only measure it for Class 1s. But I think your point is that the major Class 1s, the Big Four, that is correct, sir.

Mr. LIPINSKI. Back then there were more than the Big Four.

Mr. NOBER. Much of that—I think they are on the way back. Much of that has come from acquisitions and changes in their accounting books that have also led to, you know, the difficulty in revenue adequacies. There have been a few factors that have gotten us there. I will leave it to Mr. Rutter to talk about what—on behalf of the administration, the administration feels about proposals to spend it or, you know, any tax proposals.

Mr. QUINN. Mr. Nober, excuse me, is that book you just read from part of what you submitted this morning?

Mr. NOBER. It is not in the record, but I certainly can submit it. In this is public information.

Mr. QUINN. May I ask that you add all of those sheets that Mr. Lipinski just asked for as part of today's record?

Mr. NOBER. I will do that. I was remiss to not include it.

Mr. QUINN. Finally, Mr. Rutter, a brief response to Mr. Lipinski. Then we will move to the next panel.

Mr. RUTTER. The administration doesn't have a position on your bill. We have talked about some of the elements of that legislation and others that we do have opinions on. Should this committee take action to move that and it gets to floor action, then certainly the administration would put—would come out with its position on that. Right now, we don't have an opinion.

Mr. LIPINSKI. OK. I can understand—and you didn't answer my question, but I can understand you not answering the question.

I want to thank the four panelists that are here. I appreciate their testimony very much.

In my humble opinion—and, of course, I am highly biased, but in my humble the opinion, the testimony of everyone here enhances the reasons that this bill that I have introduced should be passed. Thank you very much.

Mr. QUINN. That is what I call an editorialization right there.

Let me on behalf of the full subcommittee thank all four of our witnesses this morning. Thank you for your patience. We will move to our second panel.

While we are moving and changing names, let me ask unanimous consent that the record be held open for 30 days to allow for the submission of supplemental materials and additional questions from members to witnesses.

Hearing no objection, so ordered.

Mr. NADLER. Could I rectify an omission on my part by giving a special welcome to the New York State Commissioner of Transportation, Commissioner Boardman, who is a wonderful commissioner.

Mr. QUINN. Of course you may. I did before you got here.

Mr. NADLER. Now it is bipartisan.

Mr. QUINN. I also want to ask unanimous consent that Chairman Young's opening statement be included in the record. Hearing no objection, so ordered.

And also ask unanimous consent that Mr. Oberstar's opening statement be included as part of the record.

Hearing no objection, it is so ordered.

Our second panel, Mr. Ross Milloy, Mr. Chris Becker, the Honorable Vernon Jones, Ms. Sharon Clark, the Honorable Patrick Henry Hays, local officials.

We are pleased to have all of you here.

We understand we have some of our colleagues—also Mr. Royce is at the table to do an introduction.

As soon as everybody is seated, Mr. Royce, we will turn to you. Thanks for being with us this morning.

I think everybody is set to go here. We are in—the House is in recess, subject to the call of the Chair, ladies and gentlemen at the witness table, so we can't tell you exactly when a vote will occur. When it does, you will hear the bells, and we will know and we will let you know how long we will have to be absent for. But in the meantime, we will go forward here.

We are pleased to have Mr. Royce of California with us this morning to make an introduction before the Subcommittee on Railroads. And we would turn to him now.

We know you have a busy schedule, Ed, so the podium is yours.

Mr. ROYCE. Thank you, Chairman Quinn. I would like to associate myself with the remarks of my colleague, Mr. Gary Miller, earlier on this project, whom I have been working with, along with Chris Becker, who you are about to hear from. And Gary Miller and I are only two of a number of Congress Members from southern California who support this project because of the national economic benefit that it brings to the country.

Our community there is at the doorstep of international trade. We have got 35 percent of all U.S. trade flowing through the Ports of Los Angeles and Long Beach, and that container volume is going to go up five times, five times, by the year 2020. And OnTrac handles the freight destined to every State in the country.

So to keep up with the growth of these ports, this project is essential; it is the vital link to the rest of the country. If we are going to keep economic growth, then we are going to need Alameda's Corridor East.

I would like to commend OnTrac and Chris Becker, who have done a fantastic job of putting together a project that has broad support among all of our stakeholders.

Mr. Chairman, this project is of great significance to the Nation. I believe that it represents the type of project that the Federal Government, along with State and local communities, should be supporting. And I think you will find Mr. Becker's testimony of benefit to this subcommittee's work.

Mr. QUINN. Thank you, Mr. Royce, very much. We appreciate and value your input, as well as Mr. Miller's and the rest of the California delegation on both sides of the aisle, as we hear Mr. Becker's testimony this morning; and a little bit later, certainly we will have some questions for him. But we know we can depend on you and Mr. Miller and others to get some specific answers should the subcommittee need them throughout—appreciate your introduction very, very much.

For the rest of the witnesses we will—we have—Mr. Hays is going to testify first because I understand he has some transportation needs of his own to be moving.

And, Mr. Hays, I would say to you—Mayor, after your testimony, you should feel free to leave whenever you have to. And Mr. Lipinski and I have agreed, if we need you for some questions, we will get them written to you or we will get a hold of you on the telephone. But make sure your needs are met in terms of your transportation needs the rest of today.

**TESTIMONY OF THE HONORABLE PATRICK HENRY HAYS,
MAYOR, NORTH LITTLE ROCK, ARKANSAS**

Mr. HAYS. Thank you, Mr. Chairman.

I am Patrick Henry Hays, the Mayor of North Little Rock, Arkansas. My city grew up as a railroad town. The rails came into Arkansas from Memphis and St. Louis, and before they could cross the Arkansas River they stopped on the north side, which is where my city is.

And a shop system developed. In fact, Union Pacific Railroad is presently our largest employer with a little less than 2,900 employees that work out of my city in North Little Rock.

The largest heavy locomotive repair facility, we think in the world, certainly in this country, owned by Union Pacific, is the James Shops. They do is a miraculous job.

I come from several Henrys. You know, I am a little bit with that distinguished name, but my grandfather was John Henry Hays. He was also an engineer for Missouri Pacific at the time which later was acquired by Union Pacific. My father was Arthur Henry Hays and my dad was also an engineer for Union Pacific, starting out at Missouri Pacific. In fact, the day after I graduated from high school I woke up about 5:00 in the morning and started taking student trips. So I owe my education to Union Pacific Railroad by the summer and a few Christmases thrown in. I also did a little braking while I was doing that in undergraduate and then going on to law school.

In my town, you either knew somebody, worked for somebody, lived with somebody, or were associated with somebody that had

rail as a part of their history. So my town is extremely important when it comes to the rail industry.

I might add, the transportation industry in general, Interstate 30 and Interstate 40 come together in the city of North Little Rock. We have eight major truck terminals that are located there. So literally hundreds of people are associated with the transportation industry, not only in rail but also in trucking. The Port of Little Rock and the McClellan-Kerr navigation project throws in water, so transportation, albeit Arkansas is a small State, is a very critical and important part of it.

Now, I received a title not too long ago, in fact January—not January—July 25th of this past year, probably one of the titles that I am the most proud of and have enjoyed more than any other and that is “grandfather.” my granddaughter came on the scene and we will be celebrating her first birthday. And needless to say, when I tell you that her name is Savannah Lou, that might indicate which side of the Mason-Dixon Line she is born on.

But I worry, Mr. Chairman; I am worried about my granddaughter. I didn’t maybe, when I had my daughter, think as much about the future. Maybe I didn’t have time to think about the future then. Maybe I didn’t have the responsibilities overall that I have now, when I have the responsibility of shepherding a city of 60,000, the third largest in the State of Arkansas, in a metropolitan area of 1.2 million people.

But I worry about my grand daughter because I don’t know what kind of world she is going to live in and grow up in and maybe get old in, hopefully like I have enjoyed. I look at the U.S. population and the projections with our population currently standing at 291 million people to grow in 25 years to 337 million, 50 years, 404 million. And when this country celebrates its 300th birthday we will be close to half a billion people.

Now, 1952 saw the beginning of the interstate highway system. And great leadership was shown by this Congress and the administration to begin a project that could only be shepherded by Congress and by an administration, the national transportation system that is the boon of any civilized country in this world today. And I daresay that that economic piece of infrastructure has proven its worth countless times over.

And I worry because we are not going to build another interstate transportation system for roadways. And when I look and find out that we are going to have a half a billion people in 75 years, there is no way the highways could accommodate that kind of a population growth. There is no way that the water system or the rail system or any single system could accommodate that kind of growth.

So this Congress, as far as the Conference of Mayors—and I represent that conference at this hearing—cities above 30,000, over 1,100 cities fill that classification, are extremely worried because of the likelihood that unless this Congress begins to act and begins to act in a responsible way—and I want to compliment the chairman, I want to compliment Congressman Lipinski and others who I have heard talked to about the need to address a crumbling rail infrastructure system.

The Conference of Mayors long ago spoke of the need for economic development that results in a good and effective multimodal transportation system. We are losing that. And the best way to invest in the future is to invest in a system that reflects all the best attributes of each of the transit systems that we have. And right now rail is the one that, at least we as mayors feel, will give the biggest bang for our buck.

Cities are the economic engines that drive this country. Now, the gross metropolitan product of the top ten metro areas, in 2001, of cities exceeded the combined output of 31 States; 31 States, the metropolitan areas account for over 75 percent of the gross product of those States. And finally in terms of the importance of cities in the economic livelihood of this Nation, metropolitan areas generate nearly 85 percent of the Nation's income, employment and production of goods and services and house over one-half the population.

Mr. Chairman, I could go on and I know that the committee's time is limited, but let me just end by commenting on the fact that the U.S. Conference of Mayors, at its most recent meeting, adopted resolutions that addressed dealing with supporting the creation of a national rail infrastructure; support Amtrak reauthorization, which I understand is well on its way—and again I want to compliment the chairman and this committee for bringing that reauthorization forward—and in support of improving the transportation link between aviation, rail and integrating the intermodal transportation connections that are so vital to the future of this country.

The strongest thing that this country has in terms of the future for my granddaughter and for granddaughters and grandsons all across this country is our economic system. That economic system—I will just end by giving you one example:

I was driving in December of this past year in my city, and there was a large shopping center. We have a very large retail segment of our community. There were 20 cars lined up in this shopping center to get out of that shopping center, and I realized that unless I figured out ways to move goods and services around, to get people to and from places of business, that those 20 people who couldn't get out of that shopping center—how many people were going to drive by that facility and then how many people were going to remember what they saw and not even come?

And I think this Congress, and certainly this committee, recognizes, as I have heard the questions addressed in the last panel—how important what you are doing is and how important for the future of this country it will be and how critical the need to fund a rail infrastructure improvement program will be.

Mr. Chairman, on behalf of the Nation's mayors, I thank you for what you do. I encourage you about the urgency of what you are addressing because I do fear that the light at the proverbial end of that tunnel is an oncoming train. The only thing that I worry even more about is that, although it may save me, what may happen is, that train may derail because of lack of infrastructure improvements before it gets to me. While my life will be saved, this country will be at great risk.

Thank you.

Mr. QUINN. Thank you, Mr. Mayor. We really appreciate your comments.

Let me say, we have a lot in common, if I may digress a moment. I used to be the Town Supervisor in a place called Hamburg, New York, a town of about 60,000 people before I came here. So I was demoted up here to Congress. My grandfather was a railroad engineer when he came to this country from Ireland. My father served 35 years as a railroad engineer up in Buffalo on a short line that serviced Bethlehem Steel Company. So I hear where you are coming from.

We appreciate you being here.

Mr. HAYS. Good people.

Mr. QUINN. You bet. I hope so.

Mr. Milloy.

TESTIMONY OF ROSS MILLOY, PRESIDENT, GREATER AUSTIN-SAN ANTONIO CORRIDOR COUNCIL

Mr. MILLOY. I am Ross Milloy. I am the President of the Austin-San Antonio Corridor Council. We are a public-private partnership that represents about 50 cities and counties, public authorities and about 130 businesses in central Texas along Interstate 35.

I have already submitted some written testimony, so I will be brief; I know your time is valuable. But I did want to take this opportunity to thank two members of your committee that have actually come down to central Texas to look at our problems there as we approach gridlock along the I-35 corridor.

Mr. Petri and Mr. Oberstar both have visited us and looked at the situation on the ground. And the reason they came is because we are rapidly approaching a real transportation and public safety crisis that we think is going to have serious implications for the State and national economy. I-35, which runs through our area, has become the de facto NAFTA highway that links Mexico, the United States and Canada. It is also the primary link between three of the five fastest growing areas of the United States—three of them being Dallas-Fort Worth, Laredo-Rio Grande Valley and Austin-San Antonio.

In 1999, the Federal Highway Administration funded a study of Interstate 35, all 1,700 miles of it, from Mexico to Canada; and what they found out was that the highest levels of congestion, the highest fatality rates, the highest vehicular counts, the most air pollution all occurred in the Austin-San Antonio Corridor. More than 100 people a year are being killed in traffic accidents just in the 90 miles between San Antonio and Georgetown along I-35 in the main lanes. That is twice the statewide average for fatalities in Texas on an urban freeway.

In Travis County, which now has the highest traffic fatality rate in the State of Texas, one in four accidents involves a truck. Now, the reasons for that are twofold. We have rapid population growth. Our population has doubled in the last 20 years. It is going to double again in the next 20 years. But it is also due to NAFTA traffic. About 80 percent of Mexico's trade with the U.S. and Canada passes through Texas, and 75 percent of that trade moves by truck up Interstate 35.

Now, nearly 3 million jobs depend on this country's exports to Mexico and Canada, but in our part of the country, we have watched the loaded truck crossings at Laredo, which handles the vast majority of that freight through our State, we have watched those truck crossings, loaded truck crossings go from 15- to 20,000 a month to 120,000 a month last year. And that trade, NAFTA trade is supposed to double—its currently about \$350 billion, it is expected to double in the next 5 years.

That same FHWA study that I mentioned estimated that we would have to expand I-35 through central Austin to 18 lanes to meet anticipated demand by 2025. I am here to tell you that is just a physical, financial, and logistical impossibility. We would have to move Darrell Royal Memorial Stadium as well. That is the local football team. It will never happen.

The cost of that, by the way, was estimated by the Center for Transportation Research at the University of Texas at something over \$20 billion. But one of the things that study recommended is that we try and shift, over the next 20 years, 50 percent of the freight currently moving through our area by rail to truck.

Now, we have a real opportunity here because we have a Union Pacific freight rail lane that directly parallels I-35 for 90 miles through the Austin-San Antonio Corridor. But those tracks were laid over 120 years ago long before that area became heavily urbanized. We now have nearly 200 at-grade crossings in our corridor, each one a potential accident site and a real hindrance to the rapid freight movement through the area.

Rail freight on that—traffic on that line has also grown dramatically since NAFTA, and the Union Pacific has seen the total rail car volume double over the last 4 years. The capacity—it outstripped the capacity of their existing main line.

Just to give you an example, Mr. Lipinski, what that means is that we have a little town, San Marcos, with 30,000 people. That town has 33 lighted and gated rail crossings in its city limits, 13 of them within a single mile of downtown. Every day Union Pacific is sending 34 trains a day through that city, some of them up to 7,500 feet long. That 20- or 30-minute delay may be just an inconvenience to passenger cars, but 80 percent of the population lives on one side of that track, and the fire station and police station and hospital are on the other side. That 30 minutes suddenly becomes a life-threatening delay under those circumstances.

The vast majority of this freight, like the vast majority of trucks through our region, is just passing through. It doesn't originate or stop in Austin-San Antonio, but heads for destinations like Chicago, Detroit, New York or south to Mexico City and Monterrey. We derive little or no local benefit, but that freight feeds important manufacturing facilities and production lines throughout the Midwest and Northeast Corridor.

What we found in other studies that have been done locally are that, right now, about \$83 million a year in added fuel cost and lost time are affecting passenger vehicle drivers and about \$200 million a year from those same costs and delays is affecting truckers. Thus, our region faces potential economic stagnation instead of taking advantage of our central location within Texas and North America.

Now, on the local, we are trying to do our part. We have put up \$500 million in new routes through our area. We have one particular project, State Highway 130, that will parallel I-35 for 90 miles at its most congested point. But a long-range solution cannot rely simply on building more freeway lanes. We need to shift significant volumes of trade, currently going by truck, to freight rail through our region, particularly between Laredo and Dallas.

The State Highway 130 project offers an opportunity to do that by offering a new right-of-way that could be grade separated to allow freight train movements of up to 79 miles an hour through one of the most congested and dangerous train corridors in the nation. It would also allow us to develop Union Pacific's existing right-of-way through the downtown centers of six central Texas cities to a more appropriate 21st century urban-use regional or commuter rail.

Building that grade-separated freight route would free up capacity on I-35. It would improve public safety. It would reduce air pollution and congestion and would speed NAFTA commerce to destinations throughout the country. But the cost is an estimated \$750 million, far more than the local communities can absorb and, thus, far more than Union Pacific is willing to invest.

In seeking funds for this project, which will benefit the Nation's economy as much as our own, we have found existing Federal programs to be a patchwork of efforts difficult to mobilize on behalf of this critical international trade corridor. Major freight rail relocation efforts often involve highway, transit, grade crossings, safety and freight rail elements; but the existing programs are so narrowly drawn that flexibility across varying modes is almost impossible to achieve.

Some programs have regulatory restrictions that seem more designed to keep them from being used than to be helpful to communities like ours. That is why I particularly appreciate Congressman Lipinski's bill, 1617. We are hopeful that elements of that bill and Ride 21 by Chairman Young can be incorporated into the reauthorization of TEA-21 and allow for a truly multimodal approach to solving public safety and congestion issues that put our citizens and economies at risk.

Mr. QUINN. Mr. Milloy, appreciate your waiting until he left before you mentioned that. Thank you.

Mr. MILLOY. I would have preferred that he had been here.

Mr. QUINN. He will hear it. Don't worry.

Mr. MILLOY. I see Ashley over there. I am sure she will pass it along.

We are delighted with your leadership and Congressman Lipinski's and Congressman Petri's and this whole committee. It is long past time that somebody looked at this issue. This has been lingering out there for a long time. Communities like mine are really suffering. We need some Federal help.

When I heard the railroad association talk about not wanting or not needing Federal support, you know, I guess the answer in some ways is that maybe they don't want it, but maybe the rest of the public does want it and does need it.

Just a couple of other points I would like to make real quickly. One is, I also wish that the Federal policy could establish a method

for sifting priorities among rail investments that would recognize the key role that trade corridors have in sustaining the national economy.

That policy should also recognize that many States, Texas among them, have restrictions on the use of State funds for rail projects and, therefore, develop a system that would provide an incentive for State and local governments to coventure with the Federal Government and the private sector to develop a more multimodal approach to freight movement.

One last thing I would hope that that Federal policy would recognize are the so-called "noneconomic benefits" related to major rail relocations, such as moving hazardous materials away from populated urban centers, public safety benefits related to reducing congestion, air quality, land use or quality-of-life benefits that accrue from using former freight corridors for passenger rail are also important considerations for Federal investment.

Chairman Quinn, that excellent memo you sent to the subcommittee on the background of proposed freight rail legislation noted that that deregulated rail lines and placed trains in direct competition with other modes of transport. In reality, these modes must work together to be more effective.

Senator Kay Bailey Hutchison mentioned yesterday that, since 1970, highways have received \$405 billion in Federal support, aviation has received 150 billion in Federal support, and mass transit has received 75 billion in support. Freight rail in that same period has received very little other than safety improvements. We believe that a more level playing field would benefit all modes and, most importantly, the public.

Finally, the research done by the RAIL Coalition, of which my group is a member, indicates that an investment of 53 billion over the next 20 years will save shippers, highway users and highway agencies over \$410 billion in avoidable costs. But more important to me is the lost opportunity cost in economic growth and increased trade and increased prosperity and employment and improved quality of life for corridors like ours that are bearing the brunt of the infrastructure demands that have developed in a post-NAFTA transportation environment.

Thank you. I would happy to answer any questions.

Mr. QUINN. What the plan is here, we are going to wait until the entire panel is finished then we will address any questions we have to everybody.

I would like to remind the remaining panelists, if you could limit your oral testimony remarks to about 5 minutes or so, that would help us finish up with you. Then we have to get to a third panel here. Someone is going to be needing to get into this room a little bit later for a hearing this afternoon, so we have to get it prepared.

Mr. Becker.

TESTIMONY OF CHRISTOPHER BECKER, EXECUTIVE DIRECTOR, OnTRAC JOINT POWERS AUTHORITY, ORANGE COUNTY, CALIFORNIA

Mr. BECKER. Thank you, Mr. Chairman and members of the subcommittee. My name is Chris Becker. I am the executive director of the OnTrac joint powers authority located in Orange County

California. I am testifying today on behalf of the OnTrac board of directors.

Thank you very much for the opportunity to be here today. I echo and express many of the same sentiments as the other local agencies in terms of how we are dealing with the Nation's increases in freight movement and those impacts on local areas.

I would also like to extend my appreciation today to Congressmen Miller and Royce for their words of induction and strong support for key infrastructure investments, including the Alameda Corridor East program and the OnTrac Project. I would also like to thank Mr. Petri and Oberstar; they have been out to southern California to see our port complex and our gateways and trade corridors. I think it was a mutually good learning experience.

I also have a written statement that I ask be made part of the hearing record today.

Mr. QUINN. Without objection, so ordered.

Mr. BECKER. Mr. Chairman, as you well know, the Transportation and Infrastructure Committee's 1991 authorization of funding for the Alameda Corridor rail project elements in southern California culminated in its ribbon cutting just about a year ago by Secretary Mineta, the distinguished former chairman of this committee. Today, the Alameda Corridor stands as a model for all intermodal goods movement projects of national economic significance. It came in on time and under budget. It was an excellent example of how we can work together to get it done.

That success demonstrates how Federal intermodal initiatives are meant to support the U.S. economy. Indeed 35 percent of U.S. container trade moves through the Ports of Long Beach and Los Angeles, 12 percent of that alone flows over the rail corridor at current levels. However, the east-west—two east-west rail lines that link and adjoin the Alameda Corridor at its north end, the Union Pacific and the Burlington Northern Santa Fe, cannot handle the international trade and domestic cargo growth resulting from the new Alameda Corridor efficiencies, as well as the Nation's economic expansion.

Mr. Chairman, what was not fully realized in 1991 is that without improving rail through-put capacity on these adjoining lines, alleviating the associated traffic on the arterial highway systems, the Alameda Corridor's transportation, the national economic benefits will not be fully realized. That was a \$2.4 billion investment by this subcommittee, and the job needs to continue on to the mainlines in order to continue the economic enhancements of that project.

By 2010, freight train delays alone will increase from the current just over 31 minutes per day through the 5-mile Burlington Northern Santa Fe Fullerton-Anaheim-Placentia bottleneck to over 3 hours. Extended conditions will delay some trains from 4 to 6 hours as increase in support growth occurs.

Construction of the OnTrac project will at least maintain tolerable delays of about a 26-minute average per daily train. The railroads can live with that. What is more important, Mr. Chairman, 50 trains per day will have to divert to other corridors, other rail routes; and 5 percent of those trains will be noncompetitively transported.

The 5-mile bottleneck area east of the Los Angeles rail yards needs a third track. But a third track, constructed only at grade without grade separating the intersecting streets by 2025, will cause local cross-traffic delays of almost 400,000 hours annually, costing almost 8 million in pure transportation restrictions by that one year.

Cumulative costs of those delays by 2025 will exceed \$100 million annually, over 6 million annual person-hours. And that is an awful lot of traffic congestion and delay, and that is no way to move over one-third of America's international and domestic trade between southern California's giant seaports and the rest of the Nation.

Fortunately, OnTrac, my agency, my California JPA, was formed to manage construction of a remedy to the BNSF mainline backlog. Our project would include capacity for a third track, which is sorely needed through this 5-mile right-of-way segment to improve the movement of the goods flow and also to mitigate attendant local traffic congestion on the highways.

All three tracks would be entirely separated from intersecting highways.

We do have a very focused program. There are over 15 major highways that are at grade now that have a high population of daytime commuters crossing through, quite a lot of delay at the rail track. The total OnTrac project cost is estimated at approximately \$400 million. In cooperation with locals, the Orange County Transportation Authority, the State of California, and the cities on the corridor, we have already generated about 45 million for the project and have our first segments of construction under way.

The OnTrac JPA is asking for one-half of our program money, or about 200 million, in the reauthorization of TEA-21. To accomplish this and to fund similar mega projects, we urge the subcommittee to establish a new title or section of the Federal-Aid Highway program to fund goods movement projects of national economic significance. This new project funding category would support mega projects, including freight rail transportation projects, which create significant national economic benefits.

We would also recommend this new category include both a discretionary and a project-specific designation component, the former to specify a processing criterion for plans to ask the Department of Transportation for funds and the latter to deem specific projects to be goods movement projects of national economic significance.

We feel the key to financing mega rail projects like the OnTrac project is creativity. In that regard, we applaud Chairman Young and Congressman Oberstar for their efforts on RIDE 21 and support a high-speed rail. In addition, OnTrac is a member of the RAIL Coalition. We would like to associate ourselves with all the good work that that group is doing. And we strongly support Congressman Lipinski's national rail infrastructure program.

In conclusion, the OnTrac Board of Directors, along with Federal and local elected officials, believe that the several projects across the country, like OnTrac, which still directly drive the entire U.S. Economy must be specifically addressed in the reauthorization of TEA-21.

Thank you.

Mr. QUINN. Thank you very much.

Mr. Jones.

Mr. HAYS. Mr. Chairman, just very briefly, I am going to have to leave, and I appreciate the committee's indulgence. I was very pleased to come in off vacation to join the committee for this most important topic. My wife would not be very happy if I didn't return. So with your permission, any questions, I will respond to any questions at a later time.

Mr. QUINN. Mr. Lipinski wants to gets you for a quick minute.

Mr. LIPINSKI. I just want to say, so I get in the loop over here, I want you to know that my Irish grandfather on my mother's side worked for the Burlington Railroad.

Mr. HAYS. I applaud your heritage, Congressman. Thank you very much, and thank you for letting me be here.

Mr. QUINN. You bet. Enjoy your vacation.

Mr. Jones.

TESTIMONY OF HON. VERNON JONES, CEO, DEKALB COUNTY, GEORGIA

Mr. JONES. Thank you, Mr. Chairman, and members of this distinguished subcommittee. As County Executive of DeKalb County, Georgia, I would like to thank you for allowing me the opportunity to provide you with a local perspective regarding H.R. 1617, the National Rail Infrastructure Program. And certainly to the distinguished gentleman from the great State of Illinois, Congressman Lipinski, I certainly thank you for taking the initiative to address a very critical issue, and we applaud you.

I must admit my father did not work for the railroad system. As a matter of fact, I do, though, brag of growing up in a little small town in rural North Carolina on a farm which was also a railroad town. My little town was probably so small, everybody knew whose check was good and whose husband wasn't.

But we have had a number of my father's friends who worked on the railroad. They were not engineers, they were laborers. They laid the tracks and disbursed the gravel. They were great Americans, and provided a transportation means for this country.

So little did I know growing up in that little town when we had tragic accidents due to unsafe railroad crossings, that I would be here today testifying before a committee on such an important issue. So I thank you again for the opportunity.

I served 8 years in the Georgia legislature, in the Georgia House of Representatives, and certainly, I understand the importance of having a State perspective. And now being elected to County Executive, I certainly understand on a more local perspective how critical this issue is.

DeKalb County is the second largest county in the State of Georgia with a population of more than 700,000 residents. To provide you with a better sense of our location, we are east of the City of Atlanta and include within its boundaries seven cities, Decatur, Stone Mountain, Lithonia, Chamblee, Pine Lake, Avondale Estates, Clarkston, and portions of Atlanta. Our county is the home to the Centers for Disease Control and Prevention, as well as Emory University, Peachtree-DeKalb Airport, the second busiest airport in our State, and the regional headquarters for the Federal Bureau of In-

vestigation. As you can see, the county handles issues of national significance.

DeKalb County has a significant passenger and freight rail presence with over 45 miles of railroad tracks and 30 at-grade crossings. These tracks and crossings are part of a comprehensive inter and intra infrastructure for a transport of passengers and freight to virtually all locations within the State of Georgia and throughout the country.

As we look to the future, we project rail transportation to increase. The passengers and freight on CSX, Norfolk Southern and Amtrak, notwithstanding the Georgia rail passenger authority, has a long-range plan for community rail lines on two of the three main line tracks.

It is part of the long-term regional transportation plan to decrease traffic congestion and improve air quality. Speaking of traffic, over the past few years, the traffic congestion on our highways has increased 2 percent annually. Just to give you some perspective, on the north side of Interstate 285, one of the busiest thoroughfares in the State, over one-quarter of a million cars travel that stretch of road each and every day. Can you imagine over a quarter of a million cars traveling that stretch?

In short, more passenger vehicles and more rail cars underscore the need for improved infrastructure at the local level. It is a matter of public safety.

Rail lines are a vital part of DeKalb's future. The rail infrastructure needs of the county are significant and require continued Federal funding. The county has enjoyed a positive relationship with regional and Federal agencies regarding these issues, but is faced locally with significant financial issues.

To improve the basic infrastructure needs of my county, as well as most highly populated communities, we need to revisit the Federal funding process in order to comply with national safety standards. For these reasons, I strongly support Congressman Lipinski's legislation, H.R. 1617, to establish and provide for funding for a National Rail Infrastructure Program.

First I would like to thank Congressman Lipinski and this committee for addressing this issue. Too many times, local issues become a faint reality at the Federal level. Everyone in this room lives in a community that addresses every day issues such as water rates, cable outages, and, most importantly, transportation issues.

When a constituent is irate with the traffic flow in their community, they do not write a letter to the Congressman. They pick up the phone and call their local elected officials. Many members of this committee started in local politics and remember these local issues all too well.

As County Executive of DeKalb County, I address a variety of constituent issues every day and must account for their resolution. It is the practice of the county to analyze our regional issues and provide the most practical solutions to our constituents. Therefore, I believe if we invest in our highway and rail infrastructure needs, we will have a stronger economy and a higher quality of life.

It is clear that an enhanced transportation system will increase local investments, and H.R. 1617 will assist State and local communities in achieving these objectives.

This legislation will allow State and local communities to aggressively pursue Federal dollars in the most direct and efficient method. The proposed rail improvement program will provide communities that have already worked with their regional transportation agencies in developing a long range transportation plan the ability to apply for funds that will directly address railroad infrastructure and system deficiencies.

The benefits of these proposed programs are significant, as they will allow communities to address immediate rail needs and have the funds readily available. The proposed formula of 80 percent Federal and 20 percent State and local match is consistent with many other agency grant programs. Therefore, communities are familiar with these programs and will be able to implement their rail improvement projects immediately.

In addition to needed funds to improve our rail system, we must also invest in high speed rail infrastructure to ensure connectivity between urban-city pairs. The Metro Atlanta Chamber of Commerce, in conjunction with 14 other Chambers of Commerce in the southeast, is proposing a business approach to high speed rail. I am sure you can appreciate how unusual it is for Chambers of Commerce who ordinarily compete head to head for economic development to cooperate on anything.

But the following chambers were compelled to work together to bring high speed rail to the southeast: Atlanta, Birmingham, Macon, Savannah, Chattanooga, Greenville, Spartanburg, Columbia, Charleston, Charlotte, Winston-Salem, Greensboro, Raleigh, Hampton Roads and Richmond. These chambers, known as the Southeastern Economic Alliance, have a new business model for high speed rail with four key principles. One, operations should be separate from infrastructure. Two, connect city pairs rather than long distance routes. Three, operations should be open to private competition. And, four, freight must be a partner.

Congressman Johnny Isakson and Jim DeMint have requested funds for this proposal. Twenty-seven congresspersons signed a joint six state delegation letter, including the following members of the Transportation Committee. John Isakson, Jim DeMint, Spencer Bachus, Henry Brown, Max Burns, Howard Coble and Robin Hayes.

I want to thank Chairman Jack Quinn, who traveled to Atlanta last summer for the High Speed Rail Summit. We appreciated your presence there. Although it is not yet clear how the tax provisions contained in H.R. 1617 would affect certain rail operations, the benefits of this proposal are too great to ignore. This legislation will promote a better environment, a greater quality of life, enhance public safety and an economic growth that will benefit both local and national economies.

Mr. Chair, I would like for these words to be submitted for the record.

Mr. QUINN. Without objection, so ordered, Mr. County Executive. Thank you for your comments and thank you for the job you do.

Mr. Lipinski and I were both just chatting when you talked about who constituents call when they have a problem. You go to the local elected officials, whether is the town of 60,000, as Mr. Hayes, or over 700,000 where you oversee now. One of the reasons

we included this panel was to make certain that we get that local perspective.

Just before we go to Ms. Clark, I have to tell you this very quickly. I was in Congress here just about a term, one term, about 2 years, and I was a supervisor, as I mentioned, to Mayor Hays, of about 60,000 people.

I got a call here in my office in Congress, a senior citizen in my hometown where I live in Hamburg, New York, and she had a sewer drainage problem in the backyard. She wanted to know if I could help her fix it.

I said to her, ma'am, thanks for calling. You know I am a Congressman now. I don't deal with sewers anymore.

She said you know, I got this drainage problem and the neighbor next door.

I said, well, here is the highway superintendent, and here is the buildings and grounds fellow, I will give you the name and give you the number.

She said, well, you need to come see this because it is coming in the back.

So, finally the woman talked me into going to see it. When I got home on the weekend, I went to see her backyard and got it fixed up.

I said to her when I was all finished, I said, you know, Mrs. Jones, just tell me why you would call me for a backyard sewage drainage problem, a U.S. Congressman?

And she said, well, Mr. Quinn, I figured I would start with you and work my way up.

That is a true story.

Mr. JONES. I understand. We get those calls. That is why it is so important as we look at homeland security, when you are dial 911, it does not go to Tommy Ridge's office, it goes to my office, local responders, local government. That is where the feathers come with the chickens.

Mr. QUINN. Those of us who have been there know it, and that is exactly why we have you on our panel today. We appreciate very much the work you do, first of all, the job you do every day, but for sharing that with us this afternoon.

Ms. Clark.

TESTIMONY OF SHARON CLARK, CHAIR, RAILROAD SHIPPER TRANSPORTATION ADVISORY COUNCIL, RSTAC

Ms. CLARK. Good afternoon. I am Sharon Clark, and I am chair of the Railroad Shipper Transportation Advisory Council, or RSTAC. The 15-member council was established by Federal law for the purpose of advising Congress on issues related to rail freight, and our particular attention is focused on the small shipper and the small railroad.

In today's global marketplace, shippers rely on a vibrant transportation market, so U.S. products and services can compete. The rail freight force portion of this network is vital, and, in short, railroads and shippers have a significant common interest in the future of a viable and competitive U.S. rail freight network.

Our recommendation is that Congress establish a coordinated national transportation policy that will address the current inad-

equacy of rail infrastructure as a method of meeting public interest goals. The Reauthorized Transportation Efficiency Act should permit massive investment in the entire transportation network, including the rail mode.

RSTAC believes we should build a comprehensive freight mobility program and we hope we will be in a position to recommend a specific legislative program to Congress within the next 30 days.

RSTAC believes that are several basic concepts on the table which can be combined into a single viable freight mobility legislative package. These include the Bush administration proposal for a freight transportation mobility program, Congressman William Lipinski's H.R. 1617, the National Rail Infrastructure Program, RIDE-21, and other proposals for flexible innovative financing, and the RSTAC proposal of April 10 flexible use of CMAQ and other funding.

RSTAC also proposes a comprehensive program to meet the capital needs of small railroads to stabilize and preserve rail infrastructure for entire regions of the country.

First and foremost, access to existing transportation funds can begin by simply revising statutory language to fully permit NPOs and state DOTs to finance freight transportation projects, including rail freight. There should also be increased flexibility within CMAQ and other existing programs, as proposed by RSTAC.

Second, we endorse the concept of establishing a national freight infrastructure program that includes the rail mode. We endorsed the concept put forth by the Bush administration for a freight set-aside that includes rail and encourages public-private partnerships.

We endorsed the programmatic aspects of H.R. 1617, the Lipinski bill, which works through the States, but also creates a discretionary program with projects of national significance being administered by the Secretary of Transportation.

Public financing of the projects is a critical issue. We do not believe financing should come through the railroad fuel tax or other railroad-specific taxes or fees assessed on rail cars or way bills. This could further burden the ability of shippers to utilize rail as a competitive shipping mode and hamper the freight railroad's ability to invest in their own lines. However, private railroads should contribute if a public project has private benefits.

If programmatic aspects of the Lipinski bill are adopted or if new funds are set aside for freight projects, the Secretary should set a public-private fund hatch based on the public and private benefits for each project to be funded. Examples of successful public and private projects have been named often this morning, and everyone is familiar now with the Alameda Corridor and the recently announced Chicago process.

Third, there should be a specific commitment to short line and regional railroad infrastructure rebuilding. We suggest a combined program of grants, innovative repayable finance and tax credits. We suggest a small railroad program, which could be included as a project of national significance under Mr. Lipinski's plan.

Fourth, innovative financing should be revised and applied to the widest variety of programs. The Young-Oberstar RIDE-21 proposal, which was marked up in committee yesterday, is an excellent start. Other ideas, including the proposal for a Rail Finance

Development Corporation, should be considered. Railroad rehabilitation and infrastructure financing loans should be given direct access to the Transportation Infrastructure Finance and Innovation Act subsidies. This would allow the payment of credit risk premiums.

The United States is a network of ports, railroads, highways, airlines and waterways. We are headed toward a crisis take can only be resolved by intelligent investment in transportation resources to improve the flow of freight and reduce bottlenecks in an interdependent freight system. The fact that rail has been largely left out of the current system of transportation investment jeopardizes the long term viability of our Nation's transportation and puts our competitive role in the world economy at risk. It is time to get rolling.

Thank you for your time.

Mr. PORTER. [Presiding.] Ms. Clark, thank you for your testimony. Let me apologize for the shuffle right in the middle of your presentation. But we, of course, have your written testimony and appreciate your being here. But, again, I apologize for the change.

Any questions for Ms. Clark?

Mr. LIPINSKI. Thank you, Mr. Chairman.

First of all, I want to thank this panel for being here. I sincerely appreciate that, and I appreciate all the nice remarks that were made about H.R. 1617.

I want to say that I was an alderman in the City of Chicago for 8 years prior to coming to Congress, the 23rd Ward in the City of Chicago where I still live, and it has always been within my congressional district. To all of those residents there, they still call me "alderman" and they still come to me for all those local problems.

I have had people walk up to me and say to me, next time you see the President, will you see if you can't get the curb fixed in front of my house, since you haven't been able to get the curb fixed in front of my house? So I am well aware that the local public official is the one that gets more requests than anyone else.

But, believe me, if you were once a local official, you are always a local official to those voters. No matter where you may wind up in life, you are still their local public official.

Ms. Clark, you talk about being supportive of my overall plan, but you certainly are not supportive of the revenue areas of my plan. But you also talk about the Highway Trust Fund, the Aviation Trust Fund and the money that goes into those trust funds are paid by the users of those modes of transportation.

All I am doing with my trust fund is utilizing revenues that are paid by the users of freight railroads and perhaps in some cases commuter railroads and Amtrak.

Could you explain to me how you support—it sounds like you support the Aviation Trust Fund and the Highway Trust Fund, and you support my concept of doing something for railroads, but you don't want to see the users pay for it?

Ms. CLARK. Well, actually in my testimony is what we refer to as a great support for the programmatic aspects of your proposed bill. I did not speak specifically to the Highway Trust Fund or the Aviation Trust Fund.

Mr. LIPINSKI. But you did talk about those two modes of transportation, did you not?

Ms. CLARK. We talked just in general that we need a very competitive modal network within the United States in order to compete on a global basis.

RSTAC's first and primary message today is that we think existing funding needs to be flexible at the local level with the NPOs and state DOTs so rail freight has a place at a table when dollars are being considered for local projects.

Our second message is that we think funding is a good idea for additional rail projects and we do think that private railroads are willing to invest in that, as are other private entities, as long as there are public benefits that also incur private benefits. So it really needs to be a partnership between both the public and the private sector.

As was mentioned by some of the testimony earlier in regards to truck, there seems to be some thinking that there is a substantial subsidy on the part of the government to the trucking industry that may not be covering all their total costs when it comes, for example, to the damage to the roads, to the damages to the bridges, and there could be some question as to whether these—

Mr. LIPINSKI. Let me interrupt you for a moment. That is a perfect opportunity to ask you, does your organization support an increase in the user fee on gasoline?

Ms. CLARK. Actually, our organization has not specifically discussed that topic. We are focused on issues and rail policy in relation to the small shipper and small railroad. If asked by Congress, we will be happy to discuss that topic at our July 9 meeting.

Mr. LIPINSKI. I am not Congress, I am only a Congressman, but I would like you to discuss that, because it seems to me, overall, you are interested in getting additional monies for the railroad industry, principally the freight railroad industry, but you are not really saying where we are going to get this money from. You don't want it to be users fees on the people that utilize the railroads.

Let me tell you, I don't think there is any member of the Infrastructure and Transportation Committee in dealing with the highway bill that funds at the present time the highways and mass transit in this country that believes we have enough money at the present time being generated by the Highway Trust Fund to adequately fund those two modes of transportation, let alone that on the railroads, if that is something you are advocating for us to do out of the existing highway bill.

Ms. CLARK. Actually, two points. One is if there is an opportunity to provide more flexibility to the NPOs and state DOTs to flex funds when it comes to inter-connected projects or projects that could take trucks off the highway and move it to the rail, we think there is a public benefit there for all involved, which would not require additional funding, it just requires flexibility in the existing funding.

Mr. LIPINSKI. When you say "flexibility," you will be then taking money either away from highways or from mass transit.

Ms. CLARK. But it would be at the local level deciding, that is, for their public good, for example, by removing trucks from the

road and putting it on a rail segment that would assist them in a local congestion point.

Secondly, we have at least in our testimony listed other potential sources of additional funding, including project-to-project matches. Some of the mechanisms that were marked up in the TEA-21 bill yesterday through the use of bonds or tax credits, and we believe that further exploration of those types of avenues are worthy of discussion.

Mr. LIPINSKI. Thank you. Mr. Chairman, thank you. Panel, thank you very much for your testimony here. Thank you for your patience. We certainly appreciate that.

Mr. PORTER. And thank you for your questions.

Mr. BECKER, I was in your great State on Saturday, my car broke down somewhere between Las Vegas, and I would like you to know I appreciate the hospitality of California, I always have, but I was looking for a better route of transportation Saturday than my car.

I have a couple of questions. In your written testimony you mentioned that rail intermodal traffic is expected to increase 60 percent by the year 2020. Can you describe the impact this growth will have on the rail and highway system in California?

Mr. BECKER. What we see happening is we are running out of capacity on the main line tracks in the next 4 to 5 years. There just simply will not be enough room in these bottleneck areas to continue the through-put from the efficiencies gained recently with the Alameda Corridor and all the ongoing good work in our port complex. That stuff all comes to a grinding halt on the rail main lines.

That has severe implications nationally. Much of the freight that comes through the Alameda Corridor east through the OnTrac corridor ends up in Chicago and on points east, so there are severe national implications.

I would call attention to, in our written testimony, also the information from the West Coast port shutdown where we had the port for about 10 days was down. About \$1 billion a day was lost all across the country. Crops were inside containers melting away. We had all kinds of car parts that couldn't make it to the marketplace, factories slowed down. Halloween costumes didn't make it to the shelf at Wal-Mart. All sorts of different examples.

My point is if we don't continue investment in the rail main lines, it will be similar to the port slowdown, where we will have ships and containers and trains waiting with nowhere to go.

Mr. PORTER. And 35 percent of all the U.S. waterborne trade passage is in Southern California?

Mr. BECKER. That is correct. It is the largest intermodal container complex in the United States.

Mr. PORTER. What do you see happening for trends in California with the waterborne?

Mr. BECKER. It is only going up. The numbers, we handled about close to 11 million 20-foot equivalent size containers last year. It will go up to 35 or 36 million containers by the year 2025. So that is a very healthy growth. The locals are willing to do everything we can at the local and State level to continue investments in real efficiencies for rail. The communities are suffocating under the tremendous strain of all of the trains and trucks coming through

our areas, and we need a hefty Federal investment to augment what can be done locally in order handle all that growth.

Mr. PORTER. Thank you. Any further questions?

I actually do have another question myself. Mr. Milloy, how is increasing trade under NAFTA predicted to affect highway and rail congestion in the Austin-San Antonio region?

Mr. MILLOY. Currently nationwide, they tell me the figures are that trucking is going up about 2 percent a year. In Texas, it is going up about 6 percent a year. In my corridor, it is going up about 10 percent a year.

Earlier today I mentioned since NAFTA has passed, pre-NAFTA we used to see 15,000 to 20,000 trucks a month cross the border at Laredo. We are now seeing 120,000 to 125,000 crossing the border. That NAFTA trade so far appears to be doubling about every 4 or 5 years, so I anticipate we will be looking at \$600 million to \$700 million within 4 years, 5 years, and those trucks are just going to continue to grow.

The Texas Department of Transportation is predicting that in the very near future it will take longer for a truck to go from San Antonio to Dallas than it did 40 years ago before we built the interstate. For a city like San Antonio that has as its core economic strategy to develop as logistics and distribution hub for NAFTA traffic, that is a real threat.

Mr. PORTER. Thank you very much. I appreciate the panel's testimony. Any additional questions?

Thank you all very much for being here.

Mr. MORAN. [presiding.] We will call our third panel to the desk, Mr. Thomas Gillespie, the representative of Alstom Transportation, Inc., on behalf of the Railway Supply Institute; Mr. John Happ, Jr., the Vice Chairman, Texas High Speed Rail and Transportation Corporation; and Charles E. Platz, the CEO of Basell, North America.

TESTIMONIES OF THOMAS GILLESPIE, REPRESENTATIVE OF ALSTOM TRANSPORTATION, INC., ON BEHALF OF THE RAILWAY SUPPLY INSTITUTE; JOHN HAPP, JR., VICE CHAIRMAN, TEXAS HIGH SPEED RAIL AND TRANSPORTATION CORPORATION; AND CHARLES E. PLATZ, CEO, BASELL, NORTH AMERICA

Mr. MORAN. Gentlemen, welcome to our afternoon panel. Mr. Gillespie, we will begin with you.

Mr. GILLESPIE. Thank you, Mr. Chairman. Is this on? There you go. OK.

Thank you, Mr. Chairman. My name is Tom Gillespie. I am here today in my capacity as a member of the Passenger Transportation Committee of the Railway Supply Institute and as a representative of Alstom Transportation.

I am going to try to stay well within the 5 minutes. I am going to skip all my references in the testimony to why we need improvements in the railroad infrastructure. I think every witness and members of the committee who testified earlier have made that point. I would simply say just sitting here and listening to the hearing today and listening to members talk, it sounds a lot like the meetings we have had at the Rail Supply Institute where ev-

everyone recognizes that we need to do more to invest in rail infrastructure, and we have discussed a wide range of ideas and how to do that.

We did conclude that we shouldn't do it along the same lines that Mr. Lipinski had recommended in H.R. 1617, and we came up with some other suggestions.

But as background as to how we got to where we did get, let me just say that while RSI is not opposed to guaranteed spending programs, it is a fact that since the enactment of TEA-21 and AIR-21, there has been a significant, and we think fundamental change in the way the Federal Government supports transportation infrastructure in the United States.

Today, guaranteed spending program now lock in about 70 percent of all Federal transportation funding before the Appropriations Committee even sits down at the table to figure out how they are going to use what is allocated. Since railroads are about the only mode of transportation not covered by capital funding sources, the industry, the rail supply industry and the railroads are hurt in two ways.

First, there is no specific infrastructure fund for them to address critical infrastructure projects that are in the public interest. Second, the existence of guaranteed spending for others has restricted the availability of appropriations for those who are not covered.

I won't mention any of the AASHTO. We had Mr. Boardman go into some detail about what their needs are. I would simply say the bottom line reports they have done were excellent.

So to get to our point, to help put more balance in the national transportation system, RSI had proposed the creation of a private, nonprofit, federally chartered Rail Finance and Development Corporation, RFDC, as we refer to it, which would be authorized to issue tax credit bonds for capital investment and rail-related infrastructure not generally eligible for transportation trust fund expenditures under TEA-21. This corporate entity would be modeled on existing federally chartered entities such as Fannie Mae. RFDC would be authorized to issue up to \$50 billion in tax credit bonds to States, public-private partnerships, to finance eligible rail-related capital projects.

I know that there are other proposals for tax credit bonds out there where States would have the authority to issue bonds, and our concern about that is that even if we pass legislation and had it enacted tomorrow, because the deficits that States are running, they would be maybe unwilling to enter into debt financing by issuing tax credit bonds.

RFDC would establish a sinking fund to secure payment of the principal at maturity. A 20 to 30 percent non-Federal match, depending on what the current interest rates may be at the time, contributed by States, localities and other project participants, would form the primary basis of the sinking fund for each bond issuance.

The creation of RFDC would enhance the prospects of projects that do not have the benefit of guaranteed funding. This committee already has a long list of rail needs that can't get funded through the authorization process, because no matter how much is authorized, there is no room in transportation appropriations to fund these needs out of the 30 percent of the funds that remain after

the guaranteed programs are honored. RFDC would create a funding mechanism to address these needs and it removes the concerns expressed by States over accumulating more debt.

In conclusion, let me just say that we got to our position on this because we think that the role of the appropriations process has diminished to the point where it is not a viable alternative to get funding for some of these rail needs. There is an enormous need, as we heard today, for rail passenger and freight infrastructure capital to address such things as congestion relief, safety and security issues.

I think every member of this committee knows the needs in the northeast corridor. We don't need to dwell on that. Increasing the fuel tax and taxing rail equipment and using revenues from the fuel taxes paid by railroads to cover rail infrastructure costs we don't think is a realistic alternative when there are other alternatives.

This is a strong public policy argument to provide more equitable policy among all transportation modes by creating a funding mechanism for railroads. States are facing large deficits and will be unable to address the critical infrastructure needs that were talked about here today. The United States has fallen far behind the rest of the industrialized world in preserving and improving its rail infrastructure, as we have also talked about today.

Finally, the idea, Mr. Chairman, of a Railroad Finance and Development Corporation financed by tax credit bonds for non-covered transportation programs, can provide a real funding alternative. It will help balance our Nation's transportation system, it has a broad base of support from its stakeholders, it will stimulate growth and employment in the railroad industry, and it will place the United States along with other industrialized nations that have the foresight to make these types of investments. This concept would not divide the transportation community; it would unite it and make it better.

Thank you, Mr. Chairman. I would be happy to answer any questions.

Mr. MORAN. Thank you very much.

Mr. Happ.

Mr. HAPP. On behalf of the Texas High Speed Rail and Transportation Corporation, thank you, Mr. Chairman and members of the subcommittee, for allowing me to testify before you this afternoon on such an important piece of bipartisan legislation as the Rail Infrastructure Development and Expansion Act of the 21st century, or RIDE-21, otherwise known as H.R. 2571.

I ask the committee to please indulge me for a couple minutes while I bring you hopefully to who we are and what the Texas High Speed Rail and Transportation Corporation is all about.

THSRTC is chaired by Robert Eckles. Judge Eckles is judge of Harris County in Houston. Our focus is really, if you will take a look at this slide and we provided you with a better picture, of the 11 federally-approved corridors for high speed rail in the United States.

Our focus, if I may, is on the South Central and the Gulf Coast corridors. The reason those are the focus of this corporation is be-

cause we would like to bring these two southern routes together. That is the purpose and our focus.

The resulting corridor is more affectionately known to us as the Brazos Express or the Texas T-Bone. This corridor would join these two corridors from Houston through College Station/Bryan on to Killeen and Fort Hood, crossing I-35.

There could not be a more appropriate time to make high speed passenger rail a reality for the people of both the State of Texas and our Nation. Not since the passage of the High Speed Ground Transportation Act of 1965 has there been funding to bring to fruition a single completed high speed rail transportation system in this Nation.

Now, with the committee's insight and commitment to the passage of RIDE-21, our friends in California, our friends in Florida, in the Northeast, the Midwest and, of course, the Northwest, can effectively realize their dreams that were initiated so long ago.

As Vice Chair of the Texas High Speed Rail and Transportation Corporation and Director of Aviation Easternwood Airport at Texas A&M University, I am a constant witness to the growing inadequacies of all forms of transportation in our State.

As you know, since the passage of the Eisenhower National Interstate and Defense Highway Acts of 1950's, our Nation has nearly doubled in size. Texas has a population of over 22 million today, and we are and have been for some time one of the fastest growing States in the Nation, growing at twice the national rate. Based on the current trends, the State of Texas will have a population in excess of 50 million people by 2040.

According to the Federal Highway Administration's transportation working group report, traffic delays in our urban areas cost drivers an estimated \$5.5 billion a year, and traffic volume is growing 16 times faster than lane miles are added. According to the Texas Commission on Environmental Quality, Texas has more unhealthy smog days, unfortunately, and more violations of the one hour ozone standard in 2001 than 48 other States. These problems will only be compounded with the expected exponential increases in population.

That said, it is clear that the people of Texas need a forward-thinking, safe, environmentally sound and efficient transportation alternative that will address these and other increasing social and economic problems facing our Nation. For these reasons, cities, counties, regional transportation authorities and air and seaports have come together in a grassroots effort for the common cause of realizing the Texas T-Bone high speed rail solution.

Ladies and gentlemen of this subcommittee, I am here today to testify to the fact that RIDE-21 offers the long-awaited modern solution to growing transportation problems facing not just the State of Texas, but also many of the States across our Nation.

One of RIDE-21's key provisions calls for the authorization of \$100 million in general fund grants for high speed rail development per year for the next 8 years. This provision reauthorizes and modifies the existing Swift Rail Deployment Act by extending program authority throughout the next decade.

Specifically, the bill calls for an increase from the previous \$10 million to \$70 million for corridor-specific development under title

49, section 26101. In addition, the bill calls for the \$30 million for high speed rail technology development under section 26102. These funds will enable States such as Texas and interstate compacts to execute desperately-needed high speed rail research and development programs. These programs include, among other things, environmental assessment, feasibility studies, economic analysis and route selection analysis.

Furthermore, Congress' authorization of these funds will also significantly benefit the corridor-specific research development and technological improvements of each of the Nation's 11 federally recognized high speed rail corridors, and thereby provide a catalyst for many of the latent high speed rail proposals throughout the Nation.

On a further note, RIDE-21 provides for the sophisticated \$60 billion program for the next 10 years. This program is comprised of a combination of \$24 billion in authority for States or interstate compacts to issue a combination of \$12 billion federally-tax exempt bonds, and \$12 billion federally tax credit bonds for high speed rail and infrastructure improvements, and also authorizes \$35 billion in loans and loan-guaranteed funding for railroad rehabilitation and infrastructure financing.

Mr. Chairman, H.R. 2571, an infrastructure and rehabilitation financing mechanism, will provide State and interstate efforts such as the Texas T-Bone initiative with the necessary financial security and incentive for substantial public-private partnerships and solid investment in high speed rail implementation.

Mr. Chairman, I thank you. It suffices to say that the Texas High Speed Rail and Transportation Corporation cannot be more supportive of RIDE-21. We strongly believe that the bill provides us with a new opportunity for the development and the implementation of high speed rail, not only in my State of Texas, but also throughout the Nation.

I urge you and your colleagues in the strongest possible terms to take a significant step forward, realizing a commitment that this Nation made nearly 40 years ago to the High Speed Ground Transportation Act. Today, and together, we can work towards intelligently and effectively modernizing this country's national passenger rail system.

Once again, I thank you and the members of this subcommittee for your time and consideration. The Texas High Speed Rail and Transportation Corporation and its members look forward to working with you as you advance this worthy initiative.

Mr. MORAN. Thank you very much.

Mr. Platz, our final witness of the day.

Mr. PLATZ. Thank you very much, Mr. Chairman and members of the subcommittee. Thank you for the opportunity to testify today on this important subject.

My name is Charles Platz, and I am President of Basell, North America, which is headquartered in Elkton, Maryland. Basell has manufacturing facilities in Texas, Louisiana and Tennessee, and markets products manufactured out of a plant in Linden, New Jersey. We produce raw material plastics that our customers use in a variety of applications, such as automotive components, textiles,

packaging, medical products, numerous household goods. We are in every segment of the market.

I appear today as cochair of Consumers United for Rail Equity and on behalf of Captive Rail Customers, the American Chemistry Council and my own company.

Mr. Chairman, I approach this issue from the perspective of an executive responsible for running a successful manufacturing business in this country that competes in an extremely competitive global market. I am very concerned not only that our company succeeds in this dynamic global economy, but also that American manufacturing jobs remain in this country.

As a business dependent on rail industry, we are vitally interested in the financial health of America's railroads. We simply cannot operate successfully in this country without a financially viable railroad industry and a secure railroad infrastructure.

Unfortunately, over 20 years since the passage of the Staggers Act, the industry apparently continues to fall short of the revenue needed to provide a first class rail system for the Nation. Perhaps the time has come to move towards a partnership between government, the railroad industry and the customers, a partnership that will ensure a national rail system that can meet the demands of our Nation's role in a global economy.

Over the past year, I have been engaged in a dialogue with the CEOs of the railroad industry about the lack of acceptable commercial relationship with our rail carriers and the financial needs of the railroad. These conversations began at the request of the then-chairman of the Senate Surface Transportation and Maritime Subcommittee, Senator John Breaux. Both John Snow, then the chair of the CSX Corporation, and I, testified before Senator Breaux on the captive rail customer issues last July 31.

At the end of the hearing, Senator Breaux asked Mr. Snow and me to enter into a dialogue on this issue and involve other CEOs from rail and shippers.

After Mr. Snow was selected by the President shortly afterwards to serve as Secretary of the Treasury, our dialogue was continued with Mat Rose, the CEO of the Burlington, Northern and Sante Fe Railroads. I have to say frankly, Mr. Chairman, we find that the railroads in today's environment are very reluctant to change the status quo, which they feel will be to their disadvantage.

Mr. Chairman, based on my experience, I believe that the major railroads in the Nation are pursuing a flawed business model. Even the railroads agree that the gap between their annual revenue needs and their annual income is expanding, not shrinking. This is despite the fact that they have been allowed to consolidate to achieve cost synergies. The synergies should have allowed them to operate more efficiently and in a fashion that permits them to recover their costs of capital.

They have also had the opportunity to transfer less profitable track to short line railroads, while keeping their market dominance over that track, and they have been able to increase the burden on captive rail customers.

The result is simply that those customers with no alternative pay the most. The railroads call the practice of putting more cost on the

captive customers differential pricing, and it is the cornerstone of their rate structure, and it is allowed by law.

The basic question is though, does differential pricing work for the railroads in an efficient way to guarantee sufficient growth, and at the same time close the gap with their existing financial shortfall?

I think not. Mr. Chairman, pursuing a strategy of continually loading more costs on captive rail customers does not appear to be a business model that will result in healthy American railroads in the long run. Captive rail customers will try to escape captivity and the universe of captive rail customers is likely to be reduced over time.

Some captive customers will construct rail lines as build-outs, as we have done, and I think it was mentioned here earlier by Chairman Roger Nober about the San Jacinto Rail Line. Although it will lead to competition, it will come at a high cost. That rail line cost \$80 million, it disrupts the community in which it will be put through, it is wasting capital in an area that could be better spent on other infrastructure, and, in the end, the railroad that created the bottleneck for us will lose that revenue.

Now, other captive customers will change or shift their manufacturing activities to facilities that have transportation competition. Some captives will shift their manufacturing to foreign countries, exporting American jobs overseas. Under this business model, the industry will be required to load up even more costs on the remaining captives, thus accelerating the cycle. Therefore, some companies will not even invest in the U.S., therefore losing future jobs.

Mr. Chairman, there must be a better way for the railroad industry to achieve long-term financial viability while providing efficient services at a price that allows American businesses to compete successfully in the global market. I think that the better way has two components, both of which are essential.

First, the railroads must develop a new relationship with the captive rail customers. The old saying that "absolute power corrupts absolutely" in some ways can be applied to the relationship between captive rail customers and the railroads.

The relationship between the railroads and the captive customers is so out of balance that a viable commercial relationship does not seem possible without some form of legislation.

We believe that rail legislation pending in the Senate, Senate 919, entitled the Rail Competition Act of 2003, and soon to be introduced in the House, will strike a balance that will result in normal commercial relationships between the railroads and their captive customers.

Second, the railroads need the financial resources to be viable. Perhaps Federal financing assistance for railroads' infrastructure should be provided to the railroads, which we would hope resolves the capital shortfall. If Federal loans and loan guarantees don't work, then perhaps the infrastructure grants or beneficial tax treatment should be considered. Captive rail customers will be pleased to work with the rail industry and with Congress to address the issue.

Mr. Chairman, thank you for allowing me to testify today. Captive rail shippers are not the enemies of the railroad industry. We

are their customers, and we seek new and healthy commercial relationships with our rail service providers. We believe that balanced, fair legislation is needed to bring about that positive relationship.

Infrastructure investment is important for the long-term competitiveness of the United States, and we support that investment. However, for that level of investment to be successful and for it to provide the meaningful benefit to the American economy, we must revisit and resolve the needs of those shippers most dependent upon rail, the captive rail customer. These two issues must be addressed and resolved together, or the effort to fund infrastructure will fall far short of the objective. Indeed, if railroads are allowed to continue the current practices, the end result, I believe, will contribute to more American jobs leaving our borders for destinations overseas. I suggest that that is a result we must work to avoid.

Thank you, Mr. Chairman.

Mr. MORAN. Thank you very much.

I recognize the gentleman from Texas.

Mr. BURGESS. Thank you, Mr. Chairman, for allowing me to introduce Mr. John Happ, the vice president of the Texas High Speed Rail and Transportation Corporation. The Texas High Speed Rail and Transportation Corporation was originally created from the grassroots efforts of the City of College Station, Harris County, the City of Houston and the Port of Houston Authority, who are seeking alternative solutions to the congestion and mitigation problems facing their perspective regions.

Officially formed as a not-for-profit corporation on October 25, 2002, the corporation will assist in the development and implementation of what is being hailed as the Texas T-Bone High Speed Rail proposal, which would provide intercity high speed rail service between all of Texas's major economic and major population centers.

The Texas T-Bone would interlink these centers in one continuous T-shaped corridor. The Texas T-Bone would be created by extending the already federally-recognized South Central high speed rail corridor, which runs north-south in Texas along Interstate 35, and to the Houston County Harris County region via the Brazos express corridor extension.

Currently the Texas High Speed Rail and Transportation Corporation is working with members of the Texas Congressional delegation, the Texas Department of Transportation and the Federal Railroad Administration to make the Texas T-Bone a reality.

I support the creation of the Texas T-Bone, and I am working with Mr. Happ and the corporation to educate interested parties about the expansive economic benefits when the Texas T-Bone is implemented and completed.

I want to welcome Mr. Happ to the Railroad Subcommittee. I met with Mr. Happ about the corporation this year when I first came into office. Not only does Mr. Happ act as the vice chairman of the corporation, he is also the director of the Easterwood Airport in College Station, Texas, and the president of the Aggie Chapter of the Air Force Association. Mr. Happ truly believes in efficient and effective transportation infrastructure and knows how to achieve it in the State of Texas, and is doing so by implementing the Texas T-Bone.

Thank you, again, Mr. Chairman.

Mr. MORAN. Thank you very much.

Gentlemen, let me start with Mr. Platz. First all, I am pleased to hear that there is support for trying to meet the infrastructure needs of the railroad industry. It does seem to me that there are significant issues out there that affect shippers, as well as the railroads.

One of the complaints that is lodged against the captive shippers' efforts is that you want to reregulate the railroads. Is that an accurate description of what you would like to see happen?

Mr. PLATZ. Actually, it is somewhat true, but somewhat disingenuous from the point that the—

Mr. MORAN. I don't ask the question with any flavor in mind.

Mr. PLATZ. No, I am saying this is their point. Basically, some regulation would have to happen to change what is in effect today, so there would be a re-regulation. But we are actually asking for less regulation. So we are not going to create more regulation for the railroads. So we think we want and the industry needs more competition. That means less regulation. So we are not trying to re-regulate the railroad.

Another issue that is also brought up is we are looking for open access. That is, one railroad's trains can run over somebody else's tracks. We are not looking for open access. What we are looking for are for the railroads to quote rates on sections of the tracks which are, in fact, called bottlenecks.

For example, in our Bayport, Texas, situation, there is a short track, 13 miles, that it is going to cost us \$80 million to build that line. If our current carrier would quote us a rate to that junction, that is to competition, where there actually is competitive, alternative railroads available, that would go a long way to providing competition into the rail industry.

Mr. MORAN. It seems to me that you have two ways. One, you focus on rates as they affect a particular location, and then, secondly, a desire for more competition. That seems to me to be a broader issue.

I am interested in knowing if you think there is a way in a broad sense to provide additional competition within the rail sector?

Mr. PLATZ. I started out in this whole game really being very angry with the fact, the way I was being treated by my current carrier at Bayport, Texas. As I got more involved, and I actually got an assignment from Congress to work on this thing, it is a much bigger issue. Our company is a global company, and competition is fierce in this market. And for the United States to really be able to stand up and hold our own, we need to have all segments of the economy working in a competitive way. So, that means that rail has to look at the areas in which they can help us.

For example, our country is so large, really rail is the only viable way, particularly in our business, to move freight efficiently and cost-effectively. But there needs to be ways to improve the service in which it is being provided.

Today, capital is tied up, for example, in inventory, is not really working for you unless the inventory is working. So if you have long periods in which trains are taking to arrive at a destination, or if there is wide variation from when they arrive, say 5 or 6 days or maybe even 2 weeks, you have to have more inventory. So we

need to have investments in rail infrastructure which would allow more efficient service to be given.

So I see it from a global point of view, rail competition is very important to improve efficiency in which the rail industry works and at the same time keeping the American economy competitive globally.

Mr. MORAN. I appreciate that. I see this as a Kansan, what Kansas farmers produce is exported abroad. We are in a global market, and the costs of transportation, the infrastructure needs, must be met for us to compete with those who grow wheat or corn or soybeans elsewhere in the world it is awfully important component. I am interested in knowing in the broad sense if you have a sense of how much transportation costs affect the manufacturing sector in its ability to compete worldwide?

Mr. PLATZ. Well, I can't give you a specific, but I can give you some information from the American chemistry council. We look at our business and freight, rail freight, freight in general, is one of the more costly items. For example, in my business, it is the second most costly item after my feedstock. So it is a major component. And in these businesses today, margins are squeezed very, very tightly. So any fractions of cents that can be taken out of the cost actually lead to better profitability. So the freight is a big portion of the overall cost of doing business, and it represents at least \$5 billion in the chemical industry today.

Just one a side, it is easier in the east coast and the west coast to bring material in from using ocean freight, less costly, than it is to move it out of the Gulf Coast.

So it puts those parts of the United States at risk from cheaper imports coming in.

Mr. MORAN. Thank you for your testimony.

Mr. Gillespie, what projects would you envision the Development Corporation funding and how would those be determined, how are they prioritized?

Mr. GILLESPIE. Mr. Chairman, the way we have envisioned the RFDC would be to issue the bonds and generate the proceeds from those bonds for basically all rail projects. You have heard testimony here today about what the Class I railroads' problems are. The shortlines have difficulty moving the 286,000 bound freight trains so they can feed the Class I's. Their infrastructure is not good enough to do that. That would be a project that could qualify for this. Ports are clamoring for access, more access by freight railroads. That would also be eligible for this. You have passenger needs, the high-speed rail-passenger service that have significant capital costs that are associated with that may not be able to be obtained through the appropriation process. All of these things would be eligible.

The recommendation is that the authorizing committees in Congress that have jurisdiction over rail have standards so that these projects are meeting some State priority or priority that meets the public good.

As Mr. Hamberger testified earlier today, the Class I's have no difficulty getting private capital for their infrastructure investments when they can show a stream of revenues that flow from it. But when they have projects that they need to do because of secu-

rity reasons or safety reasons, or for, you know, clean air, cleaner air, better relief of congestion, they have a harder time getting those funds out of the private markets. This is designed to help deal with those issues and deal with the public policy aspect of it.

Mr. MORAN. I appreciate the witnesses that I have heard and the testimony that has been described to me, their support for infrastructure needs.

I would take this opportunity to highlight to my colleagues on the committee that I have introduced legislation dealing mostly with the shortline railroads and creating a tax credit. We attempted the efforts along the grant line. Mr. Platz, your testimony recognized that as a possibility as well. And this year we are attempting to create some opportunities with a tax credit for shortline railroads to improve infrastructure needs to upgrade the roadbed, increase the size and strength of the rail line. It does seem to me there is a consensus of getting the dollars into the infrastructure. It appears to me there is no question that we are going to have to invest, and it is a wise investment to put dollars into rail transportation.

Mr. Happ, I listened to the gentleman from Texas and I just wanted to give you the opportunity to kind of capsule for me this project, how far along it is, where it is, what happens next. And I appreciate your compliments and the support for the legislation that this body has passed in recent days. How fast will that train go?

Mr. HAPP. Sir, I think there has been a question asked by numerous people: What is actually high-speed rail? And this certainly is in contention, but we want to develop the latest technology that is available. At the present time, we are at the stage where we need to do the development and research to determine what is appropriate for that corridor. And, if I could capsule what I am hearing from other testimony, I want to emphasize that we are talking about a corridor, and in that corridor it is not just high-speed rail opportunities. We can use that corridor by funding for the high-speed to cover many areas to include the development feasibility for other types of freight and potentially highways.

Mr. MORAN. Is there a role model that stands out that you are using as a guide?

Mr. HAPP. Not one that we look to presently but we have learned—a great deal, looking at Spain, looking at China, and looking at a number of foreign high-speed rail systems as a potential of off-the-shelf that is out there today that puts us in the 200-plus-mile-an-hour range.

Mr. MORAN. Exciting times.

Mr. HAPP. Yes, sir. Extremely.

Mr. MORAN. I will see if Ms. Brown has questions or comments.

Ms. BROWN. I want to go back to Mr. Gillespie, if you don't mind. Mr. Gillespie, from your testimony you discussed decline in freight car sales. Is that a function of the economy and other factors rather than price? If public investments in the rail infrastructure improve railroad efficiency and leads to higher demands for rail transport, wouldn't your members benefit?

Mr. GILLESPIE. One of the issues—I don't know if you saw the story in the Washington Post this morning about interest rates.

Ms. BROWN. I haven't had a chance to read the Post.

Mr. GILLESPIE. One of the issues they mentioned was the sluggish economy is due in part to the fact that companies are not purchasing materials or goods. That is kind of what the effect has been on the rail supply industry. And we think a lot of that is related to how well the railroads are doing, the Class I railroads, the shortline railroads, and some of the high-speed rail projects. To the extent that there is public support to accomplish some of these infrastructure problems, then I think this is going to have a ripple effect that benefits all of these industries. Yes, I think that is the case.

Ms. BROWN. Let me ask you one other follow-up question. Would projects funded under your Rail Financing Debt Development Corporation be subject to Davis-Bacon?

Mr. GILLESPIE. We haven't attempted to address the labor issues that traditionally accompany efforts to put public money into rail. I understand when the committee marked up the legislation yesterday that there was language that addressed the needs of labor, the concerns that they have expressed in the past; that if that solution worked there, I assume it will work here as well.

Ms. BROWN. OK, thank you. I have one other—I have a little bit more time.

Mr. MORAN. Yes, ma'am.

Ms. BROWN. Mr. Platz, if the railroads are unable to earn adequate revenue to invest in their infrastructure today, how would forcing them to lower their rates to capture shippers improve their situation?

Mr. PLATZ. To answer the question, we are not trying to get the railroads to lower their rates broadly, OK. What we are saying is that they are forcing much higher rates on the captive customers. In fact, they talk about needing 150 percent of their variable costs to be revenue adequate. They say our competitive lines pay 106 percent. So that means the captive people are paying much, much higher levels. OK. That makes the captive shippers less competitive in their markets, both internally if competing head to head with their competition, and certainly makes them very uncompetitive in a global basis. But it doesn't mean that it has to be just rate reductions. It can be improvements in service, the speed in which products move from point A to point B, the ability of companies to take cost out of that operation, OK. These are the things that we have to look at.

The status quo is not going to be able to be sustainable. We need industry, we need the railroads, we need customers, we need the shippers, and we need the American public thinking far more forward about the kinds of infrastructure that we need and the kinds of service that we are going to need in order to keep America competitive in a global economy. That is what we are going for.

Ms. BROWN. Do you have any statistics on this to show how rates are higher than for—with a captive group than for certain commodities that are not captive?

Mr. PLATZ. I think we can provide that. I don't have those today to show that. In fact, the numbers I just quoted came off one of the railroad's Web sites. So we can gather that information. We will take that on as an action item from this.

Ms. BROWN. Thank you. Thank you, Mr. Chairman.

Mr. MORAN. Ms. Brown thank you very much.

Panel, members of the panel, thank you very much for your testimony today. I believe this concludes our third and final panel of the day.

I do have a statement that I would like, with unanimous consent, to be made part of the record. Hearing no objection, it will be.

And again, appreciate all the testimony we have heard. Also remind everyone that the record will remain open for 30 days to allow the submission of supplemental materials and additional questions from members to witnesses.

Thank you very much. This hearing is adjourned.

[Whereupon, at 1:50 p.m., the subcommittee was adjourned.]



Testimony Of
Mr. Christopher Becker
Executive Director
OnTrac Joint Powers Authority
Orange County, California
On
Rail Financing
before the
Subcommittee on Railroads
Committee on Transportation and Infrastructure
U.S. House of Representatives

June 26, 2003

Mr. Chairman and members of the Subcommittee, my name is Christopher Becker, Executive Director of the OnTrac Joint Powers Authority, Orange County, California. Today, I am testifying on behalf of the OnTrac Board of Directors.

Thank you Mr. Chairman for the opportunity to appear before you today. I would also like to extend my appreciation to Congressman Gary Miller for his words of introduction and his strong support for key infrastructure investments, including the Alameda Corridor East program, and the OnTrac project. In addition, I would like to thank Congressmen Royce and Dreier, and Congresswoman Sanchez for their strong support for the OnTrac project.

Mr. Chairman, I appear before you today on an important issue confronting the country, which not only deals with reducing congestion, improving safety and enhancing environmental quality, but is also fundamental to the nation's economic growth and international competitiveness. The efficient movement of goods is the lifeblood of our national economy, creating jobs and an enviable standard of living. The most recent figures show that over 15 billion tons of goods, worth over \$9 trillion, were carried on our intermodal transportation system. This translates into 310 pounds of freight moved daily for each resident of the United States. America's freight railroads carry more than 40% of the nation's intercity freight (measured in ton-miles). In many of the rail corridors and global gateways, from California to New York, and from Illinois to Texas, the railroads are operating in unsafe congested conditions, and run at unacceptable speeds because of the competition at grade crossings with automobiles and pedestrians. Many of the communities represented by Members of both the Subcommittee and Full Committee are confronted with these conditions every day.

Recent national studies conducted by the U.S. Department of Transportation, American Association of State Highway and Transportation Officials (AASHTO), U.S. Chamber of Commerce Foundation, and the National Academy of Sciences have all concluded that our intermodal freight system, including freight rail, needs urgent attention by the Administration and Congress. These studies document the near-term potential breakdown of the Nation's logistics system, including our global gateways and national system of trade corridors. The sobering conclusions reached by these comprehensive studies also observe that much of the pressure on the intermodal system is directly related to the growth in international trade. Although a majority of freight moves domestically, international trade amounts to \$2.0 trillion, almost half containerized, manufactured goods—representing 27% of the GDP of the U.S. By the year 2020, even at moderate rates of economic growth, the total domestic tonnage of freight carried by our intermodal system including freight rail, will increase by over 60%, while at the same time international trade will nearly double. Nowhere is this dramatic trend more evident than on the West Coast, and particularly in Southern California. Today, nearly 35 percent of all U.S. waterborne trade passes through gateways and corridors in the Southern California region. In the case of the Los Angeles and Long Beach Port complex—the largest container ports in the Nation—fully two-thirds of West Coast international cargo is funneled onto rail-lines and highways emanating from an area only a few miles wide.

The ports of Los Angeles and Long Beach are integral to an efficient and well-organized network of distribution and connectivity with the trade and transportation system in the country. The strategic importance of this distribution network is demonstrated by transport times that are shorter from China through the ports, to eastern U.S. points, than through any other seaports in the nation. As a recent report noted, "...the average China/Port of Long Angeles-Long Beach/Chicago transport time is 15 days by either truck or rail, versus 16 days through the Ports of Seattle/Tacoma, and 27 days by truck (28 by rail) through the Port of Savannah.

Southern California's gateways are the entry way for so much of what moves the U.S. economy, and what fuels our modern way of living. Less well known are the impacts of these gateways, and the related rail corridors in sending products overseas, and providing markets for products made by U.S. workers and businesses. Yet the combined impact of trade through the region's system is impressive: four states alone—Illinois, New Jersey, New York, and Texas—trade a total of more than \$50 billion worth of international goods through Southern California ports and rail trade corridor network. Mr. Chairman, these figures are based on a "Trade Impact Study" OnTrac commissioned, which profiles every Congressional District in the country, as it relates to international and domestic trade. A summary of the Study is attached.

The Orange North-American Trade Rail Access Corridor (OnTrac) is a vital component of the Southern California trade transportation network, which handled international trade valued at more than \$200 billion in 2002. This floodtide of international trade moves between our overseas trade partners, particularly China and the other Pacific Rim countries, and every state in the lower 48 via the Alameda Corridor, which opened in April 2002, the Alameda Corridor East and the OnTrac corridor.

The Alameda Corridor East includes two sections, following both the Union Pacific (UP) and Burlington Northern Santa Fe (BNSF) mainlines out of the Los Angeles basin through Los Angeles, Orange, Riverside and San Bernardino Counties. Each rail line handles about 45 percent of international container traffic traveling through the Southern California region and is the backbone of domestic trade between Southern California and millions of local businesses all across the nation.

BNSF and UP handle about 90 percent of eastbound rail container traffic from the San Pedro Bay ports to the rest of the United States. Together, they run 172 trains a day, carrying urban rail passengers and hundreds of billions of dollars in domestic and international cargo each year. This eastbound corridor carries about three times the cargo of the Alameda Corridor, because the intermodal rail yards add containers trucked from the ports and containers loaded with locally produced goods. In all, the Alameda Corridor East carries about 19 percent of the United States waterborne international trade plus considerable domestic trade.

By 2010, freight and passenger rail traffic on this rail corridor is expected to leap from 172 trains today to a total of 265 trains per day. By 2025, that figure will more than double to 390 trains per day, one every seven minutes, day and night.

OnTrac, a grade-separation and railroad-lowering mega-project along the Burlington Northern Santa Fe (BNSF) line, is a strategic extension of the Alameda Corridor. Currently, over 80 freight and passenger trains operate daily in the communities along the corridor. BNSF has worked cooperatively with OnTrac to develop our grade-separation program, and this positive experience could be a model of public private partnership. Because Alameda Corridor East program, and OnTrac is such an essential hub of the nation's trade infrastructure, it is not surprising that our corridor is expected to carry an even greater load in years to come. Without significant upgrades, these critical sections of the Nation's trade infrastructure will sink under the weight of the huge volume increases projected in the near future. Recently, the Los Angeles County Economic Development Corporation has called the necessary rail upgrades to the Alameda Corridor East "a mega-project delivering domestic and international goods to a mega-consumer market place."

Prior to offering recommendations for the Committee's consideration, I would like to point out that OnTrac has worked cooperatively with the State of California, particularly the State Business, Transportation and Housing Agency, and Department of Transportation in formulating a "consensus" document focusing on policy principles for the reauthorization of TEA-21. We strongly urge the Committee to consider the content of the State's publication: *"Federal Transportation Reauthorization Beyond TEA-21—California's Consensus."* A copy of the document is attached to my statement for your use.

Mr. Chairman, as this Subcommittee and the Full Committee on Transportation and Infrastructure consider the reauthorization of the TEA-21, we strongly urge that goods movement and the investment in freight related infrastructure be given a high policy priority. Specifically we urge the Committee to consider the following recommendations:

- Creation of a project funding category that will support the implementation of "mega-projects," which create significant national economic benefits. To accomplish this and to fund mega projects, similar to OnTrac, we urge the Committee to establish a new title or section of the Federal-aid Highway Program to fund goods movement projects of national economic significance. This new project-funding category would support mega projects, including freight rail transportation projects, which create significant national economic benefits. We would also recommend that this new category include both a discretionary and project-specific designation component – the former to specify a process and criteria for applying to the Department of Transportation for funds and the latter to deem specific projects to be goods movement projects of national economic significance. One innovative funding and financing mechanisms, to support the mega project title is the dedication of custom revenues, based on future incremental growth. Currently, the Southern California Customs District generates over \$7 billion a year in revenues, with not a single dollar earmarked by the Federal government for trade or goods related infrastructure improvements.

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• In addition, we applaud Chairman Young and Congressman Oberstar for their efforts on RIDE21 in support of high-speed rail. Also, OnTrac is a member of the RAIL Coalition and we would like to associate ourselves with their testimony, and strongly support passage of Congressman Lipinski's "National Rail Infrastructure Program," HR. 1617. We agree with Congressman Lipinski's statement: "The status quo is not acceptable. In order to sufficiently fund our country's freight rail infrastructure needs, the federal government ought to create a new, significant and reliable stream of funds for rail projects."

• Other areas the Committee should consider enacting include: Increase funding flexibility to existing TEA-21 funding categories, including CMAQ, providing access to freight related infrastructure, including rail grade-separations improvement; enhance funding for the Section 130 grade crossing program and clarify that funds can be used on maintenance activities; and

• Lastly, enact new policies and programs, including changes in federal tax law to encourage public private rail development partnerships, including an enhanced role for Class I railroads serving the nations most severely congested corridors.

Mr. Chairman, thank you for the opportunity to testify today. By laying the foundation for future growth, the Alameda Corridor East will speed the flow of people and cargo, foster economic growth, and enable the creation of jobs and tax dollars across the nation.

ATTACHMENTS

1. OnTrac Project Brochure
2. Congestion Relief Profile of OnTrac Project
3. Summary of OnTrac "Trade Impact Study"
4. LAEDC Study of Trends in International Trade
5. "Los Angeles-Inland Empire Railroad Main Line Advanced Planning Study"
6. "Federal Transportation Reauthorization Beyond TEA-21—California's Consensus
7. "Need for a National Rail Infrastructure Program"



American Association of
State Highway and
Transportation Officials

James C. Codell III, President
Secretary
Kentucky Transportation Cabinet

John Horsley
Executive Director

TESTIMONY OF

JOSEPH H. BOARDMAN
COMMISSIONER
NEW YORK STATE DEPARTMENT OF TRANSPORTATION

CHAIRMAN
STANDING COMMITTEE ON RAIL TRANSPORTATION, AMERICAN
ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

ON BEHALF OF

THE AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

REGARDING

RAIL INFRASTRUCTURE FINANCING

BEFORE THE

SUBCOMMITTEE ON RAILROADS
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

JUNE 26, 2003

Founded in 1914, AASHTO represents the departments concerned with highway and transportation in the fifty States, the District of Columbia and Puerto Rico. Its mission is a transportation system for the nation that balances mobility, economic prosperity, safety and the environment.

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Mr. Chairman, Members of the Committee, I am Joe Boardman, Commissioner of the New York State Department of Transportation and Chairman of the Standing Committee on Rail Transportation for the American Association of State Highway and Transportation Officials (AASHTO). I am pleased to have the opportunity to appear before you today to present AASHTO's views on rail infrastructure financing.

My remarks will come under three headings.

- Why it is important to invest in rail infrastructure—both passenger and freight.
- What the investment needs total.
- How the investment needs might be met.

Need for Rail Investment

Rail transportation is an increasingly important element of the nation's passenger and freight transportation systems. Ten years ago I might have said this about New York, but I do not think I would have said the same for the nation. Ten years from now I probably will use the term "critical" rather than "important." Today we must invest to maintain and improve passenger and freight rail transportation or the adjectives in the future will be much more alarming.

The U.S. has undergone tremendous growth and change since our basic transportation infrastructure was put in place. The fact that I am here today speaking on behalf of AASHTO reflects that change. For railroad companies, of course, nothing is more important than rail transportation. For certain commodities, such as coal, rail is essential. For many travelers rail is the best transportation alternative for particular trips. Today, however, it is clear that rail transportation is important not only for very specific purposes and populations but for the efficient functioning of the nation's intermodal and multimodal transportation system.

Capacity in all modes is now insufficient. Congestion in all modes is a threat to mobility and competitiveness. Solutions to these problems must be multimodal and intermodal.

In its Action Agenda for 2003, AASHTO, known principally as a highway organization, included passenger rail service and freight movement in its priorities for this year.

The Agenda asserted AASHTO's belief that "intercity passenger rail service is a basic element of the nation's multimodal transportation system." AASHTO has called for a federal-state partnership for passenger rail service that:

- ensures the level of federal involvement necessary for financing and system integrity;

- provides a stable system for funding rail passenger operating costs; and
- creates a dedicated, sustainable source of funding for intercity rail passenger infrastructure improvements.

The National Governors Association (NGA) has expressed the commitment of the governors to passenger and freight rail in similar terms. With respect to passenger rail, NGA policy declares that:

“Governors strongly support ongoing efforts to develop and maintain passenger and freight rail throughout the country. Towards this end, Governors encourage the enactment of legislation to provide federal funding for these efforts and to create greater intermodal linkages and partnerships. The Governors believe an enhanced intercity rail system is an important mobility alternative, especially within regional transportation corridors, as an alternative to congested highway and aviation systems. Increasingly, severe congestion in the highway and air transportation systems has caused states to search for ways to augment the capacity of these modes.”

Concerning freight rail, NGA policy states, “The governors strongly support the continuation and improvement of a sound, competitive rail system across the nation. The nation’s diversified and global economy demands competition in all modes of transportation, including rail, to promote economic growth, improve mobility, and ensure safety in partnership with other modes.”

Early this year AASHTO issued reports on both freight rail and passenger rail. Both reports demonstrate in ample detail that the importance of rail is best understood in its relationship to the other modes of transportation. If we assess the value of rail in isolation from the other modes or in competitive terms, we will miss the point and undervalue the importance of rail investment.

Intercity passenger rail makes its most important contribution in high density corridors between city pairs where highways are crowded and air travel is time-consuming, inconvenient, and inefficient. Such corridors exist around the country—northeast, north central, northwest, California, and southeast. Investment decisions being made in these corridors are considering the costs and the benefits of the multimodal alternatives. Passengers moving by train are passengers not moving on congested roads.

AASHTO's analysis also demonstrates that the full value of intercity passenger rail cannot be achieved without creating intermodal links. For example, bus feeder services, rail service to airports, and seamless connections between rail and transit will generate the traffic needed to make such service feasible and make it possible for travelers to move from their origins to their destinations quickly and efficiently.

AASHTO's freight rail report tells a similar story. Intermodal freight is the fastest growing segment of the freight rail business. The future of freight movement is not truck vs. rail, but truck and rail

connected in an intermodal system. Without increased investment in freight rail—investment that the rail companies cannot fully cover—the disproportionate growth of highway freight movement will exacerbate the general congestion problem and impose heavy costs on our economy.

The AASHTO freight rail report posed a hypothetical question, “What if all goods carried on freight rail were shifted to trucks tomorrow?” The result would be 92 billion truck vehicle miles added to the highway system. A minimum estimate of the cost over 20 years to all public agencies—assuming that it would be feasible to make all of the necessary improvements—would be \$64 billion, not including the costs of improvements to bridges, interchanges, local roads, new roads or system enhancements, which could easily double the total. In addition, there would be substantial costs to shippers which would be passed on to consumers.

The point is, we must consider investment in passenger and freight rail in the context of the total transportation system and assess the costs and benefits in terms of the performance of that system. When viewed that way the case is compelling.

For historic and structural reasons, federal investment in rail has been only a small fraction of that made in highways and aviation. But much has changed in the world and in transportation over the last generation. I believe that now is the time to rethink our investment strategies, not only for rail, but for all transportation modes. We need

to think about what we want our national transportation system to look like, and how we would like it to function. Funding should be considered in this more comprehensive systematic context.

Rail infrastructure Financing Need

AASHTO's reports conclude that rail investment needs are significant but not overwhelming. The projected intercity passenger rail corridor investment needs for the next six years are \$17 billion -- \$42.9 billion for the 7 to 20-year range -- for a total of nearly \$60 billion over 20 years, about \$3 billion per year.

For freight rail an investment "base case" that would enable the freight rail system to maintain its current share of traffic and accommodate a "fair share" of forecast growth would require between \$9 billion and \$10 billion per year. It is estimated that the railroads can be expected to meet \$6 billion to \$7 billion of that need from their own sources, leaving about a \$2.8 billion annual gap to be met from other sources.

It is important to note that these estimates were arrived at separately and therefore do not take into account investments that benefit both passenger and freight rail—the sorts of investments that have been identified through studies such as the Mid-Atlantic Rail Operations Study.

Meeting These Investments Needs

Funding rail service and infrastructure investment is critical. However, as I mentioned above, I believe that rail is one element in the much larger issue of the future of the nation's overall national transportation system. Funding for the future of transportation should address not only the nation's rail needs, but all of the nation's transportation needs. While rail is in a somewhat unique position because it currently does not have a dedicated source of federal funding, the issue of funding our transportation systems for the future affects all modes. The Trust Fund/User Fee concept that has funded our nation's highway, transit and aviation system has worked well for nearly fifty years, but these Trust Funds are now facing solvency issues. To keep these mechanisms in place will require infusions of revenue that are not easily identified today.

I believe that we need to step back and consider the broader policy issues. This was done back in the 1970's, when Congress directed the formation of a National Transportation Policy Study Commission. The Commission prepared a report, published in 1979, that outlined strategic policy issues and proposed recommendations through the year 2000. It has been a generation since these policies were examined, and I believe it is time to do so again. I believe Congress should authorize the formation of a Next Generation National Transportation Policy Study Commission, which would create a new North American vision for transportation in the new

millennium. As one element of this study, the obviously complicated funding issues would need to be addressed.

Clearly, it will take time to develop such a vision and there is much that can and must be done without waiting for the big answers.

We must address pressing near-term problems while moving to long-term solutions. Amtrak and intercity passenger rail service is the premier example currently confronting us.

In a statement issued in February (Stability for Intercity Passenger Rail), AASHTO stated, "Achieving the long-term objectives for intercity passenger rail has been difficult because of Amtrak's recurring financial emergencies..." and recommended three steps to stabilize the current situation make it possible to move toward a workable future:

1. Providing the funding needed for Amtrak sufficient to continue operation of current services, perform critical maintenance, and make state-of-good-repair capital investments.
2. Establish a moratorium on increases in state payments to Amtrak until a long-term policy on intercity passenger rail is developed.
3. A cooperative effort involving the Administration, the Congress and the states to establish short-term stability and

to chart the course toward a long-term viable passenger-rail system.

In the near-term, states, which are experiencing the worst budget emergencies in recent years, cannot be turned to as a source of substantial new funding for Amtrak. In the long term, states can and will partner with the federal government to finance intercity passenger rail infrastructure.

In the near term, in the reauthorization of the Transportation Equity Act for the 21st Century (TEA-21), it should also be possible to amend the Transportation Infrastructure Finance and Innovation (TIFIA) program to make it more usable for freight rail projects, clarify the eligibility of freight rail projects for Congestion Mitigation and Air Quality Improvement (CMAQ) funding, and create tax incentives for rail and intermodal investment. AASHTO also supports the provision of infrastructure financing support to short lines through grants or tax credits, and through a corrected Railroad Rehabilitation and Improvement Financing (RRIF) Program.

In response to the obvious need for transportation infrastructure financing, a number of financing proposals have been offered involving tax exempt financing, tax credit financing, toll financing, project self-financing, and continued support through annual appropriations. In the near term, a combination of these approaches, combined with continued grant funding and appropriations, will likely be needed. States support funding that focuses investments on

projects that provide significant public benefits in the areas of economic development, safety, congestion mitigation, and system integration. States are willing and able to be a partner in this process, but the federal government must also be a strong and committed partner.

What is needed now is action, ideally action that takes the best of the proposals on the table. What is needed is a system of financing that is sufficient, secure, and suitable.

There are a number of proposals on the table:

The National Rail Infrastructure Program introduced by Congressman Lipinski would provide a dependable, steady stream of revenue from several sources for rail investment, though we may need to address the source and distribution of such funds.

Through FAST, Congressman Kennedy proposes to produce additional opportunities for tolling interstate highways, as does the Administration in SAFETEA.

The Administration also proposes tax and debt financing instruments in SAFETEA, and AASHTO has proposed the Transportation Finance Corporation as a means to augment the resources available for transportation investment without tax increases.

As you well know, Chairman Young's RIDE 21 assembles a variety of financing approaches in one package. In the fall of 2001, in a statement provided to this committee, I said that the Rail Infrastructure Development and Expansion Act of the 21st Century (RIDE 21) was comprehensive and integrated package, having many of the pieces needed to make progress towards meeting both our passenger and freight rail needs. It reflects a commitment to rail transportation more balanced and complementary to highways without compromising the integrity of the highway trust fund.

On the Senate side, Senator Hollings has introduced the National Defense Rail Act, which would continue to provide significant resources to Amtrak and high speed rail development.

In conclusion, the issue of rail finance is complicated, and I think we must accept the fact that a complicated problem will require multiple solutions involving all levels of government, the private sector, and different types of financing for different purposes. There is clearly a need for rail investment. Intercity passenger rail service is a basic element of the nation's multimodal transportation system, providing connection in some areas, and combating highway congestion in others. The nation's freight rail system provides balance in the freight network, avoiding the need for billions more in investment in our nation's highway systems. Without the necessary investments in both passenger and freight rail, we risk losing this vital element of our transportation system.

The issues of infrastructure investment, however, are also part of the larger question of what our nation's transportation system should look like. Congress should take action towards a long-term solution, as it pursues stability and investment in the nation's rail systems in the short term.

**TESTIMONY OF SHARON CLARK
CHAIRMAN
U.S. RAILROAD-SHIPPER TRANSPORTATION
ADVISORY COUNCIL**

***“RSTAC RECOMMENDATIONS ON PROPOSALS TO
PROVIDE
NEW FINANCING MECHANISMS FOR NATIONAL
RAIL INFRASTRUCTURE”***

**SUBCOMMITTEE ON RAILROADS
HOUSE COMMITTEE ON TRANSPORTATION
AND INFRASTRUCTURE
ROOM 2167 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C.**

JUNE 26, 2003

EXECUTIVE SUMMARY – ORAL TESTIMONY**Testimony of Sharon Clark, Chairman, U.S. Railroad-Shipper Transportation
Advisory Council****June 26, 3003**

I am Sharon Clark, Chair of the Railroad-Shipper Transportation Advisory Council (RSTAC). The 15-person Council was established by federal law for the purpose of advising Congress on issues related to rail freight. Our particular attention is directed to the requirements of small shippers and railroads.

In today's global marketplace, shippers rely on a vibrant transportation network so U.S. products and services can compete. The rail freight portion of this network is vital. In short, shippers and railroads have a significant common interest in the future of a viable and competitive U.S. rail freight network.

Our recommendation is that Congress establishes a coordinated national transportation policy that will address the current inadequacy of rail infrastructure as a method of meeting public interest goals. The reauthorized Transportation Efficiency Act should permit massive investment in the entire transportation network including the rail mode. RSTAC believes we should build a comprehensive freight mobility program. We are hopeful we will be in a position to recommend a specific legislative program to Congress within the next 30 days.

RSTAC believes there are several basic concepts on the table can be combined into a single viable freight mobility legislative package.

These include:

- The Bush Administration proposal for a freight transportation mobility program.
- Congressman William Lipinski's H.R.1617, the National Rail Infrastructure Program.
- RIDE-21 and other proposals for flexible innovative financing.
- The RSTAC proposal of April 10, to permit flexible use of CMAQ and other funding. RSTAC also proposed a comprehensive program to meet the capital needs of small railroads to stabilize and preserve rail infrastructure for entire regions of the country.

First, access to existing transportation funds can begin by simply revising statutory language to fully permit MPOs and State DOTs to finance freight transportation projects, including rail freight projects. Second, there should be increased flexibility within CMAQ and other existing programs as proposed by RSTAC.

Second, we endorse the concept of establishing a National Freight Infrastructure Program that includes the rail mode. We endorse the concept put forward by the Bush Administration for a freight set-aside that includes rail and encourages public-private partnerships. We endorse the programmatic aspects of H.R. 1617, the Lipinski Bill, which works through the states but also creates a discretionary program with projects of national significance being administered by the Secretary of Transportation. Public financing of the projects is a critical issue. We do not believe financing should come through the railroad fuel tax or other railroad specific taxes or fees assessed on rail cars or waybills. This could further burden the ability of shippers to utilize rail as a competitive shipping mode, and hamper the freight railroads ability to compete. However, private railroads should contribute if a public project has private benefits. If programmatic aspects of the Lipinski bill are adopted or if new funds are set-aside for freight projects, the Secretary should set a public/private fund match based on the public and private benefits for each project to be funded. Examples of successful public/private projects included the Alameda Corridor and the recently announced Chicago Project.

Third, there should be a specific commitment to short line and regional railroad infrastructure rebuilding. We suggest a combined program of grants, innovative repayable finance and tax credits. We suggest a small railroad program could be included as a "Project of National Significance" under Mr. Lipinski's plan.

Fourth, innovative financing should be revised and applied to the widest variety of programs. The Young-Oberstar RIDE-21 proposal, which was marked up in Committee yesterday, is an excellent start. Other ideas including the proposal for a Rail Finance Development Corporation should be considered. Railroad Rehabilitation and Infrastructure Financing (RRIF) loans should be given direct access to Transportation Infrastructure Finance and Innovation Act (TIFIA) subsidies. This would allow the payment of credit risk premiums.

The United States is a network of ports, railroads, highways, airlines and waterways. We are headed toward a crisis that can only be resolved by intelligent investment in transportation resources to improve the flow of freight and reduce bottlenecks in an interdependent freight system. The fact that rail has been largely left out of the current system of transportation investment jeopardizes the long-term viability of our nation's transportation and puts our competitive role in the world economy at risk.

It is time to get rolling!

**TESTIMONY OF SHARON CLARK
CHAIRMAN
U.S. RAILROAD-SHIPPER TRANSPORTATION ADVISORY COUNCIL**

June 26, 2003

I am Sharon Clark, Chair of the Railroad-Shipper Transportation Advisory Council (RSTAC). The Council was established by federal law for the purpose of advising Congress, the U.S. Department of Transportation and the Surface Transportation Board on issues related to rail freight. Our particular attention is directed to the requirements of small shippers and railroads. We are a council of 15 members from the rail and shipping community. RSTAC has a long and consistent record. Since our first meeting in June of 1996, we have released three White Papers and a policy statement.

Our recommendation is that Congress establishes a coordinated national transportation policy that will address the current inadequacy of rail infrastructure as a method of meeting public interest goals. These goals include preserving the economic vitality of the rail gathering network, as well as improving the safety of rail operations, improving transportation safety, reducing congestion and airborne containments and preserving rail segments for current or future passenger and transit use. We have made specific recommendations for policy implementation. These include public investment in the entire freight transportation network by providing states and Metropolitan Planning Organization's (MPOs) with broadened flexibility to commit funds from existing programs. RSTAC recommends that in surface transportation reauthorization and tax legislation, Congress should provide the broadest possible range of mechanisms for funding transportation investments.

This testimony is fully consistent with RSTAC policy and has been unanimously endorsed by our six-member Executive Committee. It has been circulated to the full membership, and there has been no objection. It will be revised into a policy statement that will be formally voted and transmitted as an official recommendation at our next meeting. We are hopeful that we will be in a position to also recommend a specific legislative program to Congress at that time.

Railroads are an integral part of the transportation industry. The reauthorized Transportation Efficiency Act should permit massive investment in the entire transportation network including the rail mode. Specifically, we feel Congress should include a rail title within the surface transportation reauthorization. Metropolitan Planning Organizations and State Departments of Transportation should be put in a

position to fully finance freight projects, including rail, on a priority basis. This testimony will further elaborate on the RSTAC recommendation as approved by the Executive Committee.

In today's global marketplace, shippers rely on a vibrant transportation network so U.S. products and services can compete. The rail freight portion of this network is vital. While it is widely recognized that railroads haul bulk commodities long distances economically, in recent years railroads have significantly increased traffic by hauling containerized and boxcar carloads to distribution and transload sites in partnership with other modes such as truck and barge. In short, shippers have a significant interest in the future of a viable and competitive U.S. rail freight network.

In sum, RSTAC believes we should build a comprehensive freight mobility program based on proposals currently on the table. We associate with the recommendation of American Association of State Highway Officials (AASHTO) "Bottom Line Report"¹ and believe it is time to move to a specific federal rail infrastructure program.²

I will now comment on four existing proposals as they relate to the RSTAC policy:

1. Congressman William Lipinski's H.R.1617, the National Rail Infrastructure Program.
2. The Bush Administration proposal for a freight transportation mobility program that would set aside dedicated funding from the National Highway System and includes eligibility for public interest projects on "a public or private rail facility" for some programs.
3. The RSTAC proposal to permit public investment in the entire freight transportation network by permitting more flexible use of CMAQ and other funding. RSTAC also endorses a proposal for a combination of loans, grants and tax credits to meet critical capital needs of small railroads to stabilize and preserve rail infrastructure for entire regions of the country.
4. An enhancement of the Borders and Corridors program as proposed by the Coalition for America's Gateways and Trade Corridors (CAGTC).

RSTAC proposes a wide definition of public and private freight rail facilities eligible for project funding. This project eligibility should be extended to all existing programs

¹ The AASHTO Bottom Line Reports on both Passenger and Freight Rail noted that while competing modes have benefited from government support, worthwhile passenger and freight railroad projects sit on the shelf. Rail investment is the cost effective alternative to meeting social objectives. The Freight Report found if all freight-rail were shifted to trucks, it would add 92 billion vehicle miles to the highway network and cost government agencies an additional \$64 billion in highway improvements over 20 years.

² We also associate with a number of other recommendations that have been put on the table. These include the American Short Line and Regional Railroads Association (ASLRRA) legislative recommendations and the Association of American Railroad (AAR) proposals for borders & corridors, additional CMAQ flexibility and incentives for qualified projects with public interest.

including CMAQ and the Transportation Infrastructure Finance and Innovation Act (TIFIA).

Comment on H.R. 1617, the National Rail Infrastructure Program and the Young-Oberstar RIDE-21 proposal.

Congressman William Lipinski's H.R. 1617, National Rail Infrastructure Program, is the most comprehensive effort to date to create a freight mobility program. This program also identifies specific funding sources that would create a revenue stream. We have concerns about the funding sources, but generally applaud the effort to identify sources of revenue. We recommend the programmatic aspects.

The H.R. 1617 Program. As stated at the beginning, RSTAC is looking at the possibility of combining four proposals currently on the table into a single viable freight mobility package. We believe there are specific concepts incorporated in H.R. 1617, which should be included generally in any rail freight mobility element. These include the bill's project eligibility rules. Regardless of the specific funding category all projects should be included in state plans. Project cost sharing should be at least 20% by a non-federal entity.

H.R. 1617 works through the states but also creates a discretionary program with projects of national significance being administered by the Secretary of Transportation. This is a good mechanism to address railroad infrastructure and system deficiencies, while providing substantial public benefits. These public benefits should include mitigating highway congestion, reducing emissions and energy use, enhancing highway safety, and reducing capital and maintenance costs on the urban and rural highway and road network. Such a program will also enhance America's economic competitiveness.

Further in this testimony we will address RSTAC's specific recommendations for repairing short line and regional railroad infrastructure. We believe that our small railroad network is the most vulnerable transportation infrastructure in the nation. As such we would like to see a small railroad program incorporated as a "project of national significance" within the context of a National Rail Infrastructure Program as suggested in H.R. 1617.

H.R. 1617 Funding Sources; Flexible TEA and; RIDE-21 Innovative Financing. For the program to work a revenue stream with funding sources must be established. For RSTAC, this is the hardest question of all. As always, "the devil is in the details." We offer the following suggestion:

- H.R. 1617 would establish a funding stream that includes the private railroads. We agree with the underlying idea that private railroads must be a funding source for any National Rail Infrastructure Investment Program that permits publicly financed improvement on private property. However, we feel that railroad financing should not come through reallocations of the railroad fuel tax, or other proposed funding streams such as new way bill taxes or taxes on locomotives and

rolling stock. This could further burden the ability of freight railroads to compete.³ In our view, railroad financing should come through a direct financial contribution into each project. The Secretary should set the match based on a formula that identifies public and private benefits on each project to be funded. We do not comment on the commuter fee and the Amtrak ticket tax.

- The need for a national rail infrastructure funding stream is great and it is time to be creative. Mr. Lipinski's H.R. 1617 proposal for a set aside of 10% of import duties collected and 10% of oil and gas royalties from federal lands is a creative and promising idea. There is a strong public interest justification. This set-aside alone would yield \$2.3 billion a year, which would be sufficient to launch a credible program.
- There will be a measurable and major benefit to the national road and highway network from these projects. Therefore, we propose flexibility be put into CMAQ and other programs to permit a contribution by MPOs and states into these projects.⁴
- Innovative financing should be included as a source of revenue for the National Rail Infrastructure Program. The Young-Oberstar RIDE-21 proposal, scheduled for Committee mark-up this week is an excellent tool. It authorizes an expansion of the Rail Rehabilitation Infrastructure Finance Program (RRIF) to \$35 billion and authorizes an additional \$24 billion in tax exempt and tax credit bond financing for high-speed rail corridors.
- Before final decisions are made in TEA-21 reauthorization rail mobility House-Senate Conference, an effort should be made to combine the best ideas for innovative finance. For example, close attention should be given to the Rail Finance Development Corporation proposal put forward by the Railway Supply Institute (RSI). We suspect RIDE-21 and the RSI proposal can ultimately be combined into an excellent vehicle for innovative finance. Further, the best ideas from the RRIF loan program and the Transportation Infrastructure Finance and

³ I am personally intrigued with the concept of a National Freight Infrastructure Mobility program which would include both highway and project rail elements in order to establish the most efficient national freight flows. A National Freight Mobility proposal White Paper was presented at the Cooperstown Conference in 2001 and updated in August 2002. If Congress took this approach then consideration could be given to a way bill tax on all freight—highway and rail. Similarly, an across the board sales tax on all locomotives, rolling stock, trucks and trailers would remove the competitive inequity of such a proposal. This is a personal aside, and beyond the scope of the RSTAC mission as established by Congress.

⁴ RSTAC has discussed proposing that a percentage of the total trust fund be set aside for projects for a national rail infrastructure program. However, we understand the projected pressure on highway and transit projects at funding levels proposed by the Administration. We suggest that if there is an increase in the gas tax funding level, over that proposed by the Administration, some percentage should be devoted to the National Rail Infrastructure Program. This would be especially appropriate for funding projects of national significance.

Innovation Act (TIFIA) program should be combined. We agree with the Administration's proposal that a "public or private freight rail facility" should be included in the definition of a project for the TIFIA program. Further, we believe RRIF should be given direct access to TIFIA subsidies. This would allow the payment of credit risk premiums and lowers interest rates. A large repayable finance pool that permits below market rate loans will encourage innovative program financing for each program part in our proposal.

Comment on the Bush SAFETEA proposal for Freight Transportation

The concept of the Bush Administration's proposal to set aside National Highway System (NHS) funds to finance a freight transportation program that meets public objectives is excellent. However, we believe the concept needs refining. We are in communication with the Surface Transportation Policy Project (STPP) and are interested in reaching common ground on a proposal that incorporates the principles put forward by the Administration.

Following are concepts from the proposal we support:

- Public-private partnerships are the key to advancing the freight transportation network to support productivity, national security and safety, while balancing environmental impacts.
- A combination of eligibility change and targeted investment will yield major improvements in freight movement.
- A broad definition of "gateways" to maximize the "scope and scale" of initiatives that will enhance freight movement.
- There should be an integration of freight transportation needs into all project development processes.
- A set-aside of dedicated funding (section 103(b) of title 23) for public interest freight projects.
- A "public or private rail facility" be included in all project definitions.

In sum, we endorse the broadest application of the specific SAFETEA plan calling for, "a combination of eligibility changes, innovative finance and targeted investment in projects with a high public interest." RSTAC is exploring the possibility of combining the Administration's proposal into a National Freight Corridor Demonstration Program. Under this concept projects would be vetted through a DOT Office of National Freight System Analysis with a strong role for the states and MPOs. We believe this concept could be made compatible with the goals, objectives and mechanisms of H.R. 1617.

Comment on the RSTAC Policy Proposal of April 10, 2003.

The United States transportation network of ports, railroads, highways and airlines requires significant investment of transportation funding. Pending surface transportation reauthorization provides Congress with the opportunity to invest transportation resources to best improve the flow of freight and reduce bottlenecks in an interdependent freight system. RSTAC strongly believes the current lack of investment flexibility jeopardizes the long-term viability of our nation's freight transportation network.

Investment should be made in the entire freight network. In a policy statement on April 10, 2003, RSTAC urged Congress to adopt language in the surface transportation reauthorization that would permit the widest possible range of mechanisms for funding transportation infrastructure investments.

RSTAC calls for a program to fully permit Metropolitan Planning Organizations and State Departments of Transportation to finance freight projects, including rail, through existing surface transportation programs. CMAQ funding for rail improvements would be made explicit. Projects could be funded outside CMAQ areas to the extent they yield benefits to the impacted urban areas. Under this proposal, Congress would review all existing programs and provide the widest range of flexibility and mechanisms for funding highway and rail freight infrastructure investments.

RSTAC believes adoption of a program to provide light density rail service should have the highest priority. Increased program flexibility will permit some loans and grants through the existing programs. However, this source will be limited under the best of circumstances.

The tools should include a new grant program, innovative financing and a system of tax credits to stimulate investment in railroad rights-of-way. In addressing the critical small railroad infrastructure problem, one size does not fit all, and we endorse a three pronged approach:

1. *Grants.* Adopt a new grant program for small railroads. H.R. 1020 was unanimously reported out of the House Transportation and Infrastructure Committee last year and provided \$1 billion in grants over three years. A similar program should be included within the reauthorization. Guaranteed funding should be set-aside for this element. We believe this could be addressed in a unified fashion as a "project of national significance" within a National Rail Infrastructure Program.
2. *Innovative Repayable Finance.* Consistent with my earlier comment on innovative finance, we believe RRIF should be given access to TIFIA-style subsidies for small railroad projects. This would allow the payment of credit risk premiums and lowers interest rates. The RRIF program should be expanded as proposed by the Young-Oberstar RIDE-21 bill including the \$7 billion set-aside for short line and regional railroads.

3. *Tax Credits.* The RSTAC April 10 policy statement that calls for “tax policy” as one avenue to provide “mechanisms for funding transportation infrastructure investment.” Specifically, we endorse H.R. 876, the Local Railroad Rehabilitation and Investment Act that would provide tax credits to rehabilitate short line and regional railroads faced with track deterioration brought about by the introduction of heavy 286,000 freight cars. We estimate that this would drive a minimum of \$1.7 billion into qualified small railroad infrastructure over a five-year period. We believe combining a grant program, innovative finance and tax credits will resolve small railroad infrastructure crisis.

Comment on the Borders and Corridors Proposal.

We support the Borders and Corridors proposal put forward by the Coalition for America’s Gateways and Trade Corridors to provide additional funding for the National Corridor Planning and Development Program and the Coordinated Border Infrastructure Program. We believe this program can be made to work hand and glove with our other recommendations for freight mobility programs.

Conclusion.

In summary we endorse the programmatic aspects of H.R. 1617, the Lipinski Bill, which works through the states but also creates a discretionary program with projects of national significance being administered by the Secretary of Transportation. Access to existing transportation funds can begin by simply revising statutory language to fully permit MPOs and State DOTs to finance freight transportation projects, including rail freight projects. When new funds are set-aside for freight projects within the reauthorized TEA, the Secretary should set a public/private fund match based on the public and private benefits for each project to be funded. Examples of successful public/private projects included the Alameda Corridor and the recently announced Chicago Project.

The United States is a network of ports, railroads, highways, airlines and waterways. We are headed toward a crisis that can only be resolved by intelligent investment in transportation resources to improve the flow of freight and reduce bottlenecks in an interdependent freight system. Rail has been largely left out of the current system. Metropolitan regions across the country have been experiencing increased volumes of traffic producing a myriad of social ills. Our rural railroads are under great stress and entire regions of the country may soon be cut off from the benefits of the national rail network. This would result in economic dislocation and a massive number of trucks pushed onto local roads and highways. The current lack of flexibility to include rail in our transportation investment programs jeopardizes the long-term viability of our nation’s transportation and puts our competitive role in the world economy at risk.

All projections, including those of the Administration, demonstrate that the demand for transportation projects will be huge. RSTAC recommends increased funding for the highway and surface transportation trust funds as proposed by Mr. Young, Mr. Oberstar, Mr. Petri, Mr. Lipinski, Mr. Quinn and Ms. Brown and others in Congress. Only with

such an increase in the trust fund will it be possible to meet the congestion and infrastructure crisis that this country must soon confront.

We urge Congress to move forward with a Transportation Efficiency Act reauthorization that includes rail. With a bow to Mr. Lipinski, RSTAC recommends a dedicated National Rail Infrastructure Program that will permit projects of national significance and will include small rail. Within the general approach there should be increased flexibility within CMAQ and other programs and a stronger commitment to borders and corridors. RSTAC recommends that Congress now invest in the entire freight transportation network. In the words of the State Highway and Transportation Officials (AASHTO) report entitled *Transportation: Invest in America*, “relatively small public investments in the nation’s freight railroads can be leveraged into relatively large public benefits for the nation’s highway infrastructure, highway users and freight shippers.”

It is time to get rolling.

Rail Infrastructure – An RSTAC Review of the Issues

August 6, 2003

It is estimated in ten years there will be an un-funded need for \$50 billion of additional freight-rail infrastructure improvements. Rail infrastructure is privately funded and many projects may have public benefits that private funds cannot support. Proposed tax mechanisms such as trust funds reduce the amount of private funds available to be used to support an already shrinking rail network. Rail infrastructure investment has many public benefits, including: reduced highway congestion and costs, greater economic development opportunities, less fuel consumption and reduced environmental impact.

Investing in Railroad Infrastructure: Investing in a viable multi-modal transportation network could shift 600 million tons of freight and 25 billion truck vehicle miles traveled off the highway system, save shippers \$239 billion, save highway users \$397 billion, and reduce highway costs by \$17 billion. In addition, investing in a sound rail infrastructure would provide shippers with a competitive multi-modal transportation network in areas where rail upgrades would not materialize if dependent upon private railroad investment justified purely on market volumes. Privately funded rail infrastructure projects are funded based on market volumes and improving individual rail operations, not to provide a competitive alternative for shippers or based upon local or national special interests.

Improving the Safety of Rail Operations: With capital dollars, railroads can implement new technologies focused on safety such as enhanced grade crossing protection, computer-aided dispatching systems, electronically controlled pneumatic braking systems, and positive train separation systems. Through directed and coordinated financing of infrastructure projects, we can eventually achieve the ultimate safety device for motorists and railroads – total grade separations at crossings.

Short-Line Improvements: “This issue now comes to the forefront because of the Class One adoption of the 286,000-pound freight car as the industry standard. These heavier cars cause additional stress on an already weak system of track, bridges, turnouts, and roadbed. A recent study concluded that nearly \$7 billion is required in order for smaller railroads to safely and efficiently accommodate these new 286,000-pound cars. Without such investment, the lower-density feeder network will effectively cut off from the larger railway system because of its inability to handle this traffic.” While the entire \$7 billion may not be a justified public or private expenditure, the dollar magnitude does illustrate the problem.

Reducing Highway Congestion and Enhancing Highway Safety: Highways are currently congested in many parts of the country. For example, a 1999 Maryland State Commission on Transportation Investment final report states congested highways, failed intersections, crowded buses, deferred transit maintenance, and the constraints of shared rail service will hamper Maryland’s economic development goals and further erode citizen’s quality of life. Due to rapid growth in demand, and financial and environmental constraints, it is clear *the State cannot rely entirely on adding capacity to build its way out of congestion*. As other parts of the country realize we cannot build our way out of congestion, our attention must shift to more efficiently utilizing the multi-modal transportation network already in place.

Reducing Airborne Contaminants and Conservation of Fuel: According to the Association of American Railroads (AAR), if just 10 percent of freight moved by highway were diverted to rail, the nation could save as much as 200 million gallons of fuel annually. Further, according to the Environmental Protection Agency, for every ton-mile, it is estimated a typical truck emits roughly three times more nitrogen oxides and particulates than a locomotive.

Enhancing Competitiveness and Employment in Rural Areas: Viewing railroads as infrastructure upon which to build economic development leverages rail attributes that will allow us to compete in the global marketplace. We must ensure that the rail infrastructure of the U.S. is not slowing inventory velocity, not as a guarantee of greater profits, but as a guarantee of ability to compete in a world economy. We must compete on total per unit production cost, a cost impacted significantly by inventory velocity. Enhanced access to rail freight will provide multi-modal transportation that is essential to insure that business and communities in rural America can compete globally.

Emergency Response: Freight rail is vital to military mobilization and provides critically needed transportation system redundancy in national emergencies. At issue is the capacity of the freight-rail system to grow with the economy and continue to respond to public emergencies. Large-scale deployments will stress the freight transportation system and could disrupt the complex supply chain networks of civil commerce and defense industry production. This has become even more evident since September 11th.

Subcommittee on Railroads Hearing
National Rail Infrastructure Financing Proposals
Congressman Elijah Cummings
June 26, 2003

Mr. Chairman:

International trade is the key to America's economic future. Imports and exports, which fuel our economy, are doubling every ten years, while simultaneously freight traffic within the United States is rapidly increasing. Studies show that today's transportation infrastructure is not keeping pace with the explosive growth in freight movement, specifically international goods movement. Growing freight congestion across the country is placing our economic growth in peril by creating costly delays for manufacturing, hindering job creation and undermining our ability to compete in the world market. A productively growing economy requires an efficient logistics system based on sufficient transportation infrastructure to meet the growing demand. If the current trend continues, rail traffic will increase 67% by 2020, and our rail system will not be able to handle this increase. We cannot stand by and maintain the status quo. The federal government must take a more aggressive role in helping to finance railroad infrastructure projects that afford both public and private benefits.

An efficient freight transportation system is a critical component for a healthy economy. A robust freight system that supports international trade results in job growth, as well as local, state, and federal tax revenue. Every American consumer enjoys these benefits. Today's failing economy demands that we take steps now to maintain and increase the nation's trade advantage

1 on the international market. Rapidly accelerating trade combined with
2 domestic growth has created a \$10 trillion U.S. commodity flow. The result is
3 millions of new job opportunities and a higher standard of living for
4 Americans. As long as we keep the freight moving, we can continue to enjoy
5 the benefits.

6

7 Studies have confirmed the fact that trade drives growth. Our
8 economic future demands that we invest in the infrastructure needed to
9 ensure our country's movement of goods. The establishment of a rail trust
10 fund would be a significant step towards our goal of a balanced national
11 freight system. H.R. 1617, the National Railroad Infrastructure Program
12 introduced by my esteemed colleague Bill Lipinski aims to do just that. H.R.
13 1617 would establish a trust fund to support a National Rail Infrastructure
14 Program. H.R. 1617 would establish a dedicated pool of funds that would
15 ensure that freight rail infrastructure needs are met and that projects receive
16 adequate funding.

17

18 I am a cosponsor of H.R. 1617 because I feel that it is a move in the
19 right direction. However, I maintain an open mind and look forward to
20 hearing different ideas and individual viewpoints. I am sure that the
21 distinguished panelists before us today have many innovative ideas that I look
22 forward to hearing.

23

24 Thank you Mr. Chairman.



Railway Supply Institute

**STATEMENT OF
THOMAS J. GILLESPIE
REPRESENTATIVE OF ALSTOM TRANSPORTATION, INC.
ON BEHALF OF THE
RAILWAY SUPPLY INSTITUTE, INC.**

**BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON RAILROADS**

**HEARING ON
NATIONAL RAIL INFRASTRUCTURE FINANCING PROPOSALS
JUNE 26, 2003**

Good morning, Mr. Chairman and distinguished Members of the Subcommittee. Thank you for this opportunity to testify and provide this committee with our suggestions on financing railroad infrastructure needs. My name is Tim Gillespie, and I am here today in my capacity as a member of the Passenger Transportation Committee of the Railway Supply Institute (RSI) and as Legislative Representative for ALSTOM Transportation, Inc. It is a privilege to appear before you today on behalf of RSI, which is the successor of two historically significant trade associations, the Railway Progress Institute (RPI) and the Railway Supply Association (RSA). Our new consolidated association represents over 400 companies from around this nation; large and small, public and private, with approximately 150,000 employees who generate in excess of \$20 Billion dollars in annual revenue. These companies manufacture and lay the rail; build the locomotives, tank, freight and passenger cars; design and install the signal & telecom systems; and provide financing, after-sales service and maintenance to the entire North American mainline market.

Mr. Chairman, there is a lack of balance in our nation's transportation system due, in some measure, to the way government funds infrastructure. When Congress enacted TEA 21 and AIR 21 there was a significant and fundamental change in the way the federal government funds transportation. Now, 70 percent of all federal funding for transportation is guaranteed. As a result, only 30 percent of the federal funding allotted for transportation is discretionary and much of that is used for safety related programs, Amtrak, the administration of the Department of Transportation and a variety of independent agencies. There is no room in the traditional transportation appropriations process for addressing critical rail infrastructure needs with the remaining funds left over after the guarantees are honored.

While user fees pay for much of the guaranteed spending, other non-user fee sources are becoming increasingly significant. For example, according to a recent Brookings Institutions Series on Transportation Reform (April 2003), of all the federal, state and local funding for highways in 2001, 59 percent were from user fees and 41 percent came from non-user fee sources (property taxes, bonds, general fund and a variety of other sources). This report also points out that taxpayers are subsidizing the trucking industry because heavy trucks impose costs on the highway system that significantly exceed those of lighter vehicles like family cars. While we recognize the complexity of imposing a user fee in a fair and equitable manner, we point this out only as a way of demonstrating the kind of imbalance in our transportation system that exists today and as an example of the competitive disadvantage for the railroad industry.

This, of course, has an impact on those of us in the railway supply industry. Recently, the domestic railway supply industry has been suffering through difficult times. According to RSI's American Railway Car Institute, new freight car deliveries have plummeted from near record high deliveries in the late 1990s to near record low deliveries last year. As recently as 1998, freight car builders delivered 75,685 new cars. Orders and deliveries have declined every year since. Last year the entire industry produced only 17,714 new freight cars. Despite an upturn in orders, this year's production may only reach into the 20,000 range.

During this same time span many freight car component suppliers have had to declare bankruptcy or have simply gone out of business. Because of this, the industry has had to shut down plants and lay off workers. Absent sustained growth in this important transportation sector we can continue to expect difficult times for new freight car builders and their component suppliers.

RSI believes that there are ways for Congress to put more balance into our transportation system in a way that will stimulate the economy without imposing a sales tax on rail rolling stock to help fund a railroad trust fund. Such a sales tax may be a disincentive to purchase freight cars thus prematurely ending the fragile recovery we are beginning to see in this sector. For this reason, RSI opposes H.R. 1617, the National Rail Infrastructure Program Act, which attempts to raise revenue for a trust fund by taxing new freight and passenger cars and new locomotive purchases. Furthermore, there are no guarantees that the money collected by this tax would be invested in projects that benefit those companies that are forced to contribute. In addition, RSI opposes using the 4.3-cent deficit reduction fuel tax paid by railroads and redirecting this tax to create a railroad trust fund. This is bad economic policy and would not produce the kind of revenue necessary for railroad infrastructure investment. While we believe there is an urgent need for Congress to develop a workable and effective rail infrastructure funding mechanism, it makes little sense to alienate the stakeholders in the process. If the goal is to improve rail infrastructure, we need to do it in a way that gets all the stakeholders behind that effort.

Recognizing this we have developed a proposal for your consideration that would address the needs of our nation's railroad infrastructure without generating opposition from those whom would benefit.

Earlier this year, RSI endorsed the creation of a private, non-profit, federally chartered Rail Finance and Development Corporation (RFDC) authorized to issue tax-credit bonds for capital investment in rail-related infrastructure not generally eligible for transportation trust fund expenditures under TEA 21. Our proposal was the subject of a feature article in the June 2003 issue of *Railway Age*.

Under our proposal this corporation would provide financial support for capital projects that:

- Develop higher speed intercity rail corridor passenger services, including infrastructure and equipment;
- Meet the backlog of capital needs on the Northeast Corridor (NEC) Infrastructure;
- Provide efficient rail access to ports;
- Support development of intermodal terminals, transloading facilities and rail access thereto;
- Facilitate high frequency rail access to airport terminals;
- Enhance capacity on the nation's rail freight network designed to enhance security, reduce congestion, improve air quality and improve efficiency;
- Support the capital needs of short line and regional railroads for infrastructure improvements to serve rural and smaller communities and accommodate 286,000-pound freight cars;
- Support relocation and/or consolidation of rail lines and facilities in urban areas.

Financing

Modeled on existing federally chartered entities such as Fannie Mae, RFDC would be authorized to issue up to \$50 billion in federal tax credit bonds to states and public/private partnerships to finance eligible rail-related capital projects. Specific criteria to be included in the RFDC's authorizing legislation would govern project eligibility, selection, financing and repayment obligations.

RFDC would establish a principal sinking fund to secure payment of the principal at maturity. A 20/30 percent non-federal match (depending on what the current interest rates may be), contributed by state, localities or other project participants, would form the primary basis of the sinking fund for each bond issuance, supplemented by additional federal contributions as may be required.

Governance

A Board of Directors appointed by the President of the United States would govern this corporation. The function and authority of this corporate entity would be subject to the oversight of the congressional committees of jurisdiction.

Transportation Finance Corporation

This is a variation of the American Association of State Highway and Transportation Officials (AASHTO) approach that proposed to create a Transportation Finance Corporation. This concept is designed to help create more balance in both transportation policy and funding by creating a RFDC to help finance those capital projects that are not currently covered by the guaranteed spending programs created by TEA 21 and AIR 21. The non-covered programs include passenger and freight railroads, short line railroads, ports, high-speed rail and MagLev projects. The creation of the RFDC would enhance the prospects of projects that do not have the benefit of guaranteed funding.

This proposal would place the RFDC within the jurisdiction of the Congressional authorizing committees that currently have oversight responsibility of these non-guaranteed programs (even though the legislation is in part a tax bill and would need to be enacted by the tax committees), providing the authorizing committees with the legislative authority to create the structure of the organization, establish guidelines for the allocation of the resources generated by

the proceeds from the sale of the bonds and establish standards for projects eligible for funding with these proceeds. As previously mentioned, the authorizing committees already have a long list of rail needs that they have been unable to fund through the authorization process because no matter how much is authorized there is no room in transportation appropriations to fund these needs out of the 30 percent of funds left over after guaranteed spending programs are addressed.

Paying the Principal

The idea of a RFDC removes some of the concerns expressed by states over accumulating more debt financing that arose when bonding authority was proposed to deal with Amtrak's needs. In this case there will be a separate, federally chartered corporate entity designed much like Fannie Mae, the successful Federal National Mortgage Association, which would sell the bonds and administer this program. The RFDC would be set up as a federally chartered corporation governed by a Board of Directors appointed by the President of the United States. The RFDC could have the authority to sell up to \$50 billion in bonds. The Board would select a Chief Executive Officer and appropriate staff. There are a number of ways that can be devised to repay tax credit bond principal. As mentioned, AASHTO uses a sinking fund with a portion of the bond proceeds. The original Amtrak bonding proposal assumed states would contribute matching funds (30%) deposited into escrow accounts/sinking funds to secure principal repayment. The point here is that the sponsor/borrower would be responsible for principal repayment only—effectively providing zero percent borrowing. From the government's prospective, this is cheaper than a grant over the short-term and from the borrowers perspective, much more cost-effective than conventional borrowing or credit instruments like RRIF.

Much of the costs associated with a proposal of this nature could be offset. The Center on Budget and Policy Priorities has indicated that the Senate passed tax provisions that were dropped from the recently enacted tax bill included measures to close abusive corporate tax shelters that could produce significant revenue enhancers and help cover losses associated with other tax measures. As *The Washington Post* has reported, the Senate Bill “included provision to crack down on abusive corporate tax shelters, combat some accounting scams such as those pursued by Enron Corp., prevent US companies from moving their headquarters to post office boxes in offshore tax havens such as Bermuda and limit grossly inflated deferred compensation plans for corporate executives.” The Senate provisions would have saved more than \$25 billion. All of these provisions were dropped in conference and are available to help address the much needed rail infrastructure improvements we are concerned about.

Why We Need This Proposal

Despite significant investments in highways and aviation, the American economy continues to lose billions of dollars each year as a result of traffic congestion. It has been estimated that aviation delays alone costs the U.S. economy about \$10 billion per year today and by 2015 it will be over \$30 billion per year. That is a total of more than \$150 billion over the next decade. The cost of congestion on highways is even more staggering. Creating a funding mechanism like the RFDC for non-guaranteed transportation programs that are designed to help reduce congestion on highways and at airports could substantially reduce the cost in delays to the U.S. economy, help stimulate job growth and help balance our transportation system.

The need for investment in the railroad industry to meet future mobility requirements for both goods and passengers is substantial. AASHTO recently projected in its Intercity Passenger Rail Transportation Bottom Line Report estimated higher-speed rail corridor investment needs of

\$17 billion over the next six years, and \$42.9 billion over the next seven to twenty years for a total of \$59.9 billion. This sum is exclusive of capital requirements to continue long-distance intercity rail passenger rail service.

Freight rail needs are just as substantial, and experts are beginning to express concern over the industry's inability to meet its cost of capital. AASHTO's Freight Rail Bottom Line report cites specific needs the Class I freight railroads and the short line and regional railroads will require in capital investment to simply keep up with the freight rail's share of domestic freight tonnage over the next twenty years. AASHTO estimates the following capital requirements: \$13.8 billion to assure rail safety, including funding for signal systems, grade separations, grade crossing elimination and track relocations for both freight and passenger systems); \$11.8 billion to improve short line tracks and bridges to handle 286,000 pound railcars, deferred maintenance and safety and speed improvements; \$4 to \$5 million annually for Class I infrastructure and repair; and \$3.5 billion annually for Class I infrastructure improvements, above and beyond repair and maintenance. AASHTO estimates total freight rail capital investment needs of \$175 billion to \$195 billion over twenty years, however the private rail industry will only be able to provide up to \$142 billion. The remainder (up to \$53 billion or \$2.6 billion annually) would require public investment.

Most states are facing the prospect of large budget deficits. Nationally, it is now estimated that state deficits for the coming fiscal year will be \$80 billion. There is little prospect that states will have the resources to undertake transportation infrastructure projects like high-speed rail in this environment without a federal partner. In fact, Florida's Governor Jeb Bush is seeking a special election to overturn the state-approved initiative to build a high-speed train across the state. States are now looking to the federal government for assistance for critical

infrastructure needs that provide a public good. The concept of a RFDC provides a reasonable and cost effective alternative to traditional grants or revenue sharing for states. It also encourages the type of public/private partnerships that are essential if we are to meet the needs of those surface transportation projects that are not covered by the guarantees provided in TEA 21 and AIR 21.

Most of the Class I freight railroads admit that their internal cash flow is not sufficient to meet its massive ongoing capital investment needs. Maintaining the status quo for the freight railroads according to some officials will result in one of two things: the industry will be forced to shrink OR the federal government will be forced to take over the railroad infrastructure at a very high cost. In an environment where a significant amount of government support pays for the transportation infrastructure of their competition, railroads cannot afford to continue to only use private funds to finance their infrastructure needs, especially for projects that provide a public good. Financial markets require railroads to only make infrastructure investments where there is a reasonable rate of return and discourage investments where the primary benefit is for the public good (fuel conservation, air quality, congestion relief, safety and security). A concept like the RFDC proposal would result in a source of capital assistance for rail projects that have a public benefit and **would not** depend on the fuel tax revenues as a source of funding. In addition, it has the potential of helping the federal government avoid a huge bailout in the future if the Class I railroads continue to have constraints on how much they can devote to infrastructure spending. Also, infrastructure investments in rail projects that result in a public good and help attain public policy goals like cleaner air, less congestion on highways, creation of jobs and a stimulus to the economy, is good public policy.

Ports have been clamoring for more efficient on dock railroad freight access to their facilities that would assist them in avoiding the high cost and congestion of shipping goods by truck in and out of ports. In testimony before Congress recently, the American Association of Port Authorities indicated that some forecasts show that imports and exports will increase eightfold by 2040. This kind of growth would mean about 10,000 more trucks a day just along the I-95 corridor. That is a truck about every 270 yards between Miami and Boston. This funding mechanism would set in place a way for ports to shift more of their connecting traffic to rail and help avoid that kind of highway congestion. In addition, it could help address much needed security measures at our ports by using the RFDC to fund demonstration projects on new security technology in connection with the rail infrastructure improvements.

The short line railroads have a significant infrastructure problem. They cannot afford the cost of capital to upgrade their tracks to handle heavy freight cars to serve shippers along their lines. There is no federal program in place to assist them primarily because there are no funds in the transportation appropriations process available. If these low-density lines, which play such an important part in connecting rural areas to the national rail freight network, cannot get some assistance for their infrastructure needs they may eventually face abandonment.

There are many deserving high-speed rail projects that are on the shelf due to lack of funding. States will not be able to carry this burden alone. They need a federal partner. Every industrialized nation in the world has made significant investments in high-speed rail, leaving the United States far behind in the development and implementation of this technology. And, it is this technology that can do the most to alleviate congestion on highways and at airports.

Finally, Amtrak has significant infrastructure costs in the NEC that will require much more support from the federal government than they have been able to provide in the past. Currently, Amtrak is asking Congress for \$1.8 billion in federal funding for Fiscal Year (FY) 2004, much of which is for infrastructure costs in the NEC. This level of funding will be very difficult to obtain through the appropriations process. Creating a RFDC would relieve Amtrak of the burden of finding all its infrastructure needs for the NEC in the appropriations process and allow the NEC states to play a larger role by seeking funds from the RFDC for capital projects in the Northeast Corridor. The RFDC could provide resources for the NEC infrastructure leaving Amtrak to depend on the appropriations process for its operating subsidy.

Conclusion

- The appropriations process has become a less dependable source of funding for rail infrastructure since the enactment of guaranteed spending laws;
- There is an enormous need for rail passenger and freight infrastructure capital that may not have a high rate of return on the investment but would address such public policy issues as security, congestion relief, safety and security;
- Amtrak may not be able to obtain the \$1.8 billion in FY 2004 it needs to operate the national system and invest in its infrastructure out of the annual appropriations process;
- Increasing the fuel tax or using the revenues from fuel taxes paid by railroads to cover rail infrastructure costs does not appear to be a realistic alternative;
- There is a growing interest among policy makers to use the tax code, especially tax credit bonds, as a funding source for transportation infrastructure when funding is not available through the appropriations process;

- There is a strong public policy argument to provide a more equitable policy among all transportation modes by creating a funding mechanism for those modes of surface transportation (railroads) that are not protected by guaranteed spending programs;
- States are facing large deficits and will be unable to address critical infrastructure needs and are unable to assume any additional debt;
- The United States has fallen behind the rest of the industrialized world in preserving and improving its rail infrastructure; and
- The idea of a Railroad Finance and Development Corporation financed by tax-credit bonds for non-covered transportation programs has the potential of creating a coalition of all those who benefit from the proceeds to get this done in a way that is good for them and good for the country. Unlike proposals that would use the proceeds from federal diesel fuel taxes, taxes on rail equipment, commuter ticket taxes, etc., this concept would not divide the transportation community—it would unite it.

Thank you again for this opportunity to testify on behalf of the Railway Supply Institute. We look forward to working with this subcommittee to help design a railroad infrastructure financing mechanism that is politically viable, can establish more balance in the nation's transportation system and address the critical needs of the railroad industry and its suppliers.

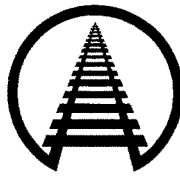
105

STATEMENT OF

EDWARD R. HAMBERGER

PRESIDENT & CHIEF EXECUTIVE OFFICER

ASSOCIATION OF AMERICAN RAILROADS



BEFORE THE

HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

SUBCOMMITTEE ON RAILROADS

HEARING ON

RAILROAD INFRASTRUCTURE AND TEA-21 REAUTHORIZATION

JUNE 26, 2003

On behalf of the members of the Association of American Railroads (AAR), thank you for this opportunity to discuss the reauthorization of the Transportation Equity Act for the 21st Century (TEA-21) as it relates to freight railroads and freight railroad infrastructure. The AAR is the primary trade association representing the interests of major North American freight railroads. Our members account for the vast majority of rail mileage, employees, and revenue in Canada, Mexico, and the United States.

Freight railroads operating in the United States move more freight, more efficiently, and at lower rates than any other freight rail system in the world. They move vast amounts of just about everything, connecting businesses with each other across North America and with markets overseas over a rail network spanning approximately 143,000 route miles. Their global superiority is a direct result of a regulatory system, embodied in the Staggers Rail Act of 1980, that relies on market-based competition to establish nearly all rate and service standards. This limited regulation has allowed railroads to improve their financial performance from anemic levels prior to Staggers to more moderate levels today, which in turn has allowed them to plow back literally hundreds of billions of dollars into improving the performance of their infrastructure and equipment — to the immense benefit of their customers and our nation at large.

There is more to do, however. The long-term demand for freight transportation in this country will undoubtedly continue to grow. In fact, the U.S. Department of Transportation predicts that U.S. rail freight tonnage will rise 55 percent over the next 20 years. Even over just the next 10 years, if U.S. rail ton-mile growth simply matches the growth achieved over the past 10 years, railroads will be hauling nearly two trillion ton-miles of traffic by 2012 — a 29 percent increase over 2002's level. Moreover, with

highway congestion becoming ever more acute and with public pressure growing to reduce emissions, conserve fuel, and promote safety, railroads are likely to be called upon to do even more in the years ahead, given their substantial advantages in these areas over other transportation modes. In addition, demands for use of freight-owned track by passenger trains are mounting and will continue to grow. And, of course, railroads will continue to make additional investments in infrastructure projects to enhance service to their customers.

Overview of Freight Rail Infrastructure and Investments

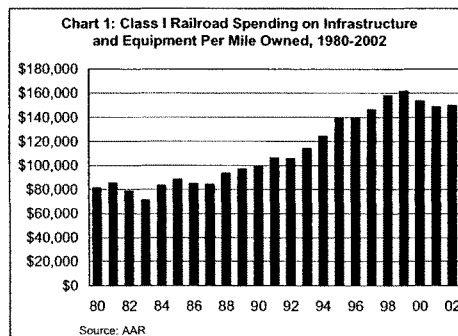
Freight railroading requires vast levels of capital and maintenance spending for infrastructure such as track, signals, and structures; for communications and information technology; for equipment such as locomotives and freight cars; and for technology research, development, and implementation.

Prior to passage of the Staggers Act, much of the U.S. rail infrastructure base was in miserable condition, mainly because railroads lacked the funds to properly maintain it. By the mid-1970s, more than 47,000 route-miles had to be operated at reduced speeds because of dangerous track conditions. The amount of deferred maintenance was in the billions of dollars and the term “standing derailment” — in which stationary railcars simply fell off poorly maintained track — entered the railroad lexicon.

All this changed with the passage of the Staggers Act. Railroads have taken full advantage of the opportunities Staggers gave them by rationalizing and upgrading their systems, dramatically increasing productivity, improving service, lowering rates sharply, and reinvesting heavily in productive rail infrastructure and equipment.

Indeed, from 1980 to 2002, U.S. Class I freight railroads alone spent \$102.1 billion, including \$5.7 billion in 2002, on capital expenditures. In addition to capital spending, railroads expend \$10-\$12 billion per year to repair and maintain infrastructure and equipment. After accounting for depreciation, freight railroads typically spend \$15 billion or more — equal, on average, to 45 percent of their operating revenue — to provide the high quality assets they need to operate safely and efficiently. As

Chart 1 shows, on a per mile owned basis, Class I investments have soared over the past decade and now approach or exceed \$150,000 per mile annually. This is an extraordinary level of funding, and is a clear



indication of the remarkable diligence with which railroads have been approaching capacity and infrastructure performance issues.

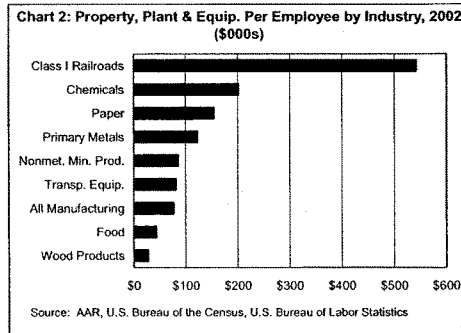
By any of a number of measures, the capital intensity of freight railroading is at or near the top among all U.S. industries. For example, from 1997 through 2001, U.S. freight railroads spent an average of 18.8 percent of revenue on capital investment (see Table 1). The comparable figure for the U.S. manufacturing sector as a whole was just 3.8 percent. Similarly, railroad net investment in plant and

Table 1: Capital Expenditures as a % of Revenue for Various U.S. Industries, Average 1997-2001

All manufacturing	3.8%
Petroleum & coal products mfg	2.9%
Transportation equip. mfg	3.0%
Food manufacturing	2.7%
Machinery mfg	3.3%
Wood product mfg	3.2%
Fabricated metal product mfg	3.7%
Primary metal product mfg	3.8%
Chemicals manufacturing	4.9%
Paper manufacturing	4.9%
Computer & electr. product mfg	5.4%
Nonmetallic mineral product mfg	5.8%
Class I Railroads	18.8%

Source: U.S. Bureau of the Census, AAR

equipment per employee is far higher than other industries. As Chart 2 shows, the figure for railroads for 2002 — \$542,000 per employee — is seven times the average for all U.S. manufacturing (\$77,000). Railroads also have significantly higher asset needs for



each dollar of revenue produced than other industries. Based on Fortune 500 data, the figure for railroads (\$2.77) is well over twice the average for industrial firms (\$1.24).

Thanks to their massive investments, Class I freight rail infrastructure today is probably in its best overall condition ever. The challenge for railroads, and for policymakers, is to ensure that the current high quality of rail infrastructure is maintained and that adequate freight rail capacity exists to meet the freight transportation needs of our nation in the foreseeable future and beyond.

Constraints on Rail Infrastructure Funding

Unlike other transportation modes, freight railroads overwhelmingly finance their infrastructure spending with private, not public, funds. Because their profitability is limited by the intense competition they face in the transportation marketplace, though, railroads' internal cash flow is not sufficient to meet their entire investment needs. Consequently, every year they must access the outside capital markets. From 1981 to 2002, 34 percent of the funding for Class I railroads' capital expenditures was provided from external capital providers (see Chart 3). The "funds shortfall" over this period was

nearly \$33 billion, highlighting the importance of access to outside capital to the rail industry.

As noted earlier, since enactment of the Staggers Rail Act of 1980, freight railroads have improved earnings, but as a group they still do not come close to

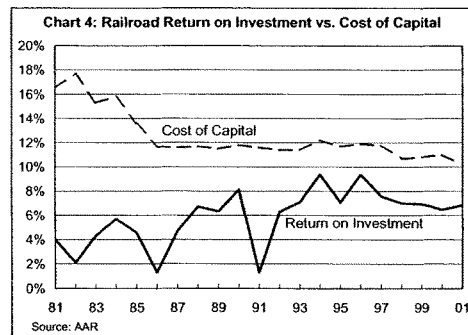
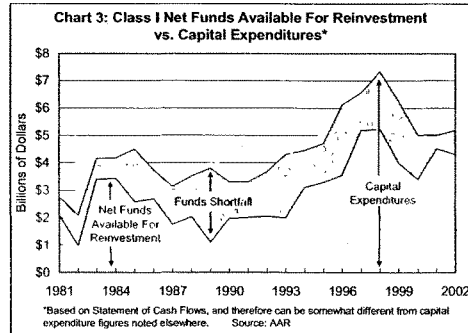
earning their cost of capital. In 2001 (the most recent year available), the rail industry's cost of capital (COC, as determined by the Surface Transportation Board) was 10.2

percent, compared with a return on investment (ROI) of 6.8 percent.

While the gap between ROI and COC is not as wide as it used to be, its presence signifies railroads' continuing inability to earn adequate revenues.

Unfortunately, this has

increasingly negative ramifications. Rail stockholders and outside capital providers have become ever more concerned with the fact that railroads consistently fail to earn their cost of capital, and now increasingly insist that railroads demonstrate a compelling need for further investments.



As a result, especially over the past few years, railroads have become increasingly constrained in how much funding they can devote to infrastructure spending. Freight railroads have no shortage of potential infrastructure investment projects, but financial markets provide stern discipline to ensure that investments are made only where they will provide a reasonable promise of a direct economic benefit to the investing railroad. This focus on internal returns is necessary and appropriate in a free market economy. However, it discourages investments that would yield primarily public benefits — such as reduced congestion, cleaner air, improved safety, and enhanced mobility — and have less clear direct monetary benefits to the railroads that would be financing the projects.

That increased investments in freight rail projects would yield significant public benefits is beyond dispute.

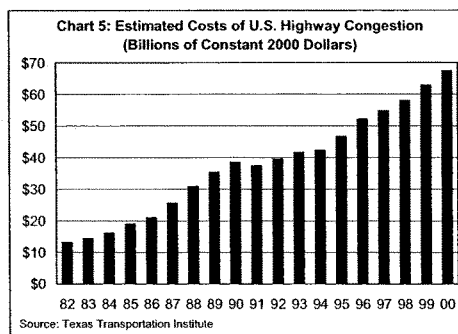
For example, on average, railroads are three or more times more fuel efficient than trucks, and freight rail fuel efficiency has steadily improved. In 2002, railroads moved a ton of freight 404 miles, on average, per gallon of diesel (roughly equivalent to transporting one ton from Baltimore to Boston on a single gallon), up from 235 miles in 1980 and 332 miles in 1990.¹ Today, if just 10 percent of freight that currently moves by truck moved by rail instead, our nation would save hundreds of millions of gallons of fuel per year.

Railroads are also the environmentally-friendly mode. The Environmental Protection Agency (EPA) estimates that a typical truck emits roughly three times more nitrogen oxides and particulates for every ton-mile than a locomotive. Other studies suggest that trucks emit 6 to 12 times more pollutants per ton-mile than railroads. When

¹ In 2002 alone, U.S. freight railroads used 2.7 billion fewer gallons of diesel fuel and emitted 30.5 million fewer tons of carbon dioxide than they would have if their fuel efficiency had remained constant since 1980.

new emission standards for newly manufactured and retrofitted locomotives are fully phased in by 2005, the standards will yield a 40 percent reduction in hydrocarbon (HC) emissions, a 60 percent reduction in nitrogen oxide (NOx) emissions, and a 40 percent reduction in particulate emissions compared with estimated current rates.

Freight railroads also significantly alleviate highway congestion. According to Texas Transportation Institute data, the aggregate cost of highway traffic congestion in the United States approaches \$70 billion per year (see Chart 5). This congestion constitutes a drag on the economy and is an “inefficiency tax” that we all pay.



An increased reliance on freight railroads would significantly reduce this burden, while also reducing the pressure to build costly new highways. The American Association of State Highway and Transportation Officials (AASHTO) recently estimated that if all rail freight were shifted to trucks, it could cost federal, state, and local transportation agencies an extra \$128 billion for highway improvements. A single intermodal train can take 280 trucks (equivalent to more than 1,100 cars) off our highways. Trains carrying other types of freight can take up to 500 trucks off our highways.

Finally, freight railroads provide major safety-related public benefits. For example, railroads today are one of our nation's safest industries. They have lower employee injury rates than other transportation modes and most other major industry groups, including

agriculture, construction, and manufacturing. Freight rail is associated with an estimated one-fourth the fatalities of intercity motor carriers per billion ton-miles of freight moved. There is also a far greater chance of hazardous material release when such commodities are shipped by truck than by rail: railroads and trucks carry roughly equal ton-mileage of hazardous materials, but trucks have nearly 16 times more hazmat releases than railroads.

What Policymakers Should Do

I respectfully suggest that it is in our nation's best interest to allow the huge public benefits of freight railroading to continue to accrue as quickly as possible. One way we can help make sure this happens is by engaging in a more pronounced reliance on public-private financing partnerships for railroad infrastructure improvement projects, especially in cases where the fundamental purpose of the project is to provide public benefits or meet public needs. This enhanced emphasis is consistent with what AASHTO declared in its January 2003 *Freight Rail Bottom Line Report* when it noted, "[R]ealizing the public benefits of a strong freight-rail system at a national level will require a new partnership among the railroads, the states, and the federal government." It is also consistent with what Allan Rutter, the Administrator of the Federal Railroad Administration (FRA), noted in an April 2003 speech when he said, "Increasing rail capacity and shifting more traffic to railroads will require greater partnerships among all stakeholders."

Public-private partnerships provide a means for transportation planners and providers to effectively meet vital transportation needs by combining the efficiency of the private sector with the equity of public participation. Public-private partnerships are *not* "subsidies" to railroads. Rather, they are, properly, an acknowledgement that private entities should pay for private benefits and public entities should pay for public benefits,

and that cooperation between interested entities is far more likely to result in meaningful solutions to transportation problems.

It should be noted that an emphasis on enhanced public-private partnerships extends to short line railroads. Short lines perform a variety of critical tasks, including connecting rural areas to the national rail network. However, the infrastructure of many of these smaller, lower density railroads cannot support the operation of the rapidly increasing number of heavier rail cars that railroads require to offer competitive, economical service to their customers. Absent outside assistance, many of these short line carriers will be unable to upgrade their lines — which may eventually face abandonment. If this happened, countless communities would be cut off from the national rail network, resulting in severe economic displacement and a sharp increase in truck traffic on local roads. Consequently, we believe that H.R. 876 (the “Local Railroad Rehabilitation and Investment Act”), which authorizes a federal tax credit of up to \$10,000 against maintenance for track owned by non-Class I railroads, deserves your consideration in this regard.

To help ensure the success of an enhanced focus on public-private partnerships, the rail industry suggests that modest modifications be made to certain transportation infrastructure programs and federal fiscal policy. These modifications would maintain budgetary “firewalls” for transportation spending and preserve existing transportation funding frameworks.

Specifically, the freight rail industry suggests the following:

1. Preserve the Section 130 Grade Crossing Program, Increase Funding, and Clarify That Funds Can be Spent on Maintenance Activities

Grade crossing warning devices are *highway* traffic control devices, there to protect motor vehicles, not trains. The Section 130 program directs funds for grade crossing protection, thereby enhancing highway safety.

The Section 130 program provides federal funds to states and local governments to eliminate or reduce hazards at highway-rail grade crossings on public highways. Current funding, under a set-aside to the Surface Transportation Program of TEA-21, is approximately \$155 million per year. The vast majority of Section 130 funds have been spent on the installation of new active warning devices such as lights and gates, upgrading existing devices, and replacing or improving grade crossing surfaces.

Despite the fact that accidents continue to occur at crossings with active warning devices, it is clear that at crossings with higher accident potential, an active warning device can improve safety. However, the high cost of current active warning devices — approximately \$150,000, on average, per installation — has limited the number of crossings at which they have been installed. Today, approximately 59 percent of the approximately 154,000 public highway-rail grade crossings do not have active warning devices. Research into improved low-cost grade crossing warning systems is underway, but federal funding for highway-rail crossing hazard abatement through the existing Section 130 program would permit additional crossings to be protected with available warning devices much more quickly.

Without a set-aside program, grade crossing needs would likely fare very poorly in competition with more traditional highway needs, such as highway capacity expansion and maintenance. In fact, the primary reason that a separate grade crossing safety

improvement program was begun in 1974 was that highway safety, and especially crossing safety, received low priority for available highway dollars.

Consistent with our view that the Section 130 program enhances highway safety, the rail industry supports H.R. 906 (the “Surface Transportation Safety Act of 2003”) recently introduced by Representatives Quinn and Rahall and cosponsored by many of the members of this subcommittee. H.R. 906 would improve highway safety. It is supported by major highway groups, including the American Highway Users Alliance and the Associated General Contractors of America. It would eliminate the existing “Optional Safety” category under the Surface Transportation Program and split funding equally between the Section 130 and Section 152 (highway hazard elimination) programs. The “Optional Safety” category has grown disproportionately since its establishment in 1998, thereby depriving the Section 130 and Section 152 programs of tens of millions of dollars set aside for safety improvements.

2. Increase Funding for the Congestion Mitigation and Air Quality Improvement Program (CMAQ) and Strongly Encourage the Use of CMAQ Funds for Freight Projects

CMAQ, currently funded at approximately \$1.5 billion per year, is intended to reduce transportation-related emissions by providing state transportation departments and local governments flexible options to fund emission reduction strategies. Because CMAQ funds are intended to improve air quality, funds must be spent in areas that do not meet the National Ambient Air Quality Standards. (States without non-attainment areas may use their share of CMAQ funds for other projects.)

CMAQ funds are used to support a wide variety of purposes, including the use of public transportation; promoting efficient traffic movement; supporting educational

campaigns; promoting ride-sharing, bicycling, and pedestrian programs; funding automobile inspection and maintenance programs and fleet conversion efforts.

Over the past few years, CMAQ has funded a few rail-related projects — for example, the construction of a truck-to-rail transfer facility in Waterville, Maine. Given the huge potential of freight-related projects to accomplish the goals of CMAQ, increased CMAQ funding and a greater focus on freight-related projects would allow states to undertake innovative projects to accomplish CMAQ's goals. Moreover, because some transportation planners question the eligibility of freight projects for CMAQ funds, there is a need for an explicit acknowledgement of freight eligibility for CMAQ-supported projects.

3. Increase Funding for the Corridors and Borders Program and Liberalize Project Eligibility Criteria

The National Corridor Planning & Development Program and the Coordinated Border Infrastructure Program collectively constitute the Corridors and Borders Program, which provides funding for planning, project development, construction, and operation of projects that serve border regions and for high priority corridors throughout the United States. Current funding is approximately \$140 million per year. Recently, applications for grants under the program have been 16 times higher than available funding, spotlighting the tremendous need for projects of this type.

Under TEA-21, a few small-scale rail projects have been funded by this program, including the development of multimodal/intermodal corridor plan for rail and highway improvements in Port Elizabeth, New Jersey, and technology and physical improvements for expediting rail cargo at border crossings in New York, Michigan, and Minnesota.

Rail participation in this program could be enhanced if it were made clear that projects geared to all international trade (East-West as well as NAFTA North-South) are

eligible for funding, and by changing eligibility rules to allow funding of projects at facilities located more than 100 miles from an international border as long as the traffic served is largely international. Much U.S. rail traffic, including approximately half of rail intermodal traffic, is international. Most travels hundreds of miles on its rail leg.

4. Encourage Freight Planners to Give Freight Issues Additional Consideration in State and Local Transportation Planning

Transportation projects that involve federal funds are prioritized by state planning organizations and, in the case of urban projects, by metropolitan planning organizations (MPOs). The planning process is very useful, allowing for continuing, cooperative efforts by local stakeholders to achieve effective transportation solutions. Unfortunately, transportation planning typically focuses almost exclusively on highway and transit projects, with scant attention paid to freight. To address this deficiency, Congress should strongly encourage planning organizations to consider freight transportation needs, including railroad projects and intermodal projects, more fully in their planning.

5. Allow Funding of Rail Infrastructure Through Issuance of Tax-Exempt Indebtedness

Under this proposal, holders of “Qualified Railroad Indebtedness (QRI)” would qualify for an income tax exclusion for interest earned on the QRI. QRI would be any type of indebtedness, regardless of the form, issued to fund the acquisition, construction, improvement, maintenance, or repair of “Qualified Railroad Property” (QRP). QRP, in turn, would be an expenditure for the acquisition or maintenance of depreciable property, such as track, bridges, tunnels, grading, wharves and docks, terminal facilities, signals, computer systems, and public improvements either used or to be used in the railroad’s trade or business.

This proposal is consistent with sound public policy, since enhanced capital investment in critical railroad infrastructure leads to increased productivity, improvement in safety, enhanced global competitiveness, a reduction in environmental degradation, and ultimately a higher standard of living for our nation. The tax benefits of this proposal would flow directly to the holders of the indebtedness in the form of income tax exclusion for interest earned, and indirectly to railroads in the form of lower capital costs. This proposal would encourage expanded use of efficient, environmentally-friendly rail transportation by partially counterbalancing the substantial public subsidies provided to rail-competitive heavy trucks and barges.

6. Provide Tax Incentives and Tax Exempt Financing to Companies Making Investments in Intermodal Freight Infrastructure

This proposal would provide targeted income tax benefits to companies for investments made in qualifying assets to improve the efficiency or increase the capacity of the national intermodal freight transportation system. Qualifying assets would include track and roadbed located on intermodal corridors, intermodal transfer facilities, freight handling machinery and equipment at intermodal transfer facilities, and intermodal information infrastructure. Under this proposal, the tax benefits would accrue to any company that made such investments, not just railroads. Enactment of this proposal would maintain and extend TEA-21's recognition of and focus on intermodal solutions to transportation problems.

The public benefits of an efficient intermodal transportation system are enormous. Intermodalism lowers overall transportation costs by allowing each mode to be used for the portion of the trip to which it is best suited; increases economic productivity and efficiency, thereby enhancing the nation's global competitiveness; reduces congestion and

the burden on overstressed public infrastructure components; generates higher returns from public and private infrastructure investments; and reduces energy consumption and contributes to improved air quality and environmental protection.

7. Expand the Railroad Rehabilitation and Improvement Financing (RRIF) Program and Remove Restrictive Requirements

The Railroad Rehabilitation and Improvement Financing (RRIF) program provides low-interest loans and loan guarantees (not direct federal grants) to help finance railroad capital investments.

As embodied by TEA-21, RRIF authorizes up to \$3.5 billion in direct loans and loan guarantees, of which at least \$1 billion is reserved for small railroad projects. It is administered by the FRA. Due largely to an exceedingly long delay in the release of implementing regulations and overly restrictive regulatory requirements, to date just a few RRIF loans have been approved.

A major expansion of the RRIF program and an easing of regulatory barriers to its use could help both short line and Class I railroads to continue to provide safe and efficient transportation service that enhances our nation's economic health and global competitiveness. Two proposals — S. 104 (the "Railroad Advancement and Infrastructure Law of the 21st Century," or "RAIL-21") in the current Congress, and H.R. 2950 (the "Rail Infrastructure Development and Expansion Act for the 21st Century," or "RIDE-21") in the 107th Congress — would increase (from \$3.5 billion to \$35 billion) the amount of loans and loan guarantees available through the RRIF program, and would raise the amount dedicated to short line railroads from \$1 billion to \$7 billion. Both proposals also countermand the existing regulatory barriers pertaining to RRIF program eligibility, particularly the lender of last resort provisions and the collateral requirements. Eliminating

these excessive regulatory requirements would make the RRIF program more attractive to railroads of all sizes.

As planning for the reauthorization of TEA-21 proceeds apace, the AAR is pleased to be an active participant in the Freight Stakeholders Coalition.² The Coalition has unified behind a nine-point agenda designed to promote sound, effective transportation solutions. There is substantial overlap between the Coalition's nine points and the seven AAR proposals discussed above. In addition to those areas of overlap, the AAR supports other elements of the Coalition's agenda, including protecting the integrity of the Highway Trust Fund; dedicating funds for National Highway System (NHS) highway connectors to intermodal freight facilities; establishing a national freight industry advisory group to provide input to the U.S. DOT; creating and funding a Freight Cooperative Research Program; expanding freight planning expertise at the state and local levels; developing ways to increase available funds without new user fees and taxes by creating a toolbox of innovative financing options specifically aimed at freight capacity improvements and enhancements; and streamlining environmental permitting for freight transportation projects. More details on the Coalition's points are in Appendix A.

Examples of Public-Private Partnerships Involving Rail Infrastructure

The number of public-private partnerships involving rail infrastructure is growing. Several are familiar to many members of this committee. The Alameda Corridor project in Los Angeles/Long Beach, the Freight Action Strategy Corridor (FAST) in Washington, and the Shellpot Bridge in Delaware are three of the best known. I will briefly discuss two

² Besides the AAR, members of the Coalition include the American Association of Port Authorities, the American Trucking Associations, the Coalition for America's Gateways and Trade Corridors, the Intermodal Association of North America, the National Association of Manufacturers, the National Industrial Transportation League, the U.S. Chamber of Commerce, and the World Shipping Council.

other major partnerships that have recently been announced, one in Chicago and one in New Jersey.

The Chicago Regional Environmental And Transportation Efficiency Project (CREATE)

Last week the six major freight railroads that serve the Chicago metropolitan area, the City of Chicago, and the State of Illinois announced an ambitious \$1.5 billion overhaul of Chicago's rail transportation network that will modernize track connections, expand rail routes, and separate tracks and highways to improve traffic flow. Four years of study went into the plan, which is designed to overcome bottlenecks that for years have slowed both passenger and freight trains in the region.

Dubbed CREATE — the Chicago Regional Environmental And Transportation Efficiency Project — the project calls for the establishment of five rail corridors, including one especially for passenger trains; some 26 new highway-rail grade separations that will eliminate many commuter rail and highway motorist delays; and the opening of a key corridor in downtown Chicago for commercial development.

Chicago is the nation's preeminent transportation hub. One-third of our nation's rail cargo and a large portion of the truck traffic moves to, from or through the Chicago region. Chicago is also by far the busiest rail freight gateway in the United States. Today, it handles more than 37,500 rail freight cars each day. Twenty years from now, that number is expected to have increased to 67,000 cars per day. CREATE will help both railroads and the City of Chicago cope with this sharp increase in freight volume, while at the same time producing substantial improvements for motorists and rail passengers.

The public benefits produced by CREATE will be substantial. They include reduced traffic congestion and air pollution as the grade separations allow highway traffic

to move more smoothly; improved access for emergency vehicles with six of the new grade separations occurring at “911” critical crossings and additional suburban crossings vital to the provision of emergency services; and more efficient and timely commuter rail service through construction of six rail/rail flyovers. In addition, the project converts an existing rail corridor to park/residential/commercial use, providing both economic and social benefits to the area. In all, the project is expected to produce a stream of hundreds of millions of dollars in public benefits just to the Chicago region. In addition, because of Chicago’s critical importance as a national transportation hub, benefits of the project will “ripple” nationwide to every state.

The rail industry believes that CREATE could serve as a model for cost-effective public/private partnerships. Railroads will pay for the benefits they receive from the project, while the government will pay for the public benefits that accrue from it. The freight railroads involved and METRA (the region’s commuter railroad) have pledged \$232 million toward the cost of the project. This figure is over and above the \$1.2 billion the rail industry has already invested in just the past five years in infrastructure improvements in and around the Chicago area. The rail industry looks forward to working with the City of Chicago, the State of Illinois, members and committees in Congress, and other parties to help ensure this critical transportation infrastructure project is completed as expeditiously as possible.

Port of New Jersey/Elizabeth

In April of this year, three major railroads and the New Jersey Department of Transportation announced agreement on a \$50 million public-private partnership designed to improve rail access to the Port of Newark/Elizabeth and the Meadowlands, help ensure

that the port remains the busiest container port on the East Coast, and help slow the increase of truck traffic on the state's highways.

The partnership, which is part of the state of New Jersey's "Smart Growth" initiative, is designed to address the 90 percent growth in the state's freight traffic expected to occur over the next 20 years. The project will increase rail capacity at the port's marine terminal complex, at a nearby major rail classification yard, and along a 10-mile stretch of rail line leading into the port. The state and the railroads will each provide \$25 million to the project, with construction expected to begin later this year.

The partnership will fulfill a critical need. The railroads involved now carry 25 million tons of freight per year into northern New Jersey terminals, compared with an estimated 283 million tons moved annually by truck. Modernization is expected to double the rail share of intermodal traffic and increase merchandise rail carloads by 50 percent. Much of the work will involve restoring track that had been removed when the rail industry was in decline during the 1970s. The partnership marks the first phase in a broader multi-year effort to upgrade freight rail infrastructure in northern New Jersey.

What Policymakers Should Not Do

While the mechanisms described above in the discussion of public-private partnerships and the modifications to existing surface transportation funding programs represent innovative tools that would, if used correctly, benefit railroads and the public interest at large, some other ideas being discussed are anything but innovative and would ultimately harm railroads, rail customers, and our nation. Two such proposals that I will discuss briefly today are a "railroad trust fund" and rail reregulation.

Railroad Trust Fund

Under a rail trust fund system — such as that contemplated by the “National Rail Infrastructure Program Act” (H.R. 1617) in this Congress — the proceeds from a variety of new and existing taxes on railroads, rail industry suppliers, rail customers, and others would be directed to a new fund administered by the U.S. Department of Transportation and disbursed to states to help cover the costs of rail infrastructure projects, highway-rail grade crossing improvements, or other purposes.

The rail industry appreciates the sentiment behind a trust fund proposal — *i.e.*, alleviating freight rail congestion and capacity constraints. This is a worthy goal, but a rail trust fund is simply the wrong way to accomplish it.

First, it would lead to substantial government interference in, and loss of railroad control over, billions of dollars of rail infrastructure investment decisions. Investment funding would become unpredictable and politicized. Infrastructure decision-making would suffer a disconnect from strategic business planning and market-based needs.

Second, a trust fund system would be inherently inefficient. Railroads and their customers would provide substantial resources to the trust fund, only to have the government dole the money — minus inevitable bureaucratic overhead — back out. This would be a pointless exercise. Allowing the railroads to simply retain the funds and use them for needed investments is far more sensible and productive.

Third, while Class I freight railroads and/or their customers would undoubtedly be the primary source of rail trust fund revenue, the pressure to use these funds to finance non-Class I projects — including passenger rail, highway-rail crossing traffic control devices, or short line railroad infrastructure — would be tremendous. If government

policymakers determine that these types of projects provide public benefits worthy of support, then policymakers must be willing to commit public funds commensurate with that determination, rather than rely on major freight railroads to cross-subsidize these efforts to the detriment of their own investment needs.

Fourth, it is completely implausible to claim that government officials are in a better position than rail management to determine and prioritize freight rail investment needs. Even if rail managers were included in decision making, the trust fund process would inevitably run afoul of parochial political considerations that would negatively influence decision making. Red tape would delay projects and increase their costs.

Fifth, new taxes to support a trust fund would increase the cost of shipping by rail. The net effect of which would be to needlessly divert rail traffic to trucks, with attendant negative ramifications for economic efficiency, congestion, the environment, and safety.

Sixth, taxes dedicated to a rail trust fund would invariably grow over time, diverting more and more resources from an increasingly constrained freight rail industry.

Reregulation

The post-Staggers structure of rail regulation relies on competition and market forces to determine rail rates and service standards in most cases, with maximum rate and other protections available to rail customers who truly need them. As noted earlier, this deregulatory structure has benefited railroads *and* their customers. However, despite the severe harm caused by excessive railroad regulation prior to Staggers and the benefits that have accrued since its enactment, some groups want to again give government regulators control over crucial areas of rail operations.

It is beyond the scope of this testimony to describe in detail why rail reregulation would be so destructive. In essence, reregulation would artificially restrain rail rates to below-market levels for a certain segment of rail customers, at the expense of other shippers, rail investors, rail employees, and the public at large. Rail earnings would necessarily fall — potentially by several billions of dollars per year. Railroads would again be unable to make the massive investments they need year after year to meet the current and future freight transportation requirements of our nation.

Any policy — including a swing in the regulatory environment back to heavy-handed government interference in rail operations — that endangers future revenue and capital cost recovery threatens the sustainability of our nation's rail system and must be avoided. If counterproductive, artificial restraints restrict rail earnings, rail spending on infrastructure will shrink, the industry's physical plant will deteriorate, and rail service will become slower and less reliable. Eventually, either the government will have to make up the difference in earnings in the form of major subsidies to railroads, or rail management will have to, in the words of one rail market analyst, begin "harvesting the business."

If you agree with me that "harvesting the business" of freight railroading is something best avoided, then I hope you will join me in opposing the reregulation of railroads.

Conclusion

Over the next two decades, a rapid increase in our nation's freight traffic will stretch already constrained transportation infrastructure. Meeting this challenge is a critical and difficult task. If not done effectively, it will weigh heavily on our nation's productivity and quality of life. Enhanced freight rail transportation must be part of the

solution. While railroads have made tremendous strides in improving their ability to serve their customers efficiently and reliably, the challenges of operating a rail system capable of meeting future needs is daunting and will require the benefit of effective public policy. Freight railroads look forward to working with this committee, others in Congress, and other appropriate parties to develop a surface transportation reauthorization which best meets this country's transportation needs.

APPENDIX A

**FREIGHT STAKEHOLDERS COALITION
TEA-21 REAUTHORIZATION AGENDA**1. Protect the integrity of the Highway Trust Fund.

Reauthorize the firewalls provided for in TEA-21 to ensure that the funds collected are used for their dedicated purpose and not for deficit reduction.

2. Dedicate funds for NHS highway connectors to intermodal freight facilities.

The NHS Intermodal Freight Connectors report that was sent to Congress documents the fact that these road segments are in worse condition and receive less funding than other NHS routes. Targeted investment in these “last mile” segments would reap significant economic benefits compared to the associated costs.

3. Form a national freight industry advisory group pursuant to the Federal Advisory Committee Act to provide industry input to USDOT.

The advisory group should be funded and staffed, and it should consist of freight transportation providers from all modes as well as shippers and state and local planning organizations. Despite the best efforts of the agency to function as “One DOT,” there is still not enough of a focused voice for freight. An Advisory Group would meet the need for regular and professional interaction between USDOT and the diverse freight industry, and could help identify critical freight bottlenecks in the national freight transportation system.

4. Create a Freight Cooperative Research Program.

Increasingly, industry issues are public issues that would benefit from a dedicated, funded research effort led by an industry-based steering/oversight group, such as the one described above, to ensure useful research results to benefit the freight transportation system as a whole. One option would be to dedicate a portion of the State Planning and Research (SP&R) dollars to freight issues. Freight data issues would fall under this program as well.

5. Expand freight planning expertise at the state and local levels.

Given the importance of freight mobility to the national economy, states and MPOs should be provided additional funds for expert staff positions dedicated to freight issues (commensurate to the volumes of freight moving in and through their areas).

6. Develop ways to increase available funds without new user fees and taxes by creating a toolbox of innovative financing options specifically aimed at freight capacity improvements and enhancements.

Options could include (1) lowering of the threshold for TIFIA funding eligibility; (2) development of tax incentives; and (3) expansion of the state infrastructure banks.

7. Significantly increase funds for an expanded corridor/border and gateway program.

This would build on the highly popular but under-funded “Corridors and Borders Program” (Sections 1118 and 1119), but adds the important concept of gateways. The funding should be freight specific, and there should be a qualification threshold (based on volumes) so that dollars get directed at high volume corridors/borders/gateways rather than wish-list projects.

8. Streamline environmental permitting for freight projects.

Multiple and often duplicative federal laws and regulations delay environmental review of transportation projects. Language in TEA-21 directing federal agencies to streamline the review process for highway projects has not been effective and other measures to simplify the review process for all freight projects should be considered.

9. Increase funding and promote use of the Congestion Mitigation and Air Quality Improvement Program for freight projects that reduce congestion and improve air quality.

CMAQ was designed to fund projects that will help reduce transportation-related emissions. Although CMAQ has supported some freight projects, it has been used primarily to address passenger needs. CMAQ funding should be dedicated to projects that can be shown to reduce congestion or improve air quality. Total funding for CMAQ should be increased and the use of CMAQ funds for freight projects should be clarified and strongly encouraged.

**Statement of
The Honorable John H. Happ, Jr.
Vice-Chair, Texas High Speed Rail & Transportation Corporation
Councilman, City of College Station, Texas
Director, Easterwood Airport, Texas A & M University
On behalf of the Texas High Speed Rail & Transportation Corporation
Before the House Transportation and Infrastructure Committee
Subcommittee on Railroads
Hearing on RIDE-21
June 26, 2003**

Opening Comments

Thank you Congressman Burgess for that kind introduction. On behalf of the Texas High Speed Rail and Transportation Corporation (THSRTC), thank you Mr. Chairman and members of the Subcommittee for allowing me to testify before you this morning on such an important piece of legislation as the Rail Infrastructure Development and Expansion Act for the 21st Century, otherwise known as RIDE-21.

Overview of the Current Status of Transportation in Texas

As Congressman Burgess has appropriately pointed out, there could not be a more opportune time to make High-Speed Passenger Rail a reality for the people of both the State of Texas and the nation. As Vice-Chair of THSRTC and Director of Aviation at Easterwood Airport at Texas A&M University, I am a constant witness to the growing inadequacies of all forms of transportation in our state. As you know, since the passage of the Eisenhower National Interstate and Defense Highway Acts of the 1950's our nation has nearly doubled in size. Texas has a population over 22 million today and we are, and have been for some time, one of the fastest growing states in the nation, growing at twice the national average. Based on current trends, the State of Texas will have a population in excess of 50 million by 2040. According to the Federal Highway Administration's Transportation Working Group report, traffic delays in our urban areas cost drivers an estimated \$5.5 billion per year and traffic volume is growing 16 times faster than lane miles are added. According to the Texas Commission on Environmental Quality, Texas had more unhealthy smog days and more violations of the one-hour ozone standard in 2001 than 48 other states. These problems will only be compounded with the expected exponential increases in population. That said, it is clear that the people of Texas need a forward-thinking, safe, environmentally sound, and efficient transportation alternative that will address these and other increasing social and economic problems facing our State. For these reasons, cities, counties, regional transportation authorities, and air and seaports have come together in a grassroots effort for the common cause of realizing the Texas "T-Bone" high speed rail solution. Ladies and Gentlemen of this Subcommittee, I am hear this morning to testify to fact that RIDE-21 offers a long-awaited, modern solution to growing transportation problems facing not just the State of Texas, but also many states across our nation.

Reauthorization and Modification of the Swift Rail Development Act

One of RIDE-21's key provisions calls for the authorization of \$100 million in general fund grants for high-speed rail development per year for the next eight years. This provision reauthorizes and modifies the existing Swift Rail Development Act by extending program authority throughout the next decade. Specifically, the bill calls for an increase from the previous \$10 million to \$70 million for corridor-specific development under Title 49 Section 26101. In addition, the bill calls for \$30 million for high-speed rail technology development under Section 26102. These funds will enable states, such as Texas, and interstate compacts to execute desperately needed high-speed rail research and development programs. These programs include among other things environmental assessments, feasibility studies, economic analyses, and route selection analyses. Furthermore, Congress' authorization of these funds will also significantly benefit the corridor-specific research, development, and technological improvement of each the nation's 11 federally-recognized high speed rail corridors and thereby provide a catalyst for many of the latent high speed rail proposals throughout this nation.

High-Speed Rail Infrastructure Bonds and Rehabilitation and Improvement Financing

On a further note, RIDE-21 provides for a sophisticated \$59 billion program for the next ten years. This program is comprised of a combination of \$24 billion of authority for states or interstate compacts to issue a combination of \$12 billion federally-tax exempt bonds and \$12 billion for high speed rail infrastructure improvements and also authorizes \$35 billion in loan and loan guarantee funding for Railroad Rehabilitation and Infrastructure Financing. Mr. Chairman, RIDE-21's Infrastructure and Rehabilitation financing system will provide state and interstate efforts, such as the Texas "T-Bone" initiative, with the necessary financial security and incentive for substantial public-private partnerships and solid investment in high-speed rail implementation.

Conclusion

Mr. Chairman, I think it suffices to say that the Texas High Speed Rail and Transportation Corporation could not be more supportive of RIDE-21. We strongly believe this bill provides us with a new opportunity for the development and implementation of high-speed rail, not only throughout the State of Texas, but also throughout this nation. I urge you and your colleagues in the strongest possible terms to take a significant step towards realizing a commitment that this nation made nearly 40 years ago with the passage of the High Speed Ground Transportation Act. Together, we can work toward intelligently and effectively modernizing this country's national passenger rail system.

Closing Remarks

Once again, I thank you and the members of this subcommittee for your time and consideration. The Texas High Speed Rail and Transportation Corporation and its members look forward to working with you as you advance this worthy initiative.



TEXAS HIGH SPEED RAIL & TRANSPORTATION CORP.®

The Future of Transportation and Economic Development in Texas

June 26, 2003

Executive Committee

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County Judge
Harris County

John H. Happ
Vice Chairman
Councilmember
City of College Station

James T. Edmonds
Secretary
Chairman
Port of Houston
Authority

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Kenny Mallard
County Commissioner
Brazos County

Ernie Wentreck
Councilmember
City of Bryan

U.S. Congressman Jack Quinn, R-NY
Chairman, Subcommittee on Railroads
Committee on Transportation and Infrastructure
U.S. House of Representatives
Room H2-589 Ford House Office Building
Washington D.C. 20515-6263

Re: Testimony of Texas High Speed Rail and Transportation Corporation: RIDE-21

Dear Chairman Quinn,

On behalf of the Texas High Speed Rail and Transportation Corporation (THSRTC), I would like to personally thank you for giving our Vice-Chairman, John H. Happ, Jr., the opportunity to testify before the Transportation and Infrastructure Subcommittee on Railroads regarding the Rail Infrastructure Development and Expansion Act for the 21st Century (RIDE-21).

As you know, since the inception of President Eisenhower's landmark National Interstate and Defense Highway Act of 1956 this nation's population has nearly doubled. The State of Texas itself has grown to a population well over 22 million and has become the fastest growing state in the nation.

Despite this growth, we have not effectively modernized our transportation system to adequately meet the growing demands for safe, economical travel resulting from these dramatic increases.

With our population expected to reach over 50 million by 2040, it is clear that State of Texas needs to properly address these and other related problems sooner than later. High-speed passenger rail servicing major intercity connections throughout our State's population and economic centers offers a viable, efficient transportation alternative whose time has truly come.

To that end, I commend you and the other members of the Railroad Subcommittee for your demonstrated commitment to foster and develop sound multimodal transportation initiatives, specifically those related to high-speed passenger rail development.

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RIDE-21 Hearing
June 26, 2003
Page 2 of 2

Attached herewith are Vice-Chairman Happ's Written Testimony and corresponding supplemental material, as well as the THSRTC Powerpoint presentation, which I think you will find a useful complement to Mr. Happ's verbal testimony.

On behalf of THSRTC and the citizens of Texas, I thank you once again for your consideration on this matter and look forward to working with you in making high-speed rail implementation and development a realization in the State of Texas.

Sincerely,



Robert Eckels
Chairman, THSRTC

Attachments

cc: Congressman Don Young, R-AK
Congressman James L. Oberstar, DFL-MN
Congressman William O. Lipinski, D-IL
Congressman Spencer Bachus, R-AL
Congressman Earl Blumenauer, D-OR
Congressman Sherwood L. Boehlert, R-NY
Congressman Leonard L. Boswell, D-IA
Congresswoman Corrine Brown, D-FL
Congresswoman Shelley Moore Capito, R-WV
Congresswoman Julia Carson, D-IN
Congressman Howard Coble, R-NC
Congressman Jerry F. Costello, D-IL
Congressman Elijah E. Cummings, D-MD
Congressman Peter A. DeFazio, D-OR
Congressman Jim DeMint, R-SC
Congressman Bob Filner, D-CA
Congressman Sam Graves, R-MO
Congressman John Mica, R-FL
Congressman Michael H. Michaud, D-ME
Congressman Gary Miller, R-CA
Congressman Jerry Moran, R-KS
Congressman Jerrold Nadler, D-NY
Congressman Thomas E. Petri, R-WI
Congressman Todd Russell Platts, R-PA
Congressman Jon Porter, R-NV
Congressman Nick J. Rahall, II, D-WV
Congressman Rob Simmons, R-CT

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Statement of
The Honorable Patrick Henry Hays
Mayor of North Little Rock
United States House of Representatives
Transportation and Infrastructure Committee
Subcommittee on Railroads
Financing Rail Infrastructure
June 26, 2003

Statement of
The Honorable Patrick Henry Hays
Mayor of North Little Rock
United States House of Representatives
Transportation and Infrastructure Committee
Subcommittee on Railroads
Financing Rail Infrastructure
June 26, 2003

Good morning Chairman Quinn, Ranking Member Brown and Members of the Subcommittee, I am Patrick Henry Hays, Mayor of North Little Rock, Arkansas.

I appear today as Mayor of North Little Rock, Arkansas and on behalf of the U.S. Conference of Mayors where I am a Trustee and Chairman of the Amtrak Mayors Advisory Council. The Conference of Mayors represents more than 1,100 cities with a population of more than 30,000.

Attached to my written testimony are rail resolutions adopted by the United States Conference of Mayors on June 9th of this year during our 71st Annual Meeting calling for the creation of a national rail infrastructure program, as well as reauthorization of Amtrak and improving the transportation link between aviation and rail.

Mr. Chairman, I want to thank you and other Members of this panel for holding this hearing today, as you accelerate your debate on the future of rail infrastructure needs and the reauthorization of the Transportation Equity Act for the 21st Century or TEA-21.

At hand is a monumental task. Decisions on rail infrastructure needs and funding today will have impacts for decades to come.

Overview: The U.S. Metro Economies Report

Mr. Chairman and Committee Members, in determining priorities and allocating resources, I urge you to consider local rail infrastructure needs in light of its unique global role and the corresponding impact that cities have on the surrounding region and the country.

As the focal points of economic activity, cities' areas are essential to the nation's economic development. The concentration of people and business in cities creates unique economic conditions that give rise to new industries, speed the diffusion of knowledge, spur technological innovation, increase productivity, and promote growth. When cities struggle, business development slows and the national economy stagnates and jobs are lost.

The rail infrastructure found in our cities enables American industries to thrive in a competitive global environment. Cities are rail hubs, serving as the primary focal point for the entry and exit for goods headed for and from international markets. The rail infrastructure also acts as a gateway between the nation's non-urban areas and the global economy and the concentration of rail infrastructure in our cities lowers transportation costs, thereby lowering the cost of production inputs, and ultimately providing goods and services to final customers at a lower price.

Our vast rail network has been an integral part of our success accounting for more than 86% or more than \$3.9 trillion of the growth in the nation's economy between 1991 and 2001.

Mr. Chairman, let me note three significant facts:

1. The gross metropolitan product of the top 10 metro areas in 2001 exceeded the combined output of 31 states (\$2.57 trillion versus \$2.45 trillion.)
2. In 31 states metropolitan areas account for more than 75% of gross state product.

3. Metropolitan areas generate nearly 85% of the nation's employment, income, production of goods and services, and more than one-half of the population live in our communities.

Our country's economic development and necessary growth is threatened by road congestion which delays the delivery of people, goods and services. The nation's mayors believe increasing the utilization of rail is a viable solution to improve our nation's vital transportation system. Rail freight is a critical component of our nation's transportation network, but one that is often overlooked. Just as mass transit reduces the number of automobiles on our highways, rail freight reduces the number of trucks that compete with the passenger automobile for road right of way.

A January 2003 AASHTO (American Association of State Highway and Transportation Officials) report cites that growth in domestic and international freight tonnage is expected to grow 67% by 2020. To meet the expected demand, a crucial infusion of federal funds for rail infrastructure improvements is necessary in this reauthorization of the surface transportation law.

Community Benefits Of Rail Infrastructure Investment

Increased investment in local, metropolitan and intercity passenger rail as well as freight rail transportation can deliver many positive community and economic benefits which include: improved clean air, enhanced safety, more efficient use of energy, accelerated urban redevelopment, and smart growth, as well as strengthened transportation capabilities.

A federal investment in rail would provide the groundwork for rail and transit-oriented development, rehabilitation of stations and rail crossings and the development of intermodal and other facilities that integrate our nation's transportation systems. There are scores of communities and regions that are now planning, engineering and constructing commuter rail and other fixed guideway projects that will require a modernized rail infrastructure.

Better connected rail yards will greatly reduce truck traffic on our streets; the elimination of abandoned rail yards will provide urban real estate needed to grow jobs and homes for our people; grade separations will allow for easier, less congested flow of traffic, making economic and personal travel easier for our citizens. These are only a few of the benefits associated with a national rail infrastructure program.

**TEA-21 Reauthorization:
The Creation of a National Rail Infrastructure Program –
The North Little Rock Perspective**

Mr. Chairman, the vast railroad infrastructure located in our cities has been an integral part of our nation's success and the success of North Little Rock.

North Little Rock lies in almost the exact geographical center of Arkansas, and thus near the country's geographical center as well. It has been estimated that nearly two-thirds of the U.S. population resides within one day's drive of North Little Rock metropolitan area. Beyond its excellent proximity to the country's major markets, North Little Rock is a convenient location for travel and distribution due to the area's outstanding multimodal transportation network. Rail service to virtually any destination in the continental U.S. is available from North Little Rock. North Little Rock is where Interstate 30 ends by joining Interstate 40, a major East/West corridor. NAFTA, which enhanced and enlarged Mexico/US trade, claims the I-30/I-40 link as a major truck transit route.

Mr. Chairman, I know first hand the importance of freight and passenger rail operations to a local economy, and in turn, the national economy.

North Little Rock is also a rail hub. There are more than 85 freight arrivals and departures each day in North Little Rock. Union Pacific's North Little Rock operations include the largest railroad engine repair facility in the world, as well as a major automated freight classifications yard (hump yard) and material distribution center employing more than 2,900 workers.

Amtrak operates the key north – south corridor of the Texas Eagle through North Little Rock connecting the cities of San Antonio and Chicago. The economic benefit of the railroad presence in North Little Rock is substantial and obvious.

Less obvious is the crumbling infrastructure and safety concerns. In many cases our country's railroad infrastructure is antiquated and lacks proper maintenance. Traffic backups, idling trains, grade crossing incidents, and other safety issues affect our citizen's quality of life. And, although North Little Rock is a major rail hub, we are not the only city facing these issues. Chicago, Buffalo, Los Angeles, Fort Worth, Cleveland and others have been struggling in the same vein as North Little Rock to try and meet the needs of a 21st Century city while working to maintain one of our country's oldest, but still most vital transit industries whose improvements would vastly expand the country's transit system – our Passenger and Transit Rail System.

Many of our cities do not have the financial resources available to make the needed changes to existing rail infrastructure, primarily because of the extremely high cost of these improvements. Upgrades to existing rail lines, viaduct repair work, and grade separations can cost in the multi-million dollar range and are unaffordable for cities on their own. The nation's mayors strongly believe that there needs to be a larger federal financial commitment to help address this important national issue.

For that reason, earlier this month, the U.S. Conference of Mayors adopted resolutions which:

1. support the creation of a national rail infrastructure program;
2. support Amtrak reauthorization at \$1.8 billion; and
3. support improving the transportation link between aviation and rail by integrating intermodal connections.

Closing Comments

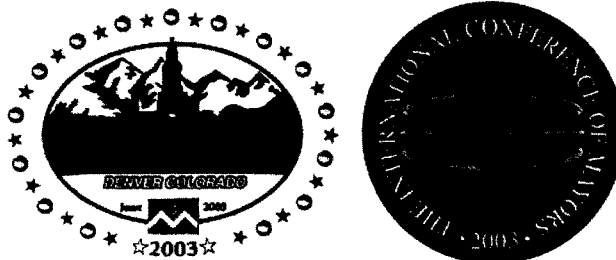
Mr. Chairman, in closing, I want to thank you for your leadership on this most important transportation opportunity facing our nation in this the 21st century.

The issues I have discussed today affect all of our cities as we now compete in the global economy.

Mr. Chairman, while discussions are still in the beginning stages, the concept of a federal program to provide substantial assistance to cities and states to address improvements to our railroad infrastructure is long overdue.

I look forward to working with my colleagues in the U.S. Conference of Mayors and with the Congress on these and other equally important transportation issues as we approach the reauthorization of TEA-21.

On behalf of the nation's mayors, I thank you for this opportunity to present the views of the Conference and its members on this important issue.



**2003 Adopted Resolutions
71st Annual Meeting
Denver**

**RESOLUTION IN SUPPORT OF THE CREATION OF A NATIONAL RAIL
INFRASTRUCTURE PROGRAM**

WHEREAS, as Congress is in the process of reauthorizing our federal surface transportation programs, our nation's cities are looking forward to building on our successes in the area of transportation; and

WHEREAS, many cities believe that the reauthorization process should go beyond solely highway and mass transit issues, and also address the persistent and growing problem of railroad congestion in our cities; and

WHEREAS, the economic benefit of the railroad industry is substantial and obvious, but less obvious are numerous adverse impacts in our neighborhoods. Blocked grade crossings, idling trains, crumbling viaducts, air and noise pollution are all examples of the kinds of problems faced by many cities as they try to balance the needs of residents who live near rail facilities with the needs of railroads to continue servicing our communities; and

WHEREAS, improvements to rail facilities and infrastructure can help reduce truck congestion on local streets; open opportunities for economic development; and reduce noise impacts and inconveniences to residents; and

WHEREAS, because the financial resources are unavailable for many cities to address the necessary but costly improvements to rail infrastructure, there needs to be a larger federal financial commitment to help address this important issue; and

WHEREAS, these needs could best be addressed by the establishment of a federal program, with funding from resources that benefit from rail activity, that would help communities address the problems associated with rail infrastructure while preserving the benefits of one of our country's oldest, but still vital industries,

NOW, THEREFORE, BE IT RESOLVED that The United States Conference of Mayors calls on Congress to establish a dedicated federal rail infrastructure program to address needed improvements to our nation's railroad infrastructure.



**2003 Adopted Resolutions
71st Annual Meeting
Denver**

RESOLUTION IN SUPPORT OF AMTRAK REAUTHORIZATION

WHEREAS, Amtrak annually provides intercity passenger rail travel to over 23 million Americans residing in 46 states; and

WHEREAS, Amtrak trains carry 60 million commuters to and from work in congested metropolitan areas each year and affect over 1 million daily commuter travelers through operating agreements and shared infrastructure; and

WHEREAS, Amtrak not only provides critical services to major metropolitan areas, for many rural Americans, Amtrak represents the only major transportation link to the rest of the country; and

WHEREAS, passenger rail provides a more fuel-efficient transportation system thereby providing cleaner transportation alternatives and helping to reduce our dependence on foreign oil; and

WHEREAS, the United States government has significantly undercapitalized the national Amtrak system for decades, failed to provide passenger rail with a dedicated secure source of funding like other modes enjoy and required Amtrak alone to achieve operating self-sufficiency; and

WHEREAS, no comparable national passenger rail system in the world has succeeded without operating subsidies; certainly no system has ever succeeded without substantial public capital investment; and

WHEREAS, the minimal savings from eliminating long distance trains does not justify jeopardizing the only passenger rail service in 23 states; and

WHEREAS, the reauthorization of the Transportation Equity Act for the 21st Century (TEA-21), which is occurring at the same time as the reauthorization of the aviation and

Amtrak programs, offers a key opportunity to increase the strategic and economic security of our intercity transportation system while providing an alternative to congested highways and crowded runways; and

WHEREAS, The United States Conference of Mayors encourages a seamless transportation system for all modal elements, including airports, highways, passenger and freight rail; and

WHEREAS, Amtrak President and CEO David Gunn and the Amtrak Board of Directors have demonstrated sound fiscal stewardship by taking positive steps to reduce costs, streamline corporate structure and dramatically increase the transparency of Amtrak's fiscal condition,

NOW, THEREFORE, BE IT RESOLVED that The United States Conference of Mayors calls upon the Administration and Congress to invest in Amtrak by creating a long-term, sustainable federal funding mechanism to provide Amtrak with a fair and consistent source of capital and operating support for intercity passenger rail; and

BE IT FURTHER RESOLVED that The United States Conference of Mayors calls upon the Administration and Congress to provide at least \$1.8 billion for Amtrak in FY04 to sustain our national intercity passenger rail system over the next year and fund Amtrak's five year strategic plan through FY08; and

BE IT FURTHER RESOLVED that The United States Conference of Mayors calls upon the Administration and Congress to reject efforts to break up and privatize Amtrak intercity passenger rail operations; and

BE IT FURTHER RESOLVED that The United States Conference of Mayors urge the Administration and Congress to create a congressionally chartered non-profit corporation to issue tax credit bonds to fund a rail trust fund; and

BE IT FURTHER RESOLVED that The United States Conference of Mayors urge the Administration and Congress to create a rail trust fund; and

BE IT FURTHER RESOLVED that The United States Conference of Mayors call on the Administration and Congress to dedicate a portion of any new federal fuels excise tax increase for inter-city passenger rail with Amtrak as the operator; and

BE IT FURTHER RESOLVED that The United States Conference of Mayors call on the Administration and Congress to dedicate a portion of any proceeds from the federal issuance of bonds to fund transportation spending, including inter-city passenger rail.



**2003 Adopted Resolutions
71st Annual Meeting
Denver**

**RESOLUTION IN SUPPORT OF IMPROVING THE TRANSPORTATION LINK
BETWEEN AVIATION AND RAIL BY INTEGRATING INTERMODAL CONNECTIONS**

WHEREAS, intercity travel and tourism is critical to the national and metropolitan economies; and

WHEREAS, the faltering economy, homeland security and other factors have led to a severe drop in intercity travel and tourism; and

WHEREAS, the financial crisis affecting the nation's airlines has negatively impacted the nation's airports, both in terms of lost passenger revenue and threats to airline lease payments; and

WHEREAS, the near bankruptcy of Amtrak and continuing questions about its long-term future also impact cities across the nation; and

WHEREAS, new higher speed, medium distance intercity rail services in the Northeast, the Northwest, and California have proved to be popular with the public, which supports an improved national intercity rail system; and

WHEREAS, the interconnection of rail, air and bus into "travelports" has been so successful in Great Britain, France, Germany and Japan in relieving airport capacity problems by diverting short and medium distance travelers to a speedy and comfortable rail connection that it is now official European Union policy to provide for air-rail connections; and

WHEREAS, a better connected, more financially stable, redundant and reliable system for intercity travel would boost tourism, aid economic growth and productivity, provide consumers greater choices, and improve environmental performance and energy efficiency; and

WHEREAS, Congress has an opportunity to enact legislation to reconnect our transportation systems this year as it simultaneously considers the reauthorization of the national highway and transit, aviation and rail programs; and

WHEREAS, an independent policy effort called Reconnecting America has proposed that Congress adopt policies to interconnect our separate air, rail, and intercity bus network by providing incentives to create "travelports" at airports and downtown rail stations, by providing stable capital funding to assist states and localities in partnering with Amtrak to improve short and medium distance intercity travel, by establishing a "Last Mile Intermodal Connections Fund" for passenger and freight projects that connect transportation networks, as well as maintaining the current long distance passenger rail operations by promoting better coordinated planning and by removing barriers to integrated projects, by establishing an Essential Transportation Services program to provide rural states and small cities the flexibility to choose a mix of air service, rail service and intercity bus service to major hub airports, and by enacting a multi year reauthorization for Amtrak which promotes partnering between Amtrak, States and localities and private entities and provides for needed capital maintenance and rehabilitation; and

WHEREAS, this policy effort is consistent with prior policy resolutions of The United States Conference of Mayors,

NOW, THEREFORE, BE IT RESOLVED that The United States Conference of Mayors supports the Reconnecting America policy effort, and urges Congress and the Administration to incorporate the recommendation of Reconnecting America into the reauthorizations of the aviation, rail, and highway and transit programs in this session of Congress.

Top 100 U.S. Metro Economies

RANKING (2001)



THE UNITED STATES
CONFERENCE
OF MAYORS

COUNCIL FOR
INVESTMENT IN THE
NEW AMERICAN CITY

GROSS METROPOLITAN PRODUCT (GMP), US\$ BILLIONS

Rank	U.S. City/County Metro Areas	GMP 2001	Rank	U.S. City/County Metro Areas	GMP 2001
1	New York, NY	461.01	51	Nashville, TN	48.03
2	Los Angeles-Long Beach, CA	389.72	52	Raleigh-Durham-Chapel Hill, NC	47.83
3	Chicago, IL	348.61	53	Rochester, NY	46.92
4	Boston, MA	256.06	54	New Orleans, LA	46.26
5	Washington, DC-MD-VA-WV	228.34	55	Jacksonville, FL	45.61
6	Houston, TX	190.04	56	Richmond-Petersburg, VA	45.49
7	Philadelphia, PA-NJ	188.59	57	Grand Rapids-Muskegon-Holland, MI	43.83
8	Atlanta, GA	175.28	58	Memphis, TN-AR-MS	42.17
9	Dallas, TX	169.58	59	Louisville, KY-IN	40.25
10	Detroit, MI	159.84	60	Albany-Schenectady-Troy, NY	39.67
11	Orange County, CA	142.59	61	West Palm Beach-Boca Raton, FL	36.08
12	Minneapolis-St. Paul, MN-WI	128.06	62	Honolulu, HI	35.01
13	Seattle-Bellevue-Everett, WA	124.41	63	Providence-Warwick, RI	33.87
14	Phoenix-Mesa, AZ	119.32	64	Birmingham, AL	33.77
15	San Diego, CA	113.14	65	Oklahoma City, OK	33.25
16	San Francisco, CA	112.58	66	Monmouth-Ocean, NJ	33.15
17	Nassau-Suffolk, NY	111.89	67	Dayton-Springfield, OH	32.89
18	Baltimore, MD	100.32	68	Wilmington-Newark, DE-MD	31.98
19	Oakland, CA	99.46	69	Syracuse, NY	31.14
20	Newark, NJ	98.40	70	Greenville-Spartanburg-Anderson, SC	30.73
21	Denver, CO	95.99	71	Manchester-Nashua, NH	30.66
22	St. Louis, MO-IL	92.77	72	Jersey City, NJ	29.78
23	San Jose, CA	91.53	73	Fresno, CA	28.42
24	Riverside-San Bernardino, CA	91.12	74	Harrisburg-Lebanon-Carlisle, PA	28.02
25	Tampa-St. Petersburg-Clearwater, FL	88.78	75	Omaha, NE-IA	27.23
26	Cleveland-Lorain-Elyria, OH	84.53	76	Ventura, CA	27.19
27	Pittsburgh, PA	83.73	77	Albuquerque, NM	26.96
28	New Haven, CT	79.72	78	Tulsa, OK	26.07
29	Miami, FL	76.77	79	Tucson, AZ	23.60
30	Portland-Vancouver, OR-WA	73.64	80	Knoxville, TN	22.88
31	Kansas City, MO-KS	69.35	81	Akron, OH	22.69
32	Charlotte-Gastonia-Rock Hill, NC-SC	67.91	82	Springfield, MA	22.03
33	Hartford, CT	67.90	83	Toledo, OH	21.96
34	Sacramento, CA	66.75	84	Allentown-Bethlehem-Easton, PA	21.38
35	Fort Worth-Arlington, TX	65.70	85	Santa Rosa, CA	21.36
36	Middlesex-Somerset-Hunterdon, NJ	64.92	86	Bakersfield, CA	21.06
37	Columbus, OH	63.85	87	Scranton-Wilkes-Barre-Hazleton, PA	21.03
38	Cincinnati, OH-KY-IN	63.16	88	Tacoma, WA	20.61
39	Orlando, FL	62.77	89	Baton Rouge, LA	20.59
40	Indianapolis, IN	61.03	90	Des Moines, IA	20.41
41	Bergen-Passaic, NJ	60.78	91	Columbia, SC	20.11
42	Las Vegas, NV-AZ	58.97	92	Ann Arbor, MI	19.50
43	Milwaukee-Waukesha, WI	57.11	93	Little Rock-North Little Rock, AR	19.43
44	San Antonio, TX	56.95	94	Trenton, NJ	19.43
45	Norfolk-Virginia Beach-Newport News, VA-NC	53.26	95	Colorado Springs, CO	19.16
46	Fort Lauderdale, FL	50.08	96	El Paso, TX	19.11
47	Greensboro-Winston-Salem-High Point, NC	49.96	97	Madison, WI	19.04
48	Austin-San Marcos, TX	49.80	98	Fort Wayne, IN	18.83
49	Buffalo-Niagara Falls, NY	49.55	99	Wichita, KS	18.78
50	Salt Lake City-Ogden, UT	49.10	100	Chattanooga, TN-GA	18.75

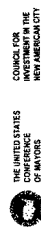
*City/County Metros are the 319 metropolitan areas defined by U.S. OMB.

Source: DRI • WEFA

THE UNITED STATES CONFERENCE OF MAYORS

If U.S. City/County Metro Economies Were Nations

World Rankings of Gross Domestic and Metropolitan Product
2001 (U.S. Billions, Current)



THE UNITED STATES
CONFERENCE OF MAYORS

COUNCIL FOR
INVESTMENT IN THE
METROPOLITAN CITY

Rank	Nation or Metro Area	GP 2001	Rank	Nation or Metro Area	GP 2001	Rank	Nation or Metro Area	GP 2001	Rank	Nation or Metro Area	GP 2001
1	United States	10,208.00	44	Finland	121.10	87	Bergen-Plasac, NJ	60.78	130	Manchester-Nashua, NH	30.66
2	Japan	4,145.00	45	Phoenix-Mesa, AZ	119.32	88	Las Vegas, NV-AZ	58.97	131	Jersey City, NJ	29.78
3	Germany	1,849.00	46	Greece	115.50	89	Pakistan	57.50	132	Fresno, CA	28.42
4	United Kingdom	1,431.00	47	South Africa	113.30	90	Milwaukee-Waukesha, WI	57.11	133	Pompsburg-Lebanon-Carlisle, PA	28.12
5	France	1,307.00	48	Thailand	113.20	91	San Antonio, TX	56.80	134	San Jose, CA	27.73
6	China	1,160.00	49	Italy	112.80	92	San Francisco, CA	56.40	135	San Jose, CA	27.19
7	Italy	1,080.00	50	Spain	112.58	93	Peru	55.90	136	Albuquerque, NM	26.96
8	Canada	704.00	51	Nassau-Suffolk, NY	111.89	94	Algeria	55.10	137	Tulsa, OK	26.07
9	Mexico	594.00	52	Israel	109.40	95	Norfolk-Va Beach-Neport News, VA-NC	53.26	138	Iraq	26.00
10	Spain	585.00	53	Portugal	105.20	96	Hungary	51.10	139	Tucson, AZ	23.60
11	India	507.00	54	Ireland	103.60	97	Fort Lauderdale, FL	50.08	140	Knoxville, TN	22.88
12	Brazil	505.00	55	Baltimore, MD	100.32	98	Greensboro-Winston-Salem-High Point, NC	49.98	141	Avon, OH	22.69
13	New York, NY	461.01	56	Oakland, CA	99.46	99	Austin-San Marcos, TX	48.80	142	Springfield, MA	21.96
14	Korea-South	423.00	57	Newark, NJ	98.40	100	New Zealand	48.80	143	Indianapolis, IN	21.80
15	Los Angeles-Long Beach, CA	389.72	58	Denver, CO	97.70	101	San Jose, CA	48.55	144	Spokane, WA	21.36
16	Washington, DC-MD-VA-WV	388.00	59	St. Louis, MO-IL	97.71	102	Salt Lake City-Ogden, UT	48.03	145	Albany-Schenectady-Troy, NY	21.36
17	Atlanta	368.00	60	San Jose, CA	91.53	103	Nashville, TN	48.03	146	Santa Rosa, CA	21.33
18	Chicago, IL	348.61	61	Riverside-San Bernardino, CA	91.12	104	Raleigh-Durham-Capel Hill, NC	47.83	147	Dominican Republic	21.06
19	Russia	310.00	62	Iran	89.00	105	New Orleans, LA	46.92	148	Baltimore, MD	21.00
20	Taiwan	282.00	63	Tampa-St. Petersburg-Clearwater, FL	88.78	106	Bangladesh	46.26	149	Scranton-Wilkes-Barre-Hazleton, PA	20.99
21	Argentina	260.00	64	Egypt	88.00	107	Bangladesh	46.20	150	Kazakhstan	20.90
22	Boston, MA	256.06	65	Malaysia	87.50	108	Jacksonville, FL	45.61	151	Croatia (Zagreb)	20.80
23	Switzerland	246.70	66	Singapore	85.60	109	Richmond-Petersburg, VA	45.61	152	Albany-Schenectady-Troy, NY	20.59
24	Washington, DC-MD-VA-WV	228.34	67	Cleveland-Elyria, OH	85.00	110	Indianapolis, IN	45.61	153	Baton Rouge, LA	20.43
25	Virginia	223.34	68	Philadelphia, PA	83.73	111	Morgantown, WV	45.61	154	Oran	20.41
26	San Francisco, CA	209.80	69	Columbus, OH	80.60	112	Louisville, KY-IN	40.25	155	Des Moines, IA	20.30
27	Houston, TX	199.04	70	New Haven, CT	79.72	113	Romana	39.70	156	Slovakia	20.11
28	Philadelphia, PA-NJ	188.59	71	Miami, FL	76.77	114	Albany-Schenectady-Troy, NY	39.67	157	Columbia, SC	20.11
29	Austria	188.10	72	Portland-Vancouver, OR-WA	73.64	115	Ukraine	39.00	158	Guatemala	20.06
30	Poland	177.00	73	Philadelphia, PA	71.40	116	Nigeria	38.80	159	Uruguay	19.90
31	Atlanta, GA	172.28	74	Puerto Rico	70.30	117	West Palm Beach-Boca Raton, FL	38.80	160	Tunisia	19.50
32	Saudi Arabia	169.60	75	Kansas City, MO-KS	69.35	118	Kuwait	38.80	161	San Francisco, CA	19.50
33	Dallas, TX	165.58	76	Charlotte-Mecklenburg, NC	68.70	119	San Jose, CA	38.80	162	San Jose, CA	19.50
34	San Jose, CA	165.58	77	Charlotte-Mecklenburg, NC	67.50	120	Memphis, TN	38.80	163	San Jose, CA	19.50
35	San Jose, CA	165.58	78	San Jose, CA	66.75	121	Providence-Warwick, RI	38.80	164	Trenton, NJ	19.43
36	Hong Kong	161.60	79	Fort Worth-Arlington, TX	65.70	122	Birmingham, AL	33.77	165	Colorado Springs, CO	19.16
37	Indonesia	159.84	80	Middlesex-Somerset-Huntingdon, NJ	64.92	123	Oklahoma City, OK	33.25	166	El Paso, TX	19.11
38	Turkey	145.30	81	Chile	64.90	124	Mormouth-Ocean, NJ	33.15	167	Malden, WI	19.04
39	Orange County, CA	142.00	82	United Arab Emirates	64.20	125	Velham	33.00	168	Fort Wayne, IN	18.83
40	Minneapolis-St. Paul, MN-WI	128.06	83	Columbus, OH	63.85	126	Dayton-Springfield, OH	32.89	169	Wichita, KS	18.78
41	Minneapolis-St. Paul, MN-WI	124.90	84	Cincinnati, OH-KY-IN	63.16	127	Wilmington-Newark, DE-MD	31.96	170	Chattanooga, TN-GA	18.75
42	Vancouver	124.90	85	Chicago, IL	62.71	128	Syracuse, NY	31.96	171	San Jose, CA	18.65
43	Seattle-Bellevue-Everett, WA	124.41	86	Indianapolis, IN	61.03	129	Orlando-Sanford-Daytona, FL	30.73	172	Leamington, KY	18.08

Source: DRI-WEFA

Nations

City/County Metro Areas

THE UNITED STATES CONFERENCE OF MAYORS

Average Annual Growth of U.S. Metro Area Economies

Ranking by Average Annual Growth Rate in Gross Metropolitan Product (GMP)
1991-2001 (U.S. Billions, Current)

Rank	Metro Area	1991	Avg. Annual 2001 Growth	Rank	Metro Area	1991	Avg. Annual 2001 Growth	Rank	Metro Area	1991	Avg. Annual 2001 Growth	Rank	Metro Area	1991	Avg. Annual 2001 Growth
1	Las Vegas, NV-AZ	21.97	58.97	10.4	44	San Antonio, TX	28.07	59.95	7.3	87	Salem, OR	4.99	9.52	6.7	
2	Austin-San Marcos, TX	19.65	49.80	9.8	45	Reno, NV	7.79	63.78	7.3	88	Columbia, MO	2.85	5.07	6.7	
3	Boulder-Longmont, CO	5.88	13.85	9.3	46	Riverside-San Bernardino, CA	45.00	91.12	7.3	89	Jacksonville, FL	67.54	138.35	6.6	
4	Phoenix-Mesa-AZ	49.89	118.32	9.3	47	Fort Worth-Arlington, TX	32.54	65.70	7.3	90	Madison, WI	3.26	6.18	6.6	
5	Phoenix-Spring, AZ	7.89	18.45	9.3	48	Fort Worth-Arlington, TX	32.54	65.70	7.3	91	Mesa, AZ	24.12	45.61	6.6	
6	Yolo, CA	4.17	9.96	9.1	49	Fort Worth-Arlington, TX	32.54	65.70	7.3	92	Jacksonville, FL	3.76	7.10	6.6	
7	Fort Collins-Loveland, CO	3.61	8.59	9.1	50	St. Cloud, MN	3.27	6.60	7.3	93	Redding, CA	3.02	5.68	6.5	
8	Bose City, ID	6.40	15.11	9.0	51	Sarasota-Bradenton, FL	8.87	17.91	7.3	94	Joplin, MO	6.97	13.09	6.5	
9	Provo-Orem, UT	3.74	8.77	8.9	52	Portland-Vancouver, OR-WA	36.50	73.64	7.3	95	Odessa-Midland, TX	5.40	10.14	6.5	
10	Greeley, CO	2.35	5.52	8.9	53	Modesto, CA	3.22	8.46	7.2	96	Blount-Guilford-Pascagoula, MS	5.40	10.14	6.5	
11	McAllen-Edinburg-Mission, TX	5.18	12.02	8.8	54	Durham, NC	3.22	8.46	7.2	97	San Antonio-Watsonville, CA	5.40	10.14	6.5	
12	Myrtle Beach, SC	3.01	6.89	8.6	55	Fort Myers-Cape Coral, FL	5.05	9.15	7.2	98	Corpus Christi, TX	2.92	5.47	6.5	
13	Laredo, TX	2.81	6.18	8.6	56	Fort Myers-Cape Coral, FL	5.05	9.15	7.2	99	Wichita, KS	2.92	5.47	6.5	
14	Waco, TX	78.60	175.38	8.4	57	Waco, TX	1.51	3.03	7.2	100	Wichita, KS	2.92	5.47	6.5	
15	Blacksburg-Normal, IL	4.32	9.80	8.3	58	Killeen-Temple, TX	3.89	7.75	7.1	101	Vista, CA	2.16	4.02	6.4	
16	Fayetteville-Springdale-Rogers, AR	4.44	9.88	8.3	59	Albuquerque, NM	13.59	26.96	7.1	102	Columbus, GA-AL	5.27	9.83	6.4	
17	Grand Junction, CO	1.76	3.91	8.3	60	Longview-Marshall, TX	4.45	8.84	7.1	103	Anaheim, CA	4.15	7.73	6.4	
18	Raleigh-Durham-Chapel Hill, NC	21.64	47.83	8.3	61	Houston, TX	15.46	30.66	7.1	104	Indianapolis, IN	32.79	61.03	6.4	
19	Charlotte-Gastonia-Rock Hill, NC-SC	30.82	67.91	8.2	62	Manchester-Nashua, NH	5.43	10.72	7.0	105	San Jose, CA	49.20	91.53	6.4	
20	Santa Rosa, CA	9.84	21.36	8.1	63	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	106	Provo, UT	4.24	7.88	6.4	
21	Yuma, AZ	14.3	3.08	8.0	64	Grand Rapids-Muskegon-Holland, MI	22.24	45.03	7.0	107	Provo, UT	4.24	7.88	6.4	
22	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	65	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	108	Provo, UT	4.24	7.88	6.4	
23	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	66	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	109	Provo, UT	4.24	7.88	6.4	
24	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	67	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	110	Provo, UT	4.24	7.88	6.4	
25	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	68	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	111	Provo, UT	4.24	7.88	6.4	
26	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	69	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	112	Provo, UT	4.24	7.88	6.4	
27	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	70	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	113	Provo, UT	4.24	7.88	6.4	
28	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	71	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	114	Provo, UT	4.24	7.88	6.4	
29	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	72	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	115	Provo, UT	4.24	7.88	6.4	
30	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	73	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	116	Provo, UT	4.24	7.88	6.4	
31	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	74	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	117	Provo, UT	4.24	7.88	6.4	
32	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	75	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	118	Provo, UT	4.24	7.88	6.4	
33	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	76	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	119	Provo, UT	4.24	7.88	6.4	
34	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	77	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	120	Provo, UT	4.24	7.88	6.4	
35	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	78	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	121	Provo, UT	4.24	7.88	6.4	
36	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	79	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	122	Provo, UT	4.24	7.88	6.4	
37	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	80	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	123	Provo, UT	4.24	7.88	6.4	
38	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	81	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	124	Provo, UT	4.24	7.88	6.4	
39	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	82	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	125	Provo, UT	4.24	7.88	6.4	
40	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	83	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	126	Provo, UT	4.24	7.88	6.4	
41	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	84	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	127	Provo, UT	4.24	7.88	6.4	
42	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	85	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	128	Provo, UT	4.24	7.88	6.4	
43	San Luis Obispo-Paso Robles, CA	21.36	47.83	8.0	86	San Luis Obispo-Paso Robles, CA	5.43	10.72	7.0	129	Provo, UT	4.24	7.88	6.4	

Source: DRI • WEA

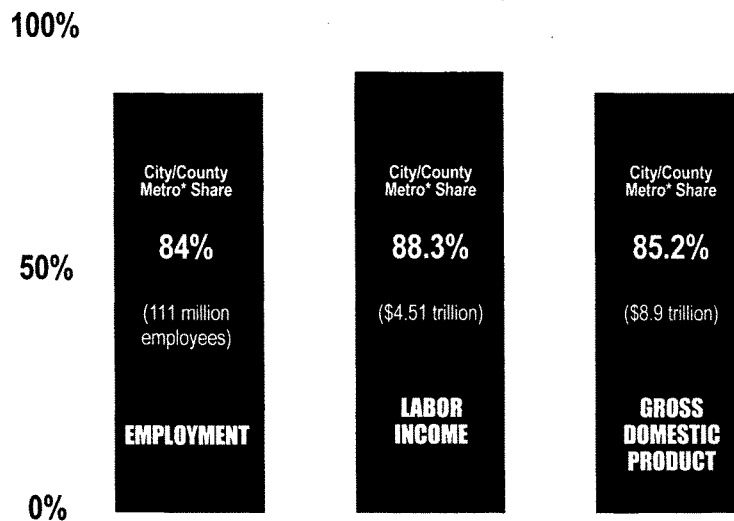
THE UNITED STATES CONFERENCE OF MAYORS

City/CountyMetros

ECONOMIC GAINS

Metro areas generate nearly 85% of the Nation's employment, income, and production of goods and services.

Shares of U.S. Economy — 2001



*City/County Metros are the 319 metropolitan areas defined by U.S.O.M.B.

Source: DRI • WEFA



COUNCIL FOR
INVESTMENT IN THE
NEW AMERICAN CITY

City/CountyMetros

ECONOMIC GAINS

**Between 1991 and 2001,
City/County Metro* Economies
contributed 86%
or more than**

\$3.9 trillion

**of the
growth
in the
Nation's Economy**

*City/County Metros are the 319 metropolitan areas defined by U.S.O.M.B.

Source: DRI • WEFA

Ranking of City/County Metro Areas With States

GMP vs. GSP 2001

Comparison of Gross Metropolitan Product with Gross State Product 2001

Rank	State or Metro Area	2001	Rank	State or Metro Area	2001	Rank	State or Metro Area	2001	Rank	State or Metro Area	2001
1	California	1,399.02	38	Alabama	125.53	75	District of Columbia	61.77	112	Dartmouth, NH	32.89
2	New York	841.99	39	Seattle-Bellevue-Everett, WA	124.41	76	Indianapolis, IN	61.03	113	Washington-Newark, DE-MD	31.98
3	Texas	798.93	40	Phoenix Mesa, AZ	119.32	77	Berkeley-Pasific, NJ	59.78	114	Syracuse, NY	31.14
4	Florida	510.87	41	Oregon	118.30	78	Norfolk	59.81	115	Greenville-Spartanburg-Anderson, SC	30.73
5	Illinois	488.97	42	South Carolina	116.26	79	Las Vegas, NV-AZ	58.97	116	Manchester-Nashua, NH	30.66
6	New York, NY	461.01	43	San Diego, CA	113.14	80	New Mexico	57.85	117	Jersey City, NJ	29.78
7	Pennsylvania	424.61	44	San Francisco, CA	112.58	81	Milwaukee-Waukegan, WI	57.11	118	Alaska	29.71
8	Ohio	396.50	45	Nassau-Suffolk, NY	111.89	82	San Antonio, TX	56.95	119	Frisco, TX	28.42
9	Los Angeles-Long Beach, CA	389.72	46	Baltimore, MD	100.32	83	Norfolk VA Beach-Newport News, VA-NC	53.26	120	Harrisburg-Lebanon-Carlisle, PA	28.02
10	New Jersey	372.14	47	Oakland, CA	99.46	84	Fort Lauderdale, FL	50.08	121	Omaha, NE	27.73
11	Chicago, IL	348.61	48	Newark, NJ	98.40	85	Greenboro-Winston-Salem-High Point, NC	49.96	122	Ventura, CA	27.19
12	Michigan	346.87	49	Denver, CO	95.99	86	Austin-San Marcos, TX	48.80	123	Albuquerque, NM	26.96
13	Georgia	308.17	50	Iowa	95.42	87	Buffalo-Niagara Falls, NY	48.55	124	Tulsa, OK	26.07
14	Massachusetts	293.36	51	Oklahoma	95.33	88	Salt Lake City-Ogden, UT	48.10	125	South Dakota	24.19
15	North Carolina	291.03	52	St. Louis, MO-IL	92.77	89	New Hampshire	48.03	126	Montana	23.74
16	Virginia	265.35	53	San Jose, CA	91.53	90	Nashville, TN	47.83	127	Tucson, AZ	23.60
17	Boston, MA	256.06	54	Kansas	91.46	91	Richmond-Durham-Chapel Hill, NC	47.63	128	Knoxville, TN	22.88
18	Washington, DC-MD-VA-WV	234.45	55	Riverside-San Bernardino, CA	91.12	92	Richester, NY	46.92	129	Akron, OH	22.69
19	Washington, DC-MD-VA-WV	228.34	56	Tampa-St. Petersburg-Clearwater, FL	88.78	93	New Orleans, LA	46.32	130	Springfield, MA	22.03
20	Indiana	198.25	57	Cleveland-Lorain-Elyria, OH	84.53	94	Hawaii	45.74	131	Springfield, OH	21.96
21	Maryland	197.85	58	Pittsburgh, PA	83.73	95	Jacksonville, FL	45.61	132	Albany-Schenectady-Troy, NY	21.38
22	Minnesota	193.50	59	Nebraska	81.65	96	West Virginia	45.49	133	San Antonio, TX	21.38
23	Tennessee	190.22	60	New Haven, CT	79.72	97	Richmond-Petersburg, VA	45.49	134	Bakersfield, CA	21.06
24	Houston, TX	189.04	61	Miami, FL	76.77	98	Grand Rapids-Kalamazoo-Holland, MI	43.49	135	Scranton-Wilkes-Barre-Hazleton, PA	21.03
25	Philadelphia, PA-NJ	188.55	62	Portland-Vancouver, OR-WA	73.64	99	Memphis, TN-AR-MO	43.83	136	Tacoma, WA	20.61
26	Massachusetts	186.19	63	Albuquerque, NM	72.06	100	Louisville, KY-IN	42.17	137	Baton Rouge, LA	20.59
27	Wisconsin	183.49	64	Utah	71.97	101	Albany-Schenectady-Troy, NY	40.25	138	Des Moines, IA	20.41
28	Atlanta, GA	175.28	65	Mississippi	69.69	102	Delaware	39.67	139	Columbia, SC	20.11
29	Colorado	174.67	66	Kansas City, MO-KS	68.35	103	Maine	38.99	140	Ann Arbor, MI	19.50
30	Dallas, TX	169.58	67	Charlotte-Gastonia-Rock Hill, NC-SC	67.91	104	Rhode Island	38.12	141	Little Rock from Little Rock, AR	19.43
31	Connecticut	167.27	68	Hartford, CT	67.90	105	Idaho	36.57	142	Trenton, NJ	19.35
32	Arizona	165.70	69	Sacramento, CA	65.75	106	West Palm Beach-Boca Raton, FL	36.08	143	Wyoming	19.25
33	Detroit, MI	159.84	70	Fort Worth-Arlington, TX	65.70	107	Honolulu, HI	35.01	144	Vermont	19.16
34	Louisiana	148.12	71	Midwest-Somerset-Huntington, NJ	64.52	108	Providence-Warwick, RI	33.87	145	Colorado Springs, CO	19.11
35	Orange County, CA	128.06	72	Cincinnati, OH	63.85	109	Birmingham, AL	33.77	146	El Paso, TX	19.11
36	Minneapolis-St. Paul, MN-WI	128.06	73	Cincinnati, OH-KY-IN	63.16	110	Oklahoma City, OK	33.25	147	North Dakota	19.11
37	Kentucky	128.37	74	Orlando, FL	62.77	111	Norman-Oklahoma, OK	33.15			

Source: DRI • WEA

THE UNITED STATES CONFERENCE OF MAYORS



COUNCIL FOR
INVESTMENT IN THE
NEW AMERICAN CITY

City/CountyMetros

GMP VS. GSP 2001 (U.S. \$ in Billions)

In 31 states, Metro areas account for 75% or more of gross state product. Examples:

Michigan

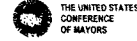
<u>2001 GMP</u>	<u>\$</u>	<u>% of GSP</u>
Detroit	\$159.84	46.9%
Grand Rapids-Muskegon-Holland	\$43.83	12.9%
Ann Arbor	\$19.50	5.7%
Lansing-East Lansing	\$16.85	4.9%
Kalamazoo-Battle Creek	\$15.67	4.6%
Saginaw-Bay City-Midland	\$12.89	3.8%
Flint	\$11.45	3.4%
Benton Harbor	\$5.22	1.5%
Jackson	\$4.48	1.3%
SUM OF METRO AREAS	\$289.72	85.0%

Missouri

<u>2001 GMP</u>	<u>\$</u>	<u>% of GSP</u>
St. Louis, MO-IL	\$77.11	41.0%
Kansas City, MO-KS	\$40.65	21.6%
Springfield, MO	\$11.26	6.0%
Joplin, MO	\$5.68	3.0%
Columbia, MO	\$5.07	2.7%
St. Joseph, MO	\$3.19	1.7%
SUM OF METRO AREAS	\$142.96	76.0%

*City/County Metros are the 319 metropolitan areas defined by U.S.OMB.

Source: DRI • WEFA



COUNCIL FOR
INVESTMENT IN THE
NEW AMERICAN CITY

City/CountyMetros

GMP VS. GSP (2001)

The gross metropolitan product of the top 10 metro areas in 2001 exceeds the combined output of the following 31 states:

Total Gross Metro Product:
\$2.57 trillion

New York, NY
Los Angeles-Long Beach, CA
Chicago, IL
Boston, MA
Washington, DC-MD-VA-WV
Houston, TX
Philadelphia, PA-NJ
Atlanta, GA
Dallas, TX
Detroit, MI

Total Gross State Product:
\$2.45 trillion

**>
is
greater
than**

North Dakota
Vermont
Wyoming
Montana
South Dakota
Alaska
Rhode Island
Idaho
Maine
Delaware
West Virginia
Hawaii
New Hampshire
New Mexico
Nebraska
Mississippi
Utah
Arkansas
Nevada
Kansas
Oklahoma
Iowa
South Carolina
Oregon
Alabama
Kentucky
Louisiana
Arizona
Connecticut
Colorado
Wisconsin

*City/County Metros are the 319 metropolitan areas defined by U.S.OMB.

Source: DRI • WEFA

**TESTIMONY OF
CEO VERNON JONES
DEKALB COUNTY**

TO

**THE COMMITTEE ON HOUSE TRANSPORTATION & INFRASTRUCTURE
SUBCOMMITTEE ON RAIL ROADS**

HEARING ON FINANCING RAIL INFRASTRUCTURE

Good morning, Mr. Chairman and Members of the Subcommittee. As CEO of DeKalb County, Georgia, I would like to thank you for allowing me the opportunity to provide you with a local perspective regarding H.R. 1617 - the National Rail Infrastructure Program.

DeKalb County is the second largest County in the state of Georgia with a population of more than 700,000 residents. To provide you with a better sense of our location, we are east of the city of Atlanta and includes within its boundaries the following cities: Decatur, Stone Mountain, Lithonia, Chamblee, Pine Lake, Avondale, Clarkston and a portion of Atlanta. Our County is home to the Centers for Disease Control and Prevention (CDC), Emory University, Peachtree DeKalb Airport and the regional headquarters for the Federal Bureau of Investigation. As you can see, the County handles issues of national significance.

DeKalb County has a significant passenger and freight rail presence with over forty-five miles of railroad tracks and thirty "at-grade" crossings. These tracks and crossings are part of a comprehensive inter and intrastate infrastructure for transport of passengers and freight to virtually all locations within the state of Georgia and throughout the country.

As we look to the future, we project rail transportation to increase. The passengers and freight on CSX, Norfolk Southern and Amtrak notwithstanding, the Georgia Rail Passenger Authority has a long-range plan for commuter rail lines on two of the three "main line" tracks. It is part of the long-term regional transportation plan to decrease traffic congestion and improve air quality.

And speaking of traffic, over the past few years, the traffic congestion on our highways has increased by 2% annually. Just to give you some perspective, on the north side of Interstate 285 – one of the busiest thoroughfares in the state, over a quarter million cars travel that stretch of road every day. Can you imagine – a quarter million cars everyday.

In short, more passenger vehicles and more rail cars underscore the need for improved infrastructure at the local level. It's a matter of public safety.

Rail lines are a vital part of DeKalb's future. The rail infrastructure needs of the County are significant and require continued federal funding. The County has enjoyed a positive relationship with regional and federal agencies regarding these issues but is faced locally with significant financial issues. To improve the basic infrastructure needs of my County as well as most highly populated communities, we need to revisit the federal funding process in order to comply with national safety standards. For these reasons, I strongly support Congressman Lipinski's legislation, H.R. 1617 – to establish and provide for funding for a National Rail Infrastructure Program.

First, I would like to thank Congressman Lipinski and this Committee for addressing this issue. Too many times local issues become a faint reality at the federal level. Everyone in this room lives in a community that addresses everyday issues, such as, water rates, cable outages and most importantly, transportation issues. When a constituent is irate with the traffic flow in their community they do not write a letter to their Congressman, they pick up the phone and call their local elected official. Many members of this committee started in local politics and remember these local issues well.

As CEO of DeKalb County, I address a variety of constituent issues every day and must account for their resolution. It is the practice of the County to analyze our regional issues and provide the most practical solutions to our constituents. Therefore, I believe if we invest in our highway and rail infrastructure needs we will have a stronger economy and a higher quality of life. It is clear that an enhanced transportation system will increase local investments and H.R. 1617 will assist state and local communities in achieving these objectives.

This legislation will allow state and local communities to aggressively pursue federal dollars in the most direct and efficient method. The proposed Rail Improvement Program will provide communities that have already worked with their regional transportation agencies in developing a long-range transportation plan, the ability to apply for funds that will directly address railroad infrastructure and system deficiencies. The benefits of this proposed program are significant, as they would allow communities to address immediate rail needs and have the funds readily available. The proposed formula of 80% federal and 20% state/local match is consistent with many other agency grant programs. Therefore, communities are familiar with these programs and would be able to implement their rail improvement projects immediately.

In addition to needed funds for improvements to our rail system, we also must invest in high-speed rail infrastructure to ensure connectivity between urban city pairs.

The Metro Atlanta Chamber of Commerce in conjunction with fourteen other chambers of commerce in the Southeast is proposing a business approach to high-speed rail.

I am sure you can appreciate how unusual it is for chambers of commerce, who ordinarily compete head-to-head for economic development to cooperate on anything, but the

following chambers were compelled to work together to bring high-speed rail to the Southeast: Atlanta, Birmingham, Macon, Savannah, Chattanooga, Greenville, Spartanburg, Columbia, Charleston, Charlotte, Winston-Salem, Greensboro, Raleigh, Hampton Roads, and Richmond.

These chambers, known as the Southeastern Economic Alliance, have a new business model for high-speed rail with four key principles:

1.) Operations should be separate from infrastructure

Just like the initial investments in air and roads, the federal government should make the investment in high-speed rail infrastructure.

2.) Connect city pairs rather than long-distance routes

3.) Operations should be open to private competition

Our projections give every indication that a private company could make a profit from operating high-speed rail service in the Southeast market.

4.) Freight must be a partner in the development of high-speed rail to ensure capacity is not impacted.

Congressmen Johnny Isakson & Jim DeMint have requested funds for this proposal. 27 members of Congress signed a joint six state delegation letter, including the following members of the Transportation committee: Johnny Isakson, Jim DeMint, Spencer Bachus, Henry Brown, Max Burns, Howard Coble, Robin Hayes.

I want to thank Chairman Jack Quinn who traveled to Atlanta last summer for our High-Speed Rail Summit.

Although it is not yet clear how the tax provisions contained in H.R. 1617 would affect certain rail operations, the benefits of this proposal are too great to ignore. This legislation will promote a better environment, a greater quality of life, enhanced public safety and economic growth that will benefit both local and national economies.

Opening Statement of William O. Lipinski
Subcommittee on Railroads
June 26, 2003
National Rail Infrastructure Financing Proposals

I thank Chairman Quinn and Ranking Member Brown, for holding this hearing today on national rail infrastructure financing proposals. I appreciate the opportunity to serve as Ranking Member for the first part of this important hearing and thank all of our witnesses for appearing before us.

Strong investment in our nation's rail infrastructure is long overdue. It is time to make rail transportation part of a strong transportation triad that includes highway, air and rail. The freight rail industry is one that provides services that are key to the operation of practically every other industry.

In an atmosphere of mounting highway congestion and pollution, rail is the more sensible way to absorb this growth in freight traffic. Therefore, there ought to be an increasing number of loads changing over to rail.

However, due to the fact that trains aren't moving fast enough, these switches to rail are not being made. With 19th century signaling systems and antiquated grade-level junctions, railroads are often unable to deliver a truck-competitive service for many shippers.

Last fall, the Federal Railroad Administration and the American Short Line and Regional Railroad Association commissioned a study that found short line railroads need nearly 7 billion dollars to upgrade tracks and structures to handle the newer 286 thousand pound railcars used by the Class One railroads. And the recent *Freight Rail Bottom-*

Line Report, commissioned by the American Association of State Highway and Transportation Officials, estimated that 175 to 190 billion dollars of investment is needed over the next 20 years just to address the worst bottlenecks and maintain rail's current mode share.

The capital rail needs are great and are rapidly growing. The current unreliable, piecemeal approach to this need is just not working. Rail transportation is currently the only major mode that does not currently have a coordinated federal investment program comparable to the national highway, air traffic, and maritime network development programs. Therefore, I have introduced H.R. 1617, the National Rail Infrastructure Program to create a stable, dedicated source of funds that would ensure the planning and construction of long-term rail projects with public

benefit. In addition, the increased efficiency and capacity that would result from my legislation, would encourage shippers to use rail over other modes.

The total revenue stream in my legislation would amount to about 3.3 billion dollars per year. Some may claim that **much** of these revenues would be collected from the freight railroads. However, this simply is not accurate. The legislation's reallocation of the current 4.3 cents per gallon diesel fuel tax and the other tax measures that effect freight railroads make up a total of only 21 percent of H.R. 1617's revenue stream.

My legislation has the following format: 70 percent of the bill's total funds would be apportioned to states and localities based on a formula that targets freight rail

congestion problems and rail capacity constraints. 10 percent of the total funds would be part of a discretionary program with projects of national importance. 15 percent of the total funds would be designated by Members for demonstration projects in selected regions that have congestion problems of national significance. In the near future, I plan to add language designating 5 percent of the total funds for ready to go projects to expand rail freight capacity in areas with a modal imbalance. Another provision I am considering adding would allow the commuter rail operators and Amtrak to opt out of the passenger ticket tax. If they wish to participate in a project funded under this program they would have to provide match at a higher level, 30%, vs. the 20% currently required.

In the 104th Congress, while I was the ranking democrat of this subcommittee, I had the pleasure of being a conferee on the ICC Termination Act of 1995, which abolished the Interstate Commerce Commission and created the Surface Transportation Board and the Railroad-Shipper Transportation Advisory Council. Therefore, I look forward to hearing Chairman Nober and Chairman Clark's testimony. I am also particularly interested in hearing Mayor Hays, Mr. Jones, Mr. Milloy, and Mr. Becker's local perspective as to the challenges facing freight and commuter rail and how my legislation would benefit their regions and the country as a whole. I thank the witnesses and yield back the balance of my time.

Statement of Ross Milloy, President
Greater Austin-San Antonio Corridor Council
June 26, 2003

My name is Ross Milloy and I am the president of the Austin-San Antonio Corridor Council, a non-profit, public-private partnership representing about 50 cities and counties and 130 businesses in Central and South Texas along Interstate 35. The Council's mission is to promote long-term infrastructure investment, economic development, and regional cooperation in the Austin-San Antonio Corridor.

I am here today because we are rapidly approaching a transportation crisis in Central Texas, a public safety and congestion crisis that could have serious implications for the state and national economy. When the Interstate highway system was developed after World War II, a primary objective was the movement of military troops from coast to coast. With simultaneous Marshall Plans underway in both Europe and Asia, the Interstate system quickly became an important trans-continental route for moving commercial goods east and west across America. It also became an important route for suburbanites in the cities along its routes as they began commuting toward jobs in the urban centers.

But with Mexico's acceptance of the General Agreement on Trade and Tariffs in the late 1980's, and the signing of the North American Free Trade Act (NAFTA) in 1994, America's commercial transportation needs have undergone a fundamental shift, from a reliance on east-west routes to an underserved need for north-south routes to handle increases in trade related to NAFTA. Nowhere is this more apparent than along Interstate 35 in the Austin-San Antonio Corridor.

I-35 in Texas is the primary link between three of the fastest-growing areas in America: Dallas-Ft. Worth, Austin-San Antonio, and Laredo-Rio Grande Valley. A 1999 study funded by the Federal Highway Administration found that along the entire 1700-mile length of I-35 from Mexico to Canada, the highest fatality rates, the lowest levels of service, the slowest average speed per mile, the most air pollution, and the most congestion all occurred in the Austin-San Antonio Corridor. The latest figures compiled by the Texas Department of Transportation indicate that since 1994, more than 100 people a year are being killed in traffic accidents just in the 90 miles of I-35 between San Antonio and Georgetown – twice the statewide average fatality rate for an urban freeway. In Travis County – which now has the highest traffic fatality rate in the state of Texas – one in four fatal accidents involves a truck.

The reasons are twofold: rapid population growth and increased NAFTA traffic. For each 1% of regional population growth, vehicular traffic on I-35 in our Corridor increases 3-4%, and every county in the Austin-San Antonio Corridor has experienced double-digit population increases in the last decade. Williamson County, just north of Austin and the home of Dell Computers, grew by 79.1% from 1990-2000. The Texas State Data Center projects that our regional population will double over the next 20 years, to 4.5-5 million people.

But it is the commercial trade aspect of I-35 congestion that poses the greatest threat to our local, state, and national economies. Nearly three million US jobs depend upon our exports to Canada and Mexico. Currently, about 80% of Mexico's trade with the US and Canada passes through Texas, 74.6% of that trade moving by truck up Interstate 35. Most of the trade enters or exits the state at Laredo, where we've watched loaded truck crossings go from 15-20,000 per month before NAFTA, to over 120,000 trucks per month last year. National statistics indicate that nationwide trucking is increasing about 2% per year; statewide figures show that trucking is increasing in Texas about 6% per year, and our own local transportation officials estimate that trucking in the Austin-San Antonio Corridor is increasing at about 10% per year. NAFTA trade alone, currently about \$350 billion per year, is expected to double in the next five years.

That FHWA study that I mentioned earlier estimated that we would have to expand I-35 through downtown Austin to 18 lanes (from a current six lanes) in order to meet anticipated demand by 2025 – a financial, logistical, and practical impossibility. The FHWA study also recommended that we try to shift 50% of freight currently moving through our area by truck, to shipment by freight rail carriers.

But freight rail traffic through our area has also grown dramatically since the passage of NAFTA. Union Pacific Railroad, the principle north-south carrier in the region, has seen its total rail car volume double over the last four years, and they have outstripped the capacity of their existing mainline. The Union Pacific's rail line directly parallels I-35 for 90 miles throughout the Austin-San Antonio Corridor, but the tracks were laid over a hundred years ago, before this region became heavily urbanized. There are now nearly 200 at grade crossings in the Corridor, each of them a potential accident site and a real hindrance to the rapid movement of freight through the area.

(Let me give one example of the local impacts of this international freight load moving through our region. San Marcos, Texas – a town of about 30,000 people in the heart of the Corridor – currently has 33 lighted and gated freight rail crossings within its city limits, 13 within a single mile radius of downtown. Union Pacific is running up to 34 trains a day through San Marcos, many up to 7500 feet long – that's a mile and half. The hospital, the fire station, and the police station are all on one side of the tracks, and 80% of the population is on the other side. The 30 minutes it takes for a train to cross those intersections can be a frustrating inconvenience to a passenger vehicle, of course, but it's a potentially life-threatening delay if one is waiting for an ambulance or a fire truck.)

Leaving aside for a moment the public safety aspects of our local transportation problems, let me turn to the costs of congestion to our local and national economy. A 1998 study estimated that traffic and congestion delays along I-35 in the Austin-San Antonio Corridor were costing passenger vehicle operators about \$83 million a year in added fuel and lost times costs, and were costing the trucking community over \$200 million a year in the same kind of expenses. This kind of congestion is beginning to impact our ability to attract and expand local businesses. The high technology industry in Austin employs about 100,000 workers, but that industry relies on 'just in time' delivery

inventory management. When those production lines slow because of congestion-delayed deliveries, the local, state and national economies suffer.

700 businesses in San Antonio describe themselves as 'NAFTA-related enterprises,' and that city's core economic development strategy is to become a logistical and distribution hub for NAFTA traffic. But that strategy – a key element in the regional economy – is threatened by congestion that has increased to the point that the Texas Department of Transportation is predicting that it will soon take longer for a truck to go from San Antonio to Dallas than it did 40 years ago, before the Interstate through our region was built.

Our region thus faces potential economic stagnation instead of taking advantage of our central location within Texas and North America.

Local governments in the Austin-San Antonio Corridor are responding to this threat with local resources: more than \$500 million has been committed to new routes through our area, most notably the State Highway 130 project that will parallel I-35 for 90 miles at its most congested point. But a long-range solution cannot rely on simply building more freeway lanes. We urgently need to shift significant volumes of trade currently going by truck to a freight rail system through our region. The State Highway 130 project provides an opportunity to do just that, by offering a new right of way that could be grade-separated to allow freight train movements of up to 79 miles an hour through one of the most congested and dangerous trade corridors in the nation. It would also allow us to develop Union Pacific's existing rail right of way - through the downtown centers of Central Texas cities - to a more appropriate 21st Century urban use: regional passenger rail.

Building a grade-separated freight rail route in the State Highway 130 Corridor would free up capacity on Interstate 35, improve public safety, reduce air pollution and congestion, and speed NAFTA commerce to destinations throughout the country.

But to do so will cost an estimated \$700 million: far more than the local communities' can absorb, and – at least thus far – more than Union Pacific is willing to invest. In seeking funding for this project – which will benefit the nation's economy as much as our own - we have found the existing Federal programs to be a patchwork of efforts difficult to mobilize on behalf of this critical international trade corridor. Major rail relocation efforts often involve highway, transit, grade crossings, safety, and freight rail elements, but the existing programs are so narrowly drawn that flexibility across varying modes is almost impossible to achieve. Some programs – such as the RRIF - have regulatory restrictions that seem more designed to keep them from being used, than to be helpful to communities like ours.

We are hopeful that aspects of the Lippinski bill and RIDE 21 by Chairman Young can be incorporated into the reauthorization of TEA-21 and allow for a truly multi-modal approach to solving public safety and congestion issues that put our citizens, and our economies, at risk. At a minimum, Federal policy should establish a system for setting

priorities among rail investments that would recognize the key role that trade corridors have in sustaining the national economy. That policy should also recognize that many states – Texas among them – have restrictions on the use of state funds for rail projects and develop a system that would provide an incentive for state and local governments to co-venture with the Federal government, and the private sector, to help develop a more multi-modal approach to freight movement.

Federal policy should also recognize that so-called non-economic benefits related to major rail relocations – such as moving hazardous materials away from populated urban centers, public safety benefits related to reducing congestion, air quality, land use or quality of life benefits that accrue from using former freight corridors for passenger rail – are also important considerations worth of Federal investment.

Research done by the RAIL Coalition, of which my group is a member, indicates that an investment of \$53 billion over the next 20 years will save shippers, highway users, and highway agencies over \$410 billion in avoidable costs. But more important, to me, is the lost opportunity costs in economic growth, in increased trade, in increased prosperity and employment, and in improved quality of life for Corridors – like ours – that are bearing the brunt of the infrastructure demands that have developed in the post-NAFTA transportation environment.

I would be happy to answer any questions.

**Testimony of Honorable Roger Nober
Chairman of the Surface Transportation Board
Before the
House Committee on Transportation and Infrastructure
Subcommittee on Railroads
Hearing on National Rail Infrastructure Financing Proposals
June 26, 2003 Room 2167 RHOB**

Introduction

Good morning, Chairman Quinn, Ranking Member Brown, and Members of the Subcommittee.

My name is Roger Nober, and I am the Chairman of the Surface Transportation Board. I appreciate the invitation to discuss with you the importance of rail infrastructure to the financial health of our freight railroads, to the railroads' customers and to the nation's transportation system as a whole.

1. The STB's Mission and Rail Infrastructure

The Surface Transportation Board ("Board") is an economic regulatory agency, and the rail infrastructure issues being discussed today are important to our mission. One of our core statutory missions from Congress is to assist railroads in attaining adequate revenues. We must also resolve railroad rate and service disputes. As I will explain, the state of railroad infrastructure is inextricably intertwined with, and therefore a significant component of, all of the rail regulatory matters we must address.

The state of rail infrastructure is a key part of the conundrum that you all are familiar with as it has bedeviled the rail industry for several generations -- how to provide a level of service that will allow railroads to grow their businesses while maintaining our freight railroads as viable private entities. The level of service railroads are able to provide and the rates they can charge customers for that service are directly related to the capacity and reliability of their network. But, the level of capital investment railroads are able and willing to make in their network, and thus the condition of that network, is limited by the fact that railroads are not meeting their cost of capital. Critically, the condition of the railroads' networks limits their ability to grow their business by offering better and more reliable service; yet without the funds to fully invest in a better system and new technologies, railroads have a difficult challenge to gain market share from other modes. Without growing their businesses and generating new revenues, railroads will have a difficult time earning their cost of capital and becoming revenue adequate.

a. Revenue Adequacy

The Board is required by statute to quantify the revenue needs of the railroads and to assist railroads in attaining adequate revenues. The statute defines and the Board therefore measures revenue adequacy in the following manner: a railroad's revenues are to be considered adequate if they are sufficient, "under honest, economical, and efficient management, to cover total operating expenses, including depreciation and obsolescence, plus a reasonable and economic profit or return (or both) on capital employed in the business." To comply with this statutory mandate, the Board calculates annually the revenue adequacy of the individual Class I railroads.

Our determination of revenue adequacy is based on two variables: the weighted cost of capital for the rail industry and the rate of return on past investments achieved by each major railroad. The cost of capital is a measure that aggregates the current cost of both debt and equity financing of publicly traded railroad companies that pay dividends. In effect, it is a proxy for the cost the railroad industry as a whole would pay to finance new investment. The Board recently announced that the after-tax cost of capital for 2002 was 9.8 percent, which is the lowest it has been since the Board and its predecessor, the Interstate Commerce Commission, began these calculations in 1978. The cost of capital determination, which the Board calculates annually, is essentially a calculation of a profitability target for the railroads.

The Board determines whether an individual railroad is revenue adequate by comparing the railroad's rate of return on net investment – measured as the ratio of each railroad's net railway operating income to the book value of its investment base – to the railroad industry's cost of capital.

The Board has observed that since the enactment of the Staggers Act in 1980, the financial health of the railroads has improved considerably. Individual railroads have been found revenue adequate in particular years. From 1992 to 1999, between one and three Class I railroads were found revenue adequate each year. Since 1999, however, no railroad has been found revenue adequate under the Board's standard. This means that, since 1999, no Class I railroad has generated sufficient revenues to earn or recover its cost of capital on prior investments. Nonetheless, railroads have continued to selectively invest in those specific projects that are expected to generate future returns that exceed the firm's cost of capital.¹

b. Impact of Infrastructure on Rates and Service

¹ I should note that there are limitations to a single-year revenue adequacy measure. Rail usage and the resulting rail revenues fluctuate with the nature of the business cycle for rail customers and with swings in the overall economy. Thus, the result of our statutorily-mandated revenue adequacy computation in a single year may be less instructive than a multi-year trend.

The Board's statutory charges include resolving rate and service disputes between railroads and their customers. In this capacity, the Board has attempted to balance the competing interests of railroads and their customers in rate disputes. The Board's rate standards allow railroads to price their services in a way that will permit them to earn a reasonable return on the facilities needed to serve captive traffic. That is important. The Board has observed first hand the effects on rail customers of infrastructure capacity constraints and of poorly maintained infrastructure. For example, after the merger of Union Pacific Railroad and Southern Pacific Railroad, the limitations of rail infrastructure in the Houston area caused the Board to monitor and to address the service disruptions that resulted. The Board has heard from some of the industry's customers who are concerned about the adequacy of the nation's rail system to handle future traffic growth. Some shippers are concerned that infrastructure problems may prevent the railroads from maintaining or improving current levels of service.

Recognizing the importance of infrastructure to service, the Board took a leadership role in bringing freight railroads, the city of Chicago and the State of Illinois together to produce the recent agreement to improve rail infrastructure in the Chicago area.

c. The Short Line Industry

The Board has overseen the growth and development of the short line industry, as our approval is required for one railroad to sell or transfer a rail line to another railroad. Today, there are more than 500 short line railroads, which operate more than 50,000 track miles – or one-third of the railroad route miles in the United States. These smaller railroads originate or terminate rail traffic worth a bit less than 10 percent of the rail industry's gross revenues. Nevertheless, as this Committee is keenly aware, many short lines have significant infrastructure needs because their tracks were not built to handle the modern, larger capacity rail cars – which are generally 286,000-pound cars. Estimates of the short line industry's capital needs are nearly \$7 billion, according to ZETA-TECH, which the American Short Line and Regional Railroad Association commissioned in 2000 to study short line infrastructure needs.

2. Railroads Infrastructure Investments Since the Staggers Rail Act of 1980

When considering the state of freight rail infrastructure, the most important fact to remember is that our freight system is a capital-intensive network that has been maintained for years by private companies. Unlike most countries, we do not have a government-subsidized freight rail network. However, the regulatory framework administered by this agency and its predecessor has a significant impact on the financial health of the freight railroads and therefore the condition of their infrastructure.

As the 1970s ended, the regulatory regime had taken its toll on railroads. Many were in financial distress. The weakest railroads failed, including all the major railroads in the Northeast: the Reading, Erie-Lackawanna, the Lehigh Valley, the Boston and Maine, the Lehigh and Hudson

River, the New Haven, and Central of New Jersey. But it took a dramatic event -- the bankruptcy of the Penn Central Transportation Company only two years after its formation, in what was at that time the largest bankruptcy in United States history -- to provide the impetus for an overhaul of rail regulation. Accordingly, Congress passed the Railroad Revitalization and Regulatory Reform Act of 1976 (the "4 R Act") and the Staggers Rail Act of 1980 ("Staggers Act") to deregulate many aspects of the rail industry and to help move the private freight railroads from heavily regulated entities to more competitive businesses.

Since the enactment of the Staggers Act, railroads have become more financially stable and thus have been able and willing to invest substantial sums of money in their own infrastructure. They have refined their networks by spinning off lines to short line railroads and expanded the capacity of their remaining system by investing in more modern equipment and technologies. All of these changes have made them substantially more productive. The Board has reported that "comparing 1998 to 1980, Class I railroads produced 50 percent more ton-miles using 61 percent fewer employees, 28 percent fewer locomotives, 38 percent fewer track miles, and 23 percent fewer freight cars in service." (Rail Rates Continue Multi-Year Decline, Surface Transportation Board, Office of Economics, Environmental Analysis, and Administration, December 2000, at 4-5.)

Although the freight railroads have passed a significant percentage of their cost savings on to their customers in the form of rate decreases, they have also used their improved financial condition to make major, targeted capital investments. Since 1980, they have invested nearly \$96.5 billion in their infrastructure. For example, Union Pacific Railroad ("UP") invested substantial amounts in the 1990s to improve its central corridor, which runs from the coal fields in the Powder River Basin in Wyoming across central Nebraska, and its Marysville Subdivision, which runs from Gibbon, Nebraska, to the Kansas City gateway, to accommodate increasing amounts of coal and intermodal traffic. After its acquisition of part of Conrail, Norfolk Southern ("NS") made investments and then realigned some of its operations, thereby substantially increasing its business of transporting automobile parts, finished automobiles, and intermodal traffic.

Still, railroads operate over large networks that are expensive to build and that require sophisticated and expensive technologies, such as centralized train control and automated switches, to operate efficiently. Yet, these expensive systems also must be well maintained to ensure continued safe operations -- an issue Administrator Rutter knows better than I. In addition, railroads must maintain all the rights-of-way on which their tracks, yards, and other facilities are located. In fact, between 1997 and 2001, the railroads spent on average more than 18 percent of revenue on capital investments, while the manufacturing sector as a whole spent a bit more than 3 percent.

I believe that freight railroads are unable to make the level of capital investment in their networks that those systems presently need. This is primarily a result of the fact that, as I

discussed earlier, the return on railroads' past capital investments has fallen short of the industry's cost of capital. And as publicly-traded companies, freight railroads must be responsive to the needs of their investors, and these investors are seriously concerned about the inadequate returns on investment earned by the Class I railroads.

Since I have become Chairman, I have met with all of the major figures in the investment community who follow railroads. And while all of these investment analysts agree that the railroads' investments are not meeting their cost of capital, they do not agree on the solution. Some urge railroads to increase their capital investment levels, some believe railroads currently make an appropriate level of capital investment, and others believe railroads should cut back on their levels of capital investment. Many of these same analysts urge railroads to increase revenue by raising prices to existing customers, rather than by investing in their networks to grow their traffic. The choices that the senior management and Board of Directors of railroads face to determine the proper level of capital investment for their networks is a difficult one, and is part of the conundrum I referred to earlier.

For example, when I recently visited with NS's capital planning team, they explained that no new project – a project other than maintenance – with a future return on investment lower than 20 percent would receive any capital funding. This investment analysis reflects a very disciplined process by which NS identifies its most pressing infrastructure needs and carefully targets investments. However, NS cannot commit the financial resources to every desirable project, and therefore NS will not make certain infrastructure investments.

Accordingly, there are still significant unmet infrastructure needs today despite the substantial investments the railroads have made in their networks.

3. Railroads Will Need Increased Infrastructure Investments

As freight and passenger rail traffic grows, there will be infrastructure improvements that should not be deferred if our nation is to maintain a healthy rail industry that can meet the growing demand for rail transportation.

a. Increased Freight Demands

The Department of Transportation, in its October 2002 *Freight Analysis Framework*, estimates that freight rail traffic will grow by 50 percent by 2020. That growth will put significant additional pressure on existing rail capacity and infrastructure. Therefore, we will need our railroads to expand and enhance their infrastructures so the national rail system will be ready to meet this growth in demand and so the railroads can serve their customers safely and efficiently. In its recent study, the American Association of State Highway and Transportation Officials estimated that unless we adequately invest in increased rail capacity, we will place additional

constraints on our highway system. (Transportation--Invest in America, Freight -Rail Bottom Line Report, January 2003, at 3.)

b. Increased Passenger Demands

Passenger rail will also continue to put pressure on the capacity of our freight rail infrastructure. Commuter and intercity passenger trains primarily operate on infrastructure owned by the freight railroads. Since the number of trains that can pass over a line of track is limited, each passenger train takes some capacity away from freight operations. Moreover, the number of commuter operations is likely to continue to grow. For example, while today on CSX's lines there are about seven ongoing rail passenger and commuter operations, nearly four times that many are under study.

The capacity of freight lines also affects passenger services. Outside of the northeast corridor, Amtrak operates with a statutory preference over freight lines. The condition of these lines affects the speed of Amtrak operations, and the capacity of these lines impacts both the freight railroads and Amtrak. The demands for additional passenger service that exist around the country, including high-speed rail operations, could further tax the freight rail infrastructure.

c. Improving Railroad Gateways

For railroads to improve their service and increase their traffic, the gateways, handoffs and interchanges between railroads must be improved. While our interstate highway system is an integrated, national system, our freight rail network is really a series of regional networks that connect at several interchange gateways. The most significant of these is Chicago, but other important points are Kansas City, St. Louis, Memphis and New Orleans. At these cities, our eastern and western railroads hand off freight to one another. The efficiency and importance of rail freight gateways cannot be underestimated – nearly one-third of all rail freight is transferred between carriers.

These terminals are densely populated urban areas whose rail systems have been in place for as many as 150 years, and these systems long predate the development that has occurred around them. These gateways are not always the first place railroads look when preparing capital budgets. But I believe we must focus attention on these gateways, because they can be critical chokepoints in our freight rail networks.

Chicago is by far our nation's most important rail gateway. More than one third of all rail traffic moving on a given weekday converges on Chicago. All seven of the major railroads operating in the United States operate within the Chicago area and move the more than 37,500 freight cars and 20,000 intermodal trailers and containers that comprise the 500 freight trains that operate in Chicago every weekday. These trains operate in Chicago over 893 miles of track and

125 interlockings, and in 57 yards. They also pass through 4,600 control points, which are switches or speed zone changes. Whereas railroads have invested to automate control points in many other locations 30 of the approximately 150 manned towers that remain in the United States are in Chicago.

Most of the rail shipments do not begin or end their journey in Chicago, but rather move through Chicago. The vast majority are interchanged at Chicago between railroads or between a railroad and a truck for further transport. It takes too much time for rail traffic to make its way through the Chicago gateway. In fact, I am told that it takes about the same amount of time to move a train through Chicago as it does to move one from the West Coast to Chicago.

Inefficiencies of Chicago rail operations can affect more than just railroads in Chicago. There are approximately 1 million "rubber tire transfers"—where intermodal traffic is taken off a rail car, moved by truck to another rail facility, and then reloaded on a rail car. Obviously, these truck moves on Chicago roads occur because it is either slower or more expensive to complete the interchange exclusively by rail. Moreover, the slow movement of trains in Chicago means that road crossings remain blocked by trains longer.

These problems are less severe than they were even a few years ago thanks to cooperative efforts among all affected parties. After the winter of 1998-99, which severely disrupted rail operations in Chicago, the Board urged the parties to work together to solve some of the problems and delays in rail movements in Chicago. The railroads serving the Chicago gateway then formed the Chicago Planning Group, which provided them with a formal mechanism to discuss issues related to Chicago.

The railroads determined that they needed an integrated approach to deal with operations in Chicago. Thus, at the Board's urging, they created the Chicago Transportation Coordination Office ("CTCO"). CTCO, which is located in the METRA Dispatching Center in downtown Chicago, monitors the condition of all the rail facilities in the Chicago area, as well as the trains entering, departing, and moving through the area. CTCO is therefore aware of congestion, delayed arrivals, and other ongoing events that could affect rail operations in the area. It has improved the operation of yard facilities and major corridors in Chicago that handle significant amounts of rail traffic. Railroads have worked to directly interchange more intermodal traffic and thereby reduce the number of "rubber tire transfers" in Chicago.

As a result of these efforts, the railroads have realized significant improvements in their Chicago operations. The average car took 30 hours to move through Chicago in 2002, which was down from 45 hours in 1999. In addition, the time a car spent sitting in a yard in the Chicago area was reduced to 23 hours from 41 hours over the same period. Nevertheless, the Board has continued its active involvement and hosted a number of meetings of the Chicago Rail Task Force, which was co-chaired by a railroad executive and the Transportation Commissioner for the

City of Chicago. This group has focused on the substantial investment in infrastructure expansion and realignment in Chicago that is necessary to make further improvements in rail freight efficiency in that City.

With the continuing need to improve rail efficiencies in Chicago through investments in infrastructure improvements and realignments in mind, the Chicago Rail Task Force recently announced that the railroads, the City of Chicago, and the Illinois Department of Transportation entered into an agreement for a major infrastructure project, and I was pleased to be present at that announcement. The Chicago Project will improve further rail transportation in Chicago as well as remove numerous grade crossings that interfere with automobile traffic. It is an ambitious proposal, and I commend the industry, the city, and everyone involved for their vision.

d. Construction of New Rail Lines

The Board is statutorily required to approve all construction of new rail lines, and the demand for investment in new rail lines, particularly build-ins, continues. Infrastructure investment in new rail lines to bring competitive service to singly-served customers can provide significant benefits to railroads, customers, and the freight system as a whole. In the past two years, we have considered two major new construction cases that each reflect this trend in rail infrastructure investment – the Dakota, Minnesota and Eastern (“DM&E”) construction to the Powder River Basin in Wyoming and the San Jacinto construction to the Bayport chemical area near Houston, Texas.

The DM&E construction project has two parts: First, DM&E plans to build some 280 miles of new rail line west from a point on the railroad’s existing line near Wasta, South Dakota, to specific mine sites in Wyoming’s Powder River Basin. Second, DM&E plans to rebuild and upgrade approximately 598 miles of its existing main line in Minnesota and South Dakota. DM&E originally estimated that the cost of the entire project would be about \$1.6 billion, although some recent reports have DM&E characterizing it as a \$2 billion project.

The San Jacinto project involves the construction of a 12.8-mile line of railroad so The Burlington Northern and Santa Fe Railway (“BNSF”) could serve the Bayport Industrial District in southeast Houston, TX, near Galveston Bay. This new line would be financed through an innovative partnership between the railroad and the petrochemical manufacturers in the Bayport area who would gain competitive rail service. The BNSF states that the cost of building the line is \$80 million.

The Board approved each of these privately-funded projects based on their transportation merits. They are projects that these companies believe are good for their companies and provide competition, but they are time consuming, expensive, and ultimately their completion is uncertain. In addition to the expense and business uncertainty of building these projects, both of these have

also encountered significant local opposition, of the sort usually reserved for publicly-funded highway or airport construction projects. Fewer of these types of projects get proposed, despite their transportation benefits, because companies must factor this uncertainty into their decision to tie up their private capital.

Conclusion

Our country and its economy will benefit from greater investments in rail infrastructure. Expanded capacity and more efficiently aligned infrastructure means customers will get better service, communities will have improved conditions, and goods will move more quickly across this country. Those are benefits to everyone.

177

**TESTIMONY BEFORE
THE RAILROAD SUBCOMMITTEE
OF THE
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE**

NATIONAL RAIL INFRASTRUCTURE FUNDING PROPOSALS

JUNE 26, 2003

SUBMITTED BY:

**CHARLES E. PLATZ
PRESIDENT, BASELL NORTH AMERICA, INC.**

ON BEHALF OF

**CONSUMERS UNITED FOR RAIL EQUITY
AMERICAN CHEMISTRY COUNCIL**

6/26/03

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today on this important subject. My name is Charles E. Platz. I am President of Basell North America Inc., which is headquartered in Elkton, Maryland. Basell has manufacturing facilities in Texas and Louisiana and markets product manufactured at a plant in Linden, New Jersey. We produce raw material plastic resin that our customers use in a variety of applications such as automobile components, textiles, packaging, medical products and numerous household goods. I appear today as Co-Chair of Consumers United for Rail Equity, on behalf of captive rail customers; and on behalf of the American Chemistry Council; and on behalf of my own company.

Mr. Chairman, I approach this issue from the perspective of an executive responsible for running a successful manufacturing business in this country that competes in an extremely competitive global market. I am very concerned not only that our company succeeds in this dynamic global economy, but also that American manufacturing jobs remain in this country. Our company is completely dependent on rail transportation and at some of our facilities is dependent on, or captive to, a single railroad for the movement of our product to our customers. As a business dependent on the railroad industry, we are vitally interested in the financial health of America's railroads. We simply cannot operate successfully in this country without a financially viable railroad industry and a secure railroad infrastructure.

None of us seeks a return to the "bad old days" of the 1970's when several of the major railroads were in bankruptcy and the industry lacked the capital necessary to maintain their systems. Unfortunately, over twenty years since passage of the Staggers Act, the industry apparently continues to fall short of the revenue needed to provide a first class rail system for the nation. Perhaps the time has come to move toward a partnership between government, the railroad industry and their customers: a partnership that will ensure a national rail system that can meet the demands of our nation's role in a global economy.

I am deeply involved and committed to these issues, which are critically important to our business and to the greater American economy. Over the past year, I have been engaged in a dialogue with the CEOs of the railroad industry about both the lack of an acceptable commercial relationship with our rail carriers and the financial needs of the railroads. These conversations began at the request of then Chairman of the Senate Surface Transportation and Merchant Marine Subcommittee, Senator John Breaux (D-LA), after both John Snow, then Chair of the CSX Corporation, and I testified before Senator Breaux on the captive rail customer issue last July 31st. At the end of the hearing, Senator Breaux asked Mr. Snow and me to enter into a dialogue on this issue and involve other shipper and railroad CEOs. More specifically, Senator Breaux asked us to seek consensus on a mechanism for resolving rate disputes. We had an initial meeting. After Mr. Snow was selected by the President shortly thereafter to serve as Secretary of

the Treasury, our dialogue has continued with Matt Rose, CEO of the Burlington Northern and Santa Fe Railroad. Frankly, Mr. Chairman, we find that the railroads in today's environment are very reluctant to change the status quo, which they feel would be to their disadvantage. Nevertheless, we have appreciated this opportunity and are ready to continue our discussions if the dialogue can be directed toward developing a new relationship.

THE BASELL RAILROAD EXPERIENCE

Mr. Chairman, I want to relate to you Basell's recent unsatisfactory experiences with some of our rail carriers. Basell is completely dependent on the railroad industry for transportation. To be specific, 100% of Basell's finished product is loaded directly into rail hopper cars. The vast majority of our customers require that our product arrive at their facilities by rail. Basell operates a fleet of nearly 4000 hopper cars to deliver our product to market. The replacement value of those cars is approximately \$260 million. The operation of the fleet is strictly to Basell's account.

We have a plant near Bayport, Texas that is captive to a major western railroad. Our facility is served by a single rail line owned and operated by this major carrier. However, within a short distance of our plant, is a second major railroad that intersects the line of the carrier that provides the exclusive service to our plant. At that intersection point, our hopper cars could be moved to the second railroad where competition could be utilized with the potential for better service and more cost-effective transportation to our customers.

Under current law, as interpreted by the Surface Transportation Board in 1996, the carrier to which we are captive in Bayport is under no obligation either to quote a rate for moving our cars to the competing railroad or to allow us to reach that competing railroad. Over time, that carrier charged us such an excessive rate on our movements from the Bayport plant that it jeopardized the continued successful operation of that plant in a highly competitive plastics industry.

When this occurred, we considered all of our options. One option might have been to file a rate complaint at the Surface Transportation Board, but rate cases are not a viable option for the chemical industry. The chairman of the STB has testified that rate cases are costly and long and that what we call "small rate cases" have not been used. We applaud the Chairman for identifying these issues, beginning a process to review and revise the procedures and for seeking to bring about needed change. Nevertheless, prospective alterations can't change the fact that today, just as when our situation in Bayport became critical, the only available remedy is pursuit of a build-out to competition.

In joining with other producers on the solely served Bayport facilities, we're using the only remedy really afforded to us under the law. But, that's no easy task. The process for obtaining permission for that line has been arduous, the line has been controversial, and the line will be costly – about \$80 million. An application to build and operate this new rail line is currently pending before the STB. While this new rail line will bring much needed relief, the

reality is that the \$80 million is being spent on duplicative rail facilities. That money could have been better spent on improvements to existing infrastructure. Finally, upon completion of the line, for at least the time being, the railroad that today holds us captive will have lost the origin business.

Mr. Chairman, it's questionable whether this is a success or not. We will achieve competition, but capital will be invested where it's not needed and the incumbent rail carrier that demanded too much will lose business and the related revenue. I believe if a normal commercial relationship existed between the railroads and their captive rail customers, we would have been able to negotiate a mutually acceptable transportation agreement and avoided both the disruption to the community and the unnecessary capital investment. Unfortunately, captivity obstructs this type of commercial relationship.

A FLAWED RAILROAD BUSINESS MODEL

Mr. Chairman, based on my experience, I believe the major railroads in the nation are pursuing a flawed business model. Even the railroads agree that the gap between their annual revenue needs and their annual revenues is expanding, not shrinking. This is despite the fact that they have been allowed to consolidate to achieve cost synergies. These synergies should allow them to operate more efficiently and in a fashion that permits them to recover their cost of capital. They've also had the opportunity to transfer less profitable track to short line railroads while keeping their market dominance over that track and they have been able to increase the burden on captive rail customers. The result is simply that those customers with no alternative pay the most. The railroads call the practice of putting more costs on captive customers "differential pricing." But differential pricing should not be determined by captivity alone. In normal business models, customers utilizing facilities more contribute the most to their cost. But under the current application of "differential pricing," that is not the case. The questions I am posing aren't focused on whether they are allowed to do it - they are. Rather, the questions we should be asking are: one, whether the way they are applying "differential pricing" works and; two, whether it will allow them to sufficiently grow their business and close the gap on their existing financial shortfalls.

Mr. Chairman, pursuing a strategy of continually loading more costs on captive rail customers does not appear to be a business model that will result in healthy American railroads in the long run. As our example at Bayport indicates, the universe of captive rail customers is likely to be reduced over time. Some captive customers will construct rail line "build-outs". Some captive customers will shift their manufacturing activities to facilities that have transportation competition. Some captives will shift their manufacturing to foreign countries, exporting American jobs overseas. Under this business model, the industry will be required to load up even more costs on the remaining captives, thus accelerating the cycle.

A BETTER WAY

Mr. Chairman, there must be a better way for the railroad industry to achieve long-term financial viability while providing efficient service at prices that will allow American business to compete successfully in the global market. I think that better way has two components, both of which are essential.

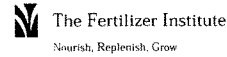
First, the railroads must develop a new relationship with their captive rail customers. The old saying that "absolute power corrupts absolutely" in some ways can be applied to the relationship between captive rail shippers and the railroads. The relationship between the railroads and their captive customers is so out of balance that a viable commercial relationship does not seem possible. Too often captive rail customers are confronted with both a lack of competitive options and no swift or effective remedy at the Surface Transportation Board. Thus, railroads are free to approach captive customers with a take it or leave it attitude. If the railroads were at risk of losing business to competition or faced risk at the STB, railroads would have an incentive to work with us to achieve a mutually beneficial commercial relationship. We believe rail legislation pending in the Senate and soon to be introduced in the House will strike the balance that will result in normal commercial relationships between the railroads and their captive customers.

Second, the railroads need the financial resources to be viable. Perhaps federal financial assistance for railroad infrastructure should be provided to the railroads, which we would hope resolves their capital shortfall. If federal loans and loan guarantees don't work, then perhaps infrastructure grants or beneficial tax treatment should be considered. Captive rail customers would be pleased to work with the rail industry and Congress to address this issue. During this interim time period, the government should study seriously the current railroad model and determine if there is a better way to ensure a viable national rail system. Captive rail customers, such as Basell, will participate gladly in that dialogue.

Both balanced commercial relationships and financially strong railroads are necessary to provide the secure, effective transportation system the nation needs to remain competitive in the global market. A continuation of the status quo in the relationship between major railroads and captive rail customers is not sustainable and, I believe, adversely affects our nation's ability to compete in the global economy. Thus, we support legislation that has been introduced in the Senate as S.919, the Railroad Competition Act of 2003, which is supported by at least twelve national trade associations and hundreds of companies around the country. Similar legislation is expected to be introduced in the House in the very near future. I am attaching a one-page explanation of this legislation

Mr. Chairman, thank you for allowing me to testify today. Captive rail shippers are not the enemies of the railroad industry. We are their customers and we seek a new and healthy commercial relationship with our rail service providers. We believe that balanced, fair legislation is needed to bring about that positive relationship. Infrastructure investment is important for the long-term competitiveness of the United States, and we support that investment. However, for that level of investment to be successful, and for it to provide a meaningful benefit to the American economy, we must re-visit and resolve the needs of those

shippers most dependent upon rail – the captive rail customers. These two issues must be addressed and resolved together or the effort to fund infrastructure will fall far short of the objective. Indeed, if the railroads are allowed to continue current practices, the end result will be that more American jobs leave our borders for destinations overseas. I suggest that's a result we all must work to avoid.



ENACT S. 919 NOW!
The Railroad Competition Act of 2003

Clarification of National Rail Policy: Clarifies that the STB has the following primary objectives: (1) ensuring effective competition among rail carriers at origins and destinations; (2) maintaining reasonable rates in the absence of effective competition; (3) maintaining consistent and efficient rail transportation service for rail shippers, including the timely provision of rail cars; and (4) ensuring that small carload and intermodal shippers are not precluded from accessing the rail system.

Requirement that Railroads Must Quote Rates to Their Customers: In order to increase rail customer access to competition, railroads must quote rates between any two points on their systems where freight movements can originate, terminate or be transferred, when requested by the customer.

Arbitration of Certain Rail Rate, Service and Other Disputes: Provides "final offer" arbitration (baseball arbitration), at the choice of the non-rail party to a dispute, for all rail rate matters and other disputes at the STB involving a railroad charge.

Removal of "Paper Barriers:" Prohibits including "paper barriers" in future sales or leases of rail line to short line or regional railroads and allows the STB to invalidate such provisions that have been in existence for 10 years.

Removal of "Anti-Competitive Conduct" Test from Terminal Area and Switching Agreements Policy of ICC/STB: Changes the "antitrust" test added in mid-1980s by the former Interstate Commerce Commission to the statutory "public interest" test included in the terminal area and switching agreement provisions of the ICC Termination Act.

Tri-Annual DOT Study of Extent of Rail-to-Rail Competition

Areas of Inadequate Rail Competition: On petition of a state, the STB may declare all or part of a state to be an area of inadequate rail competition. Special rail customer remedies apply in such areas.

Rail Customer Advocacy Office Established at Department of Agriculture

June 20, 2003

**STATEMENT OF
ALLAN RUTTER
FEDERAL RAILROAD ADMINISTRATOR
BEFORE THE
SUBCOMMITTEE ON RAILROADS
OF THE
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
JUNE 26, 2003**

Chairman Quinn and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss financing the Nation's rail infrastructure, for both passenger and freight service.

In the early days of this country, intercity surface transportation was largely a private enterprise. According to Philip Locklin, the noted authority on transportation economics, the private turnpike movement was flourishing by 1800. Soon thereafter, Pennsylvania alone had chartered 86 private companies to build roads and collect tolls, while New York State had 135. State participation was in the form of stock purchases, or, sometimes, direct subsidy to the company, but not in construction or operation of the road itself.

Rail service, which began in the 1830's, was financed in a similar manner. Private companies offering passenger and freight service built rights-of-way and operated trains. Government assistance was generally in the form of loans, land grants, stock purchases and sometimes outright subsidies, although, in a few cases, states built their own local railroads to aid economic development.

By the 20th century, the picture had changed dramatically for roads – but not for rail. Growing recognition that a sound highway system provided essential social and economic benefits caused the states and localities to take over direct responsibilities for most road and highway construction and maintenance. Recognizing the importance of linking the country together, the Federal Highway Act of 1921 established a system of “federal-aid” roads, at first limited to 7 percent of the rural roads in a state. The system was designed to include the most important highways – those that were critical for commerce and mobility. The system grew, through a series of Congressional mandates, into the network we know today – the Interstate system, the Federal-Aid system and others.

In contrast, the rail system was able to build a transcontinental network linking the country without government ownership or oversight, and has remained essentially in private hands; the passenger network was only transferred to the public sector in 1970.

Because these two networks, while closely linked, require different approaches to financing infrastructure investment, I will discuss them separately and close with a consideration of financing issues for both.

In order to discuss the financing of intercity passenger rail service, the Administration has focused on two questions that first must be answered: what intercity rail passenger service should America have and who decides this type of service? The answers to these questions strongly affect the answer to the question of how to finance intercity passenger rail service in this country.

The present Amtrak route system has changed little over Amtrak's thirty years of existence, seemingly locked in place by history and politics. That is starkly anomalous in America's transportation system. What other transportation company or mode of travel has changed its routes and service so little in the last thirty years? Most transportation providers have changed their systems dramatically over that time span in response to changes in travel patterns driven by economics and demographics. If Amtrak's system were not so ossified, perhaps Amtrak would serve more passengers today than it did thirty years ago. It appears that moving decision-making on routes and service closer to the customers would be a very good thing.

This observation appears to be borne out wherever states have taken a strong role in determining what routes will be operated to serve their citizens, what kind of equipment should be used, what kind of service should be provided, and on what schedule. The states of California, North Carolina, and Washington are all excellent examples of states stepping up to the plate and meeting this challenge, paying for what they want above and beyond what Amtrak would otherwise provide, and getting noticeably better rail service for their citizens as a result. Citizens have responded to those investments: three California state-supported routes have attracted 2.35 million riders in the first seven months of this fiscal year, almost 44% of the total ridership for the same period on the Northeast Corridor Acela, Metroliner and Regional services.

The Administration proposes to build on the examples set by these states to reform and strengthen the Federal role in passenger rail to mirror much more closely the current Federal program supporting mass transit. The Federal government would continue to define rail safety standards and enforce them. The Department of Transportation would provide capital grants directly to states and interstate consortia of states that want passenger rail. State government agencies would determine the level of passenger services needed and the price for such service, and contract with third-party operators to provide long-distance and corridor trains. The same program would apply to legacy long distance routes, current and new corridor services -- at higher speeds or not. To the extent that states' service choices require operating subsidies, state governments would be required to provide that subsidy.

It is possible that in the early part of the authorization cycle, the Federal Government would provide limited subsidies for corridor and long distance trains, and fund the capital backlog for certain passenger rail projects. By the end of the authorization cycle,

however, state governments would be responsible for at least 50 percent of needed capital investment for all intercity passenger rail service— similar to Federal capital investments in the Federal Transit Administration's "New Starts" program. Similarly, by the end of the authorization period all rail operational costs will be borne by riders or States or State rail consortiums.

We believe this an appropriate division of State and Federal transportation responsibilities. It reflects the way the Federal government handles other transportation programs. After an appropriate transition period, only services States are willing to pay for would be continued.

Like other Federal programs that invest in transportation, intercity passenger rail service would require careful thought and planning up front before either the states or the Federal government make significant investments. Intercity passenger rail service should be part of state transportation plans already required by Federal surface transportation legislation. Careful passenger rail planning should go a long way toward overcoming the long-term problem that our modes of intercity passenger transportation, which were conceived independently for the most part, do not interrelate well. States, however, have a powerful interest in enabling their citizens to navigate our transportation system seamlessly. The states that do so stand to reap considerable economic advantages, such as being more attractive as a location for businesses. A sound planning process should also help make sure that intercity passenger rail service goes where people want to travel, when they want to go, and at an appropriate price.

This may result, for example, in a lot more attention being paid to some of the submarkets along long distance routes, instead of the points of origin and of final destination for these routes. As I understand it, on many long-distance routes few passengers travel the entire length of the route. Instead, most passengers start and stop at intermediate points along the way. It would make sense for a state or two neighboring states having a submarket that attracts a lot of passengers to want more service on that part of the longer route and to invest accordingly. North Carolina is doing that between Charlotte and Raleigh. Oregon and Washington are doing that between Eugene, Portland, Seattle and Vancouver, British Columbia. Those states are reaping significant benefits from doing that and we should help them.

In many places, states may decide that it is more important to have fast, frequent, timely, and reliable service in relatively short corridors that have a lot of business travel. In such corridors, rail can compete effectively with air and highway for business travelers. The Northeast Corridor, where Amtrak is the dominant carrier, is the best illustration of that prospect. Especially where airports and highways are already overcrowded and land is so scarce that it will be hard to build more airports or highways, it is especially important to make full use of existing rail capacity. Since states will be making the key decisions about whether to build additional airports or highways, it makes sense to have them make key decisions about passenger rail service and if it should be expanded, reduced, or eliminated altogether. Then the states can comprehensively plan the best ways to get their citizens from one place to another without needless constraints on modal choice.

Thorough planning also involves thorough discussions and negotiations with the freight railroads, which own the rights-of-way and tracks over which most of the Nation's current and future passenger rail services operate outside the Northeast Corridor. Passenger rail services pose significant operational challenges for freight railroads, and expansions of current services or new service on intercity corridors should not impair the current capacity for carrying freight, lest such investments will lead to increased congestion of our highways by more trucks. Better yet, states considering passenger rail investments should make capacity improvements that benefit both passenger and freight users to maximize the congestion relief afforded by the projects. Policymakers may need to decide whether the current pricing mechanisms of passenger rail access at incremental costs will lead to the most efficient use of public and private infrastructure assets.

Of course, it is also important to provide funding for intercity passenger rail service in a way that best assures that the taxpayers get their money's worth. The standard grant agreement relationship used by the Federal government to provide most financial assistance affords reasonable controls on and accountability by recipients. Properly used, grant agreements make clear what the public will get, when the public will get it, and what it will cost. Reasonable and workable financial controls are used. All aspects of the program are "in the sunshine" and audited. This is a prudent means of seeing that Federal funds are well spent and produce the benefits intended by the Administration and Congress. This kind of thorough financial planning is also mirrored in proposals in the Administration's surface transportation reauthorization, in which states are required to develop financial plans for Title 23 projects over \$100 million.

Let me now turn to freight. The Administration is keenly aware that freight mobility is as important as passenger mobility if we are to keep our economy vibrant. The Department's Freight Analysis Framework estimates that U.S. domestic freight tonnage, for all modes, will increase by 70 percent by 2020, and import/export freight will almost double. International trade now comprises over 25 percent of the U.S. Gross Domestic Product, and is expected to rise to one-third in less than 20 years. Ensuring that the U.S. is an efficient part of the global supply chain is critical, but it will become more and more of a challenge in the years ahead.

This challenge includes addressing the effects of our increased trade. The Federal Highway Administration's "2002 Conditions and Performance Report" finds the number of highway rail grade crossings on the Federal Aid highway system that carry more than 100 trains per day will more than double over the next 20 years, based on the Freight Analysis Framework projections. In particular, crossings near intermodal facilities, ports, major rail yards, and classification and switching areas will experience high train and truck traffic increases.

As a result, crossings will be closed to highway traffic for long periods of time each day. Coupled with expected increases in auto and truck traffic, highway delay is likely to increase significantly. The delay to motorists and pedestrians could reach unacceptable

levels in many communities, blocking emergency vehicles, disrupting local commerce, inconveniencing residents, and creating societal divisions.

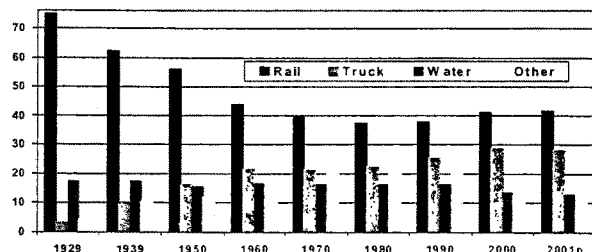
Annual hours of delay for autos could increase by between 35 million and 123 million hours in the next 20 years, depending on whether train traffic coincides with peak highway travel times. Likewise, trucks could spend an additional 4.9 to 6.6 million hours annually behind closed gates by 2022. The cost to highway users in lost time at the most heavily traveled crossings on the Federal-aid system would increase to between \$5.5 and \$7.8 billion over the next 20 years.

All parts of the transportation system – including freight rail – must work together if we are to meet that challenge. But we have to recognize that private companies, such as the railroads, cannot - and should not – be asked to make all the investments that will be necessary.

As this Committee knows full well, the railroad industry is the most capital intensive segment of the private transportation sector, and must put much of its own capital back into plant and equipment to run a safe, efficient and competitive system. In 2001, the Class I railroads spent nearly \$5.5 billion on capital expenditures – 16 percent of total operating revenue; over the last ten years, that figure has averaged \$5.6 billion annually.

The industry is in better financial condition today than in previous decades, having addressed serious structural problems, upgraded plant and facilities and taken advantage of technological improvements. Nevertheless, mode share, which has been declining since the early part of the last century, has been relatively flat in the past decade, as the following charts show:

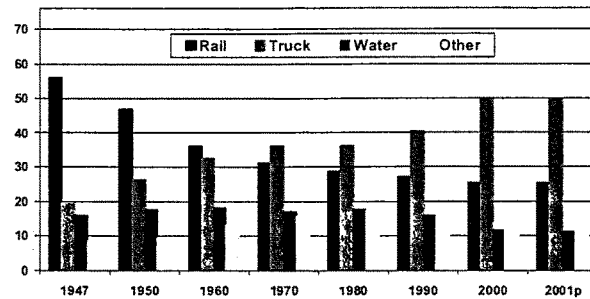
Share of Intercity Ton-Miles (%)



"Other" is predominantly pipelines

Source: Eno Transportation Foundation, "Transportation in America," various editions.

Share of Intercity Tons (%)



"Other" is predominantly pipelines

Source: Eno Transportation Foundation, "Transportation in America," various editions.

Wall Street analysts believe that the industry must proceed cautiously with new investments. According to Scott Flower, a respected railroad industry observer, "... managements within the mature and relatively slow-growth rail sector must carefully manage capital spending and allocation decisions to maximize free cash flow and returns on invested capital in order to maximize the relative performance of their equities.... we believe the rails must take a longer-term view toward improving operations and continuing their drive toward earning their cost of capital, the preeminent "holy grail" of the rail industry, in our opinion." ¹

Like any good business, railroads must be able to fund investments that will make the most sense for their operations and balance sheets, and meet their targets for internal rates of return. There can be significant benefits that accrue to society from rail and rail-related projects. However, neither railroads – nor their shippers, who, after all, provide their revenues – should be expected to pay for infrastructure projects that are driven by public, not private, benefits.

States and localities are recognizing that rail, as well as highways, plays a critical part in providing social and economic benefits². They also recognize that, to realize such benefits, projects to increase capacity and mitigate adverse affects must be undertaken jointly with the private sector if they are to come to fruition. The recently-announced agreement between the City of Chicago, the State of Illinois, the freight rail industry and Metra is a prime example of this type of partnership. When completed, the \$1.5 billion

¹ Citigroup Smith Barney "Industry Note", April 8, 2003.

² Many states realized this long ago with respect to short line rail service. Thirty small railroads in 18 states, with over 1300 miles of track, are government-owned.

project will result in five rail corridors, including one primarily for passenger trains; 25 new grade separations to improve safety and eliminate vehicular delays; and six rail-to-rail “flyovers” to separate freight and passenger trains. Additionally, the city will gain valuable real estate through the purchase of a rail line right-of-way. The agreement, a product of long and hard negotiations, will require the freight railroads and Metra to pay more than \$230 million towards the project. The public benefits are expected to reach \$500 million annually.

Another example of an ambitious public-private partnership is the Mid-Atlantic Rail Operations Study (MAROPS), a joint product of five states (Delaware, Maryland, New Jersey, Pennsylvania, and Virginia), the I-95 Corridor Coalition (representing these five states and eight others in the Northeast Corridor), and three railroads (Amtrak, CSX, and Norfolk Southern) to address rail infrastructure needs along the I-95 corridor.

The study identifies opportunities to better utilize the region’s existing rail assets; formulates a program of system-wide rail investments in all five states; and recommends a public-private partnership to fund and implement the improvements. Specifically, the study calls for a program of 71 infrastructure and information system improvements be implemented across the five states and the District of Columbia over the next 20 years to relieve these choke points. The rail improvements, while providing private benefits, also would help to relieve the pressure on the region’s highway system and meeting the region’s social, economic, and quality-of-life needs. The estimated cost of these improvements is \$6.2 billion.

There are examples of these types of projects, large and small, in all regions of the country. On a more general level, the American Association of State Highway and Transportation Officials (AASHTO), in their “Freight-Rail Bottom Line” report, indicates that public investment in selected rail projects could produce considerable savings, by eliminating the need for more costly investments in the highway system to meet coming demand. The report estimates that significant public investment in rail could produce very favorable benefit to cost ratios for the public sector, from lessened highway congestion, reduced need for maintenance and new construction and other factors.

All these projects have several things in common – they will require close cooperation between freight railroads, commuter railroads and the public to come to fruition; they have the potential to produce significant public benefits; and they all will require significant investment by all parties, commensurate with the benefits realized. Finally, there are no ready funding mechanisms available, although portions of the plans developed to date could be undertaken using existing programs.

This Administration has a strong record of support for innovative financing for surface transportation projects, as the recently introduced Safe, Accountable, Flexible, and Efficient Transportation Equity Act (“SAFETEA”) reauthorization proposal demonstrates. The Transportation Infrastructure Finance and Innovation Act (TIFIA) established a Federal credit assistance program that is already available for intercity rail

projects. SAFETEA proposes to expand the use of TIFIA credit assistance by broadening eligibilities to include private freight rail facilities and reducing the project size threshold for TIFIA projects to \$50 million from \$100 million. States would be allowed to impose user charges on federal-aid highways, including the Interstate System, provided that such charges were part of a program to relieve congestion and/or improve air quality. Transportation projects (highway facilities and surface freight transfer facilities) will be eligible for tax-exempt private activity bonds, exempted from a state's private activity ceilings, encouraging private operation of transportation projects. States will be given more freedom to use innovative project delivery methods such as design/build, which are often a key in setting fixed prices for projects to attract private investment.

One of the common threads in most innovative financing mechanisms for surface modes—state revenue bonds, toll roads, TIFIA, Grant Anticipation Revenue Vehicles—is that most of these financial instruments require repayment. Debt instruments used for transit and road construction either pledge dedicated tax revenues, dependable funding streams from Federal or state programs, or reasonably expected revenues from transportation facility users.

Various kinds of debt instruments are proposed from time to time to fund intercity passenger rail service. The Administration does not think dedicated debt instruments are suitable for this purpose. Unlike most other transportation debt financing mentioned above, intercity passenger rail does not generate adequate cash flows to service significant additional debt, nor is it supported by reasonably anticipated, long-term dedicated funding streams from the Federal government. We believe that there may be corridors in which passenger rail services can cover costs of operations and maintenance, but few corridors will generate revenues sufficient to provide adequate coverage beyond operating and maintenance expenses to repay interest and principal of debt raised for project capital costs.

There are a small number of public/private partnerships for freight rail in which public financing has been issued for the construction of a project that is then paid off with user fees by the railroads using the facilities. Some of these projects were undertaken within state legislative provisions and others have participated in federal innovative financing programs. In some discrete instances, railroads may choose to participate in publicly financed improvements where private sector financial participation makes financial sense. It does not necessarily follow from these limited examples that an across-the-board tax on rail shipments should fund a public investment pool.

There are also limitations on the utility of debt financing instruments for all freight rail companies. Hundreds of regional and short line freight rail companies are facing significant challenges with their infrastructure. Despite improvements already made in the operation of the FRA's Railroad Rehabilitation Improvement Financing ("RRIF") program (and those still to come), there are a number of companies who are not able to take advantage of a loan program, no matter how attractive its terms are. Nevertheless, we are dedicated to improving the operations of this financing program so that railroads interested in obtaining loans can get assistance in preparing high quality applications.

Let me also speak in general terms about tax credit bond financing, even though such matters are not our agency's primary responsibility (and are considered by tax-writing committees in Congress). Let me also say at the outset that this is not an approach that the Administration could support for either passenger or freight improvements. As an example of the concept, you may wish to learn more about Qualified Zone Academy Bonds <http://www.ed.gov/offices/OESE/SST/qzab.html>), a program that offers limited amounts of tax credit bonds for equipment and rehabilitation of schools in empowerment zones and enterprise communities or schools serving a student population of which at least 35 percent are eligible for free or reduced-cost lunches. These are the only form of tax credit bonds currently allowed. This program, by limiting the total term of the bonds, currently to fifteen years, roughly splits the cost of a qualifying project in half. The federal government pays the interest (through tax credits) and the local school district repays the principal. The total size of the Qualified Zone Academy Bond program is limited to \$400 million per year in new issues, and only certain qualified buyers can purchase these bonds (lending institutions such as banks and insurance companies). These provisions limit the administrative complications and costs to the Treasury of these financial instruments.

If larger amounts of tax credit bonds are issued, the permitted holders of these bonds would likely have to be expanded to include, for example, individuals and mutual funds, thus making them much more complex and increasing the administrative burdens placed on the Internal Revenue Service. If longer terms of maturity are considered for intercity passenger rail purposes, then the overall exposure of the Treasury is increased relative to any matching funds from passenger revenues or state participation. If the tax credit debt is issued in an amount that not only covers capital costs but is also used to create sinking funds from which principal is eventually repaid as interest accrues in the sinking fund then the Treasury is effectively footing the entire bill for the capital costs. Further, because there is very little liquidity in the market for these bonds the market would impose a significant premium, thereby reducing the amount of actual funding and raising the effective costs to the taxpayers of using this funding mechanism compared to more traditional means. For these reasons, the Administration would oppose such a financing mechanism for rail, passenger or freight.

Thank you again for the opportunity to appear before this committee. I will be happy to respond to any questions you may have about my testimony.



July 3, 2003

HOW DO CAPTIVE RAIL RATES COMPARE TO COMPETITIVE RAIL RATES?

The answer question is anything but simple and straight-forward. No federal agency sets rail rates or approves rates, except in those rare cases where a captive rail customer files a complaint with the Surface Transportation Board alleging that its rate is "unreasonably high". Rates vary by origin, destination, distance and commodity. Most rail rates are pursuant to contract and are confidential. Most rail customers either are constrained from revealing contract rates or must keep their rates confidential for competitive purposes or for future negotiations with their rail carriers. The railroads are not about to reveal specific information on this matter.

Despite these constraints, a compelling showing can be made that captive rates are much higher than competitive rates.

On A Per Mile Basis, What is the Difference Between a Competitive and Captive Rail Rate?

For one chemical company, the following rates per mile were charged during the first quarter of 2003:

- ❖ For movement of chemicals from a plant that is captive to one of the western railroads: \$4.25 per mile for each car moved
- ❖ For movement of chemicals from a plant that has competition from both major western railroads: \$2.44 per mile for each car moved

On a Per Ton Basis, What is the Difference Between Captive and Competitive Rates By Commodity and Major Railroad

The following information is from the "Rail Price Advisor" (1st Quarter, 2003), which is published by Escalation Consultants, Inc. of Gaithersburg, Maryland. This "per ton" information is calculated from the 2001 Surface Transportation Board "Revenue Shortfall Allocation Methodology" (RSAM) study.

Prepared by Consumers United for Rail Equity
July 14, 2003

	<u>CXS</u>	<u>NS</u>	<u>BN</u>	<u>UP</u>
Captive Farm Products	\$29.86	\$21.18	\$43.64	\$36.47
Non-captive Farm Products	\$14.45	\$ 9.72	\$18.44	\$16.20
Captive Coal	\$15.85	\$15.79	\$18.43	\$18.70
Non-captive Coal	\$ 7.67	\$ 7.25	\$ 7.79	\$ 8.30
Captive Chemicals	\$32.83	\$36.08	\$48.43	\$42.18
Non-captive Chemicals	\$15.88	\$16.56	\$20.46	\$18.73
Captive Lumber and Wood	\$30.87	\$26.51	\$58.70	\$55.97
Non-captive Lumber and Wood	\$14.94	\$12.17	\$24.80	\$24.86
Captive Pulp Paper	\$38.70	\$37.41	\$59.92	\$55.07
Non-captive Pulp Paper	\$18.73	\$17.17	\$25.32	\$24.46

The "Rail Price Advisor" has calculated the captive and non-captive rates on 10 other commodities in this same study.

What is the Difference in RVC Between Captive and Competitive Rates? (2001 RSAM Study)

Another indicator of the difference between the rates paid by captive and competitive rail customers is reflected in the average Revenue to Variable Cost (RVC) of these two customer groups. The Revenue is the rate charged by the railroad; the Variable Cost (VC) is the railroad cost directly attributed to the movement by the railroad. (For example, if the Revenue is \$20 and the VC is \$10, the RVC is 200%). The RVC for captive traffic is the average RVC for every movement paying 180% RVC or greater. For each major railroad in 2001, the average RVC's of captive and competitive traffic was as follows:

	<u>Captive</u>	<u>Competitive</u>
BN	238.1%	100.6%
CSX	232.9%	112.7%
NS	237.7%	109.1%
UP	239.8%	106.5%

Which commodities on the major railroads are captive and what percentage of the revenue derived from these commodities is attributable to captive traffic? (2001 RSAM Study)

<u>Commodity</u>	<u>Percent of Total Freight Revenue</u>	<u>Percentage of Revenue Greater than 180% (Captive Revenue)</u>
Farm Products	7.5%	34.2%
Metallic Ores	1.2%	46.6%
Coal	21.1%	43.6%
Ordinance or Accessories	0.2%	73.0%
Chemicals	21.1%	65.9%
Petroleum or Coal Products	3.0%	49.1%
Stone, Clay and Glass Products	3.2%	40.6%
Fabricated Metal Products	1.8%	30.2%

Prepared by Consumers United for Rail Equity
July 14, 2003

What percentage of revenue of each major railroad is derived from captive traffic? (2001 RSAM Study)

Burlington Northern	21.9%
CSX	35.6%
Norfolk Southern	38.4%
Union Pacific	27.6%

196

Testimony

on

THE NEED FOR A NATIONAL RAIL INVESTMENT PROGRAM

submitted by

RAIL ADVOCATES FOR INFRASTRUCTURE LEGISLATION (RAIL)

submitted to

The Subcommittee on Railroads

Committee on Transportation and Infrastructure

U.S. House of Representatives

for the

Hearing Record on National Rail Infrastructure Financing Proposals

Thursday, June 26, 2003

at 10:00 A.M.

2167 Rayburn House Office Building

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Introduction

This testimony is submitted for the House Transportation and Infrastructure Subcommittee on Railroads June 26, 2003 Hearing Record on National Rail Infrastructure Financing Proposals by the Rail Advocates for Infrastructure Legislation (RAIL) Coalition.

RAIL is a coalition of business and economic leaders, public transportation agencies and not-for-profit civic and transportation advocacy organizations that support the creation of a national rail infrastructure funding program. The purpose of the national program is to invest in and improve the condition and capacity of the nation's freight transportation system to best serve the expected growth in domestic and international trade and provide necessary infrastructure to support transit commuter and intercity passenger rail operations.

Members of RAIL include the Austin-San Antonio Corridor Council; Chicago Area Business Leaders for Transportation; City of Chicago Department of Transportation; City of Seattle; Illinois Department of Transportation; Environmental Law and Policy Center, Los Angeles County Economic Development Corporation (LAEDC), Los Angeles County Metropolitan Transportation Authority, New York City Economic Development Corporation, On-Trac, Texas Association of Rail Passengers.

In its testimony, RAIL argues that:

- Rail transportation is a vital part of the nation's economy, carrying long-distance shipments cost-effectively.
- Rail is needed to handle future freight demand, which will nearly double over the next 20 years.
- The rail system faces significant capacity challenges, especially at major network choke points.
- Railroads cannot finance the rail system expansion alone. The railroad industry today is stable, productive, and competitive, with enough business and profit to operate, but it does not have the resources to replenish its infrastructure quickly or grow rapidly.
- Current public sector rail programs are not sufficient; they address real needs, but reflect an underfunded, patchwork approach to rail network improvement.
- A shortfall in rail capacity will mean more congestion, mounting highway expenses, and higher bills for shippers. An investment of \$53 billion over the next 20 years could save shippers, highway users, and highway agencies \$410 billion in avoidable costs.
- The nation needs more freight transportation capacity. We are seeing diminishing returns from past investments, and transportation productivity, which underpins our economic competitiveness in the global economy, is declining.
- As embodied in Congressman William O. Lipinski's concept for a National Rail Infrastructure Program, a national rail investment program with a stable source of funding,

independent of and in addition to the Highway and Aviation Trust Funds, is necessary. Reauthorization is an opportunity to revitalize the rail transportation system. The need is urgent. The RAIL coalition supports Congressman Lipinski's approach to addressing the need.

Rail Transportation Is a Vital Part of the Nation's Economy

Freight-rail transportation provides cost-effective shipment of large volumes of goods across long distances—a key role that supports many of the nation's core industries. In 2000, freight rail transported 16 percent of the nation's total freight tonnage, accounting for 28 percent of all ton-miles and 40 percent of its intercity ton-miles.

Freight rail is important to shippers of heavy, bulky commodities such as grain and coal. However, it also is critically important to shippers of high-value, time-sensitive merchandise, industrial parts, and parcels moving in intermodal containers and truck trailers. Today, intermodal shipments generate as much revenue for the major railroads—almost 25 percent—as coal shipments, long the mainstay of the rail industry.

Firms and consumers across the country enjoy the competitive advantages and reduced costs made possible by cost-effective, long-haul freight-rail service. For example, it costs about \$1.00 per mile to ship by truck from Los Angeles to Chicago, but only \$0.30 per mile to ship by rail.¹

Freight railroads also provide and maintain the track for many of our commuter railroads and provide dispatching for intercity passenger-rail services outside the Northeast Corridor. Automobile drivers benefit as well; a single intermodal train carries the same number of containers as 280 trucks, trucks that would otherwise take up freeway space equivalent to 1,100 cars.

In our densely developed cities and suburbs, rail takes up less space than highways. A double-track rail line provides the freight-carrying capacity of a four-lane highway, but needs only a quarter of the land space; and building the double-track rail line costs only \$1 to \$2 million per mile compared to \$10 million per mile for the highway.

Finally, rail transportation provides benefits beyond economics: enhanced health, safety, and quality of life. Train locomotives emit three times less pollution and are three times more fuel efficient than the typical truck.

Rail Is Needed to Handle Future Freight Demand

The U.S. economy is growing and with it the demand for freight transportation services. With moderate growth in the economy—about three percent per year—the U.S. Department of Transportation estimates that domestic freight tonnage will increase by 65 percent by 2020 and import-export tonnage will increase by 85 percent.²

¹ ICF Consulting and HLB Decision-Economics, "Economic Effects of Transportation: The Freight Story," January 2002, pp.12-13.

² U.S. Department of Transportation, Federal Highway Administration, Office of Freight. Freight Analysis Framework estimates, 2002. For further details see http://www.ops.fhwa.dot.gov/freight/publications/state_profiles/faf-overview.pdf.

Today, trucks and the highway system carry 78 percent of domestic tonnage, the freight-rail system carries 16 percent, and barges and coastal shipping carry six percent. By 2020, the highway system must carry an additional 6,600 million tons (an increase of 62 percent) and the freight-rail system must carry an additional 888 million tons (an increase of 44 percent). The rail system must add capacity to keep up with this growth or shed traffic to an already congested highway system.

The Rail System Faces Significant Capacity Challenges

But until recently, the railroads have been shedding capacity. Rail system mileage peaked in the 1920s with approximately 380,000 miles of track, but by the 1950s the system was deteriorating rapidly and much of the rail industry was bankrupt, unable to compete with trucking and the rapidly expanding highway system. Since the 1960s, and especially since the economic deregulation of the industry in the 1980s, the railroads have downsized, rationalized, and modernized the rail system to a core network that is half the size of the 1920s system—about the same system mileage that existed in the 1870s.

However, growth in freight demand over the last decade has absorbed much of the capacity of this downsized system and created increasing congestion at major network choke points. In 1999, the General Accounting Office (GAO) released a report concluding that inadequate rail infrastructure at key points in the nation's rail system was creating gridlock.³ Recent studies have detailed many of these choke points:

- **Los Angeles/Long Beach.** Los Angeles County Economic Development Corporation researchers project that all east and westbound rail mainlines in the region will reach their capacity by 2007. The resulting crunch will not only stop growth of international trade traveling through the region but will also stunt domestic trade between local businesses across the country and the rich Southern California consumer market. The solution is to upgrade and expand the twin sections of the Alameda Corridor East, which join the rail yards just outside Los Angeles with the rest of the nation. Simply put, the rail system capacity does not currently exist for cargo volumes to increase to serve a projected tripling of trade volumes on main lines linking Southern California and Texas, the Southeast, the Atlantic States and the Midwest.
- **Chicago.** The public-private partnership including the State of Illinois, City of Chicago and six Class I railroads have structured the Chicago Regional Environmental and Transportation Efficiency (CREATE) Project to address the rail congestion issues in the nation's rail hub. This \$1.5 billion plan will focus freight on 5 corridors and includes 6 rail-rail flyovers, 25 grade separations, and additional rail connections, crossovers, trackage, and other improvements to expedite train movements.
- **Mid-Atlantic.** A joint effort by the five Mid-Atlantic states (New Jersey, Pennsylvania, Delaware, Maryland, and Virginia), three railroads (CSX Transportation, the Norfolk Southern, and Amtrak) and the I-95 Corridor Coalition identified 71 major choke points projects along the major rail lines serving the metropolitan centers from Washington to New York, a region that is home to a quarter of the nation's population and jobs. The cost of a 20 year program to remove these choke points is estimated at \$6.2 billion.

³ General Accounting Office. *Railroad Regulation: Changes in Railroad Rates and Service Quality Since 1990*. GAO/RCED-99-93. Washington, D.C., April 1999.

- New York City - With over 90 percent of freight commodities entering the City via trucks, the New York metropolitan area faces the challenge of very limited rail infrastructure in and around the region and limited vehicular crossings. The New York City Economic Development Corporation, on behalf of the City of New York, undertook a cross harbor freight movement study to identify ways to improve rail access into the City. The study identified \$4.2 billion in rail infrastructure improvements, including a cross harbor freight tunnel, that would improve critical freight access into the region, and the mobility of goods along I-95 to and from New England to the Mid-Atlantic states."
- I-5 Columbia River Crossings. Oregon and Washington State DOTs found that rail delays per train in the Portland, Oregon-Vancouver, Washington area were twice those of Chicago, the nation's largest rail hub, choking traffic moving along the Pacific Coast and to and from the Ports of Portland, Seattle, and Tacoma.

Railroads Cannot Finance Rail System Expansion Alone

To provide new capacity and keep pace with the expected growth in the economy, railroads must invest heavily to remove these choke points. This will be a challenge for the railroads. The railroad industry today is stable, productive, and competitive, with enough business and profit to operate, but it does not have the resources to replenish its infrastructure quickly or grow rapidly.

Most of the benefits of railroad reorganization and productivity over the last 20 years accrued to shippers and the economy in the form of rate cuts, rather than to the railroads and their investors. Rail productivity has increased significantly and rail rates have dropped. On average, it costs 29 percent less to move freight by rail today than it did in 1981.⁴ But competitive pricing has forced revenue down and sapped the profitability of railroads. The industry's rate of return on investment dropped as low as two percent in the early 1980s. It improved to about eight percent in 2000, but it is still below the cost of capital at about 10 percent.

This is a problem for the railroad industry because railroads are extraordinarily capital-intensive. Railroads spend about five times more to maintain rail lines and equipment than the average U.S. manufacturing industry spends on plant and equipment. Wary of the gap between the railroads' capital needs and their income, investors have backed away from railroad stocks. This has reduced the amount of money available to invest in the freight-rail system, forcing the railroads either to borrow money to maintain and expand infrastructure or defer maintenance and improvements.

The railroads are investing in their systems. The Class I railroads have stepped up their investment, committing \$6.1 billion to capital improvements in 2000 and another \$5.4 billion in 2001. But they are focusing primarily on improvements that show a positive and near-term return to the bottom line.

This level of investment falls well short of the level needed to maintain and expand the rail system to meet expected national demand. The recent *Freight Rail Bottom-Line Report*, commissioned by the American Association of State Highway and Transportation Officials (AASHTO), estimated that \$175 to \$190 billion of investment is needed over the next 20 years just

⁴ American Association of Railroads data.

to address the worst bottlenecks and maintain rail's current mode share—that is, simply to keep pace with the growth of the economy.⁵

In their current, financially constrained condition, the private railroads are capable of funding about \$142 billion of that program, leaving a budget shortfall of up to \$53 billion (or \$2.65 billion annually). This shortfall must be made up through other sources, or the rail freight system will not be able to accommodate fully the growth in freight traffic. Without the funding, the pressure of the market will continue to streamline and downsize the rail system.

Current Public Sector Rail Programs Are Not Sufficient

States have recognized the need for investment in freight rail to attract and retain business and industry. Many have made major investments in short line and passenger rail, but state resources are severely limited and heavily committed to the maintenance and preservation of existing highway systems. In addition, many states have constitutional mandates restricting the use of gas-tax revenues to highways only.

The problem of finding funding for rail projects is complicated by the scale of the rail network, which is designed today to serve regional and national freight trips. The costs of removing major choke points accrue locally, but the benefits are often regional and national. When the costs, benefits, and risks are unevenly distributed, individual states find it difficult to justify projects, and formula allocation and matching requirements make it difficult to invest across state lines.

Rail improvement projects often must be shoehorned into federal highway congestion-management and air-quality programs (e.g., CMAQ), federal highway safety programs (e.g., Section 130 highway-rail grade-crossing programs), or the federal highway Borders and Corridors programs. Each of these is problematic: The CMAQ program is restricted to projects in non-attainment areas and has an over abundance of eligible highway and transit projects demanding attention; the Section 130 program must serve the entire national rail network and individual projects are often entangled in debates among the railroads, states, and local government over legal liability for accidents at crossings; and the Border and Corridors are heavily earmarked to highway projects. Funding for these programs is limited and woefully short of the total amount needed not only for the highway and transit needs. Their ability to serve major rail capacity improvement projects would be woefully inadequate even if their funding was significantly increased.

Federal loan and credit enhancement programs are available to states and railroads, however, the current requirements of the Rail Rehabilitation and Improvement Financing (RRIF) program work to discourage its use. The TIFIA program (the Transportation Infrastructure Finance and Innovation Act program) was modeled after the Alameda Corridor highway-rail grade-separation project, but private railroad projects and rail-only projects are not eligible. TIFIA is an important tool for states and local authorities that want to make large projects with significant public benefits attractive to the financial markets. TIFIA is not as directly useful to the railroads, who can go directly to the credit markets and get similar loan rates without the government paperwork. More important, both programs require that the railroads take on additional indebtedness, an unattractive option for a cash-strapped industry.

⁵ American Association of State Highway and Transportation Officials, *Freight Rail Bottom-Line Report*, Washington, DC, January 2003. For additional detail see http://transportation.org/committee/freight/doc/rail_bottomline.pdf.

The states and railroads have explored tolling to fund rail improvement projects. The Alameda Corridor and the recent Shellpot Bridge project (undertaken by the Delaware Department of Transportation and Norfolk Southern) are notable examples of successful toll-financed rail projects. Tolling, which allows states and railroads to finance projects from future growth, serves well for discrete, visible projects in high-volume corridors, but requires extraordinary regional and national cooperation when applied to diverse projects spread across a multistate network.

The current ad hoc mixture of rail funding sources cannot be leveraged easily to support major rail investments. More problematic, the current programs promote divisive competition between localities and modes rather than systematic national planning. As a consequence, rail projects with enormous potential benefits for the public go begging.

The disparity between public investment in rail and highway projects over the last decades is huge. In 1998 alone, state and federal expenditures on highways were 33 times greater than their expenditures on freight and passenger rail: \$108 billion for highways, but just \$3 billion for the nation's rail system. This disparity may have been justified in the 1970s and 1980s, but cannot be sustained today.

A Shortfall in Rail Capacity Will Mean More Congestion, Mounting Highway Expenses, and Higher Bills for Shippers

If the rail system cannot accommodate increased traffic, freight will be carried in trucks over the highway system. But our highway system is also nearing capacity in many areas. Over the last two decades, the number of drivers increased by 30 percent and highway travel increased 80 percent while highway mileage increased by only two percent. The Texas Transportation Institute's *2002 Urban Mobility Study* of congestion in urban areas found that areas with "undesirable" congestion levels almost doubled between 1990 and 2001—from 29 to 56 percent of the urban areas studied.

The road ahead is equally congested: Interstate highway traffic is expected to increase by 42 percent, including a 54 percent rise in truck traffic. And the construction, community, and environmental costs of building highways in our metropolitan areas, where congestion is greatest, have become prohibitive.

The costs of inadequate rail capacity will be high. The *Freight Rail Bottom-Line Report* estimates that at the current rate of railroad investment—about what the Class I railroads can afford today from their revenues and borrowing—the freight-rail system will not keep pace with the growing demand for freight movement. At best, the freight-rail system will handle about half of its "fair share" of the forecast growth in freight-rail tonnage. The balance will shift to trucks and the highways.

This will transfer almost 450 million tons of freight and 15 billion truck vehicle-miles-of-travel (VMT) to the highways. The resulting increase in business cost to shippers is estimated at \$162 billion; the increase in travel time, operating, and accident costs to highway users is pegged at \$238 billion; and the cost of added highway maintenance is estimated conservatively at \$10 billion over a 20-year period. That is a total of \$410 billion in avoidable transportation costs resulting from the failure to invest \$53 billion!

The Nation Needs More Freight Transportation Capacity

We are seeing diminishing returns from our highway investments of the Interstate era and our deregulation of the freight transportation in the 1980s. The productivity of our freight transportation system, which underpins our economic competitiveness in the global economy, is declining.

We must maintain and improve the productivity of our highway system. Trucks carry 78 percent of freight tonnage and account for 88 percent of freight transportation revenues today. That pattern will continue for the foreseeable future.

But we must also maintain and improve the productivity of our freight-rail system. There is considerable unused potential in the nation's rail system, capacity that could be reclaimed and utilized to strengthen the national freight transportation system. The freight railroads share track with commuter and intercity rail services, so freight-rail capacity improvements benefit passengers as well. In some areas and some markets, investing in rail will be more feasible and cost-effective for states and the nation than investing in highway freight capacity.

However, we must have a national strategy to guide our rail investments, not a continuation of the current, patchwork approach. Public participation in rail system investment has historically addressed to bottom of the system: grade crossings, branch lines, and commuter rail services. The present need is to treat the key elements at the top of the system: nationally significant corridor choke points, intermodal terminals and connectors, and urban rail interchanges. Investments at this level have the most promise for attracting and retaining freight-rail traffic through broad improvements in performance. But effective investments at this level require national leadership.

A National Rail Investment Program is Necessary

The benefits of government investment in the rail network are clear; however, the current public funding mechanisms available for rail investment are inadequate to meet the need for system improvement. Even if those sources of funding, such as the CMAQ, Borders and Corridors, TIFA programs, etc., were expanded significantly, the multi-modal demand on them would provide limited assistance to rail projects. The magnitude and scope of the challenge requires a coordinated national rail infrastructure program with a dedicated funding stream to sustain a sufficient level of investment.

Rail transportation is the only major mode that does not currently have a coordinated federal investment program comparable to the national highway, air traffic, and maritime network development programs. The rail investment program needs a stable, dedicated source of funds to ensure the planning and construction of long-term rail projects with public benefit. This funding source should be independent of and in addition to the Highway and Aviation trust funds. Congressman William O. Lipinski's concept for a National Rail Infrastructure Program embodies the approach that is needed and, thus, has the RAIL coalition's support.

Reauthorization is an opportunity to renew the mandates of ISTEA and TEA-21 to "...develop a National **Intermodal** Transportation System that is **economically efficient** and environmentally sound, provides the foundation for the Nation to compete in the **global economy**, and will move people and **goods** in an energy efficient manner. . . (emphasis added)." Even more important,

reauthorization is an opportunity to provide the states and the railroads with the financial tools and coordination necessary to strengthen and expand our freight-rail system.

The need is urgent. If the rail system is not improved, the nation's freight transportation system will weaken, and shippers, highway users, and communities will pay the social, economic, and environmental costs. A national rail investment program is necessary and vital, and should be a part of the reauthorization of TEA-21.

Statement of

Edward J. D'Amato, President

Ohio Association of Railroad Passengers

Submitted for the record to the

Subcommittee on Railroads

Committee on Transportation and Infrastructure

U. S. House of Representatives

The Honorable Jack Quinn, Chairman

Financing National Rail Infrastructure

Hearing Date: June 26, 2003

OARP would like to begin by thanking the Committee on Transportation and Infrastructure for passing HR 2572 which authorizes \$2 billion per year for Amtrak for the next three years.

America needs a modern rail system for moving both freight and passengers about our great country. It is vital to our economy, our security, and our quality of life. We have done an excellent job of developing our highway, aviation, and waterway systems, but our rail system has suffered from chronic under-investment for several decades.

The results of this chronic under-investment are clear:

- ◆ We have a freight rail system that in many areas of the country is suffering from a lack of capacity. The freight railroads have done an excellent job of maximizing the infrastructure they have. However, it is becoming increasingly difficult for them to obtain the financing they need to expand their capacity because they, unlike other modes of transportation, have to rely on the private financial markets to finance their infrastructure.
- ◆ We have a passenger rail system that is too small to serve the growing mobility needs of the nation. Many in Congress and the Administration often complain that our passenger rail system serves less than 1% of the traveling public, so why should we have one? What they fail to realize and acknowledge is that in a capital-intensive industry like transportation, the ability to capture market share is directly related to the amount of money available for capital investment.

It is because passenger rail receives less than 1% of federal transportation funding that it serves less than 1% of the traveling public. The demand is there, but the supply and the modern infrastructure on which to operate it is not. If our highway or aviation systems received only 1% of transportation spending, they would be skeletal, underutilized systems that inadequately serve the needs of the nation. Simply put: you get what you pay for.
- ◆ We have highway and aviation systems that are overburdened and vulnerable because we expect them to handle too much of the transportation load of the nation. During the days immediately after the terrorist attacks of September 11, 2001, our aviation system shut down, rental car companies ran out of cars, and stranded travelers quickly discovered that our rail system didn't go enough places often enough to get them where they needed to go. A modern rail system is vital to our security.

Furthermore we continue to attempt to solve our transportation problems in a vacuum. We try to solve our growing highway congestion problem with more highways, airport congestion with more runways, etc. We can only solve our transportation problems by looking at all transportation modes together in a holistic manner. An efficient, secure transportation system must be a balanced one where all modes are efficiently interconnected, treated with equal importance, and given equal priority for funding.

6/30/2003 2:41 PM FROM: Fax Ohio Association of Railroad Passengers TO: 1 202 226-3475 PAGE: 004 OF 005

Bringing more balance to our transportation system by modernizing and expanding freight and passenger rail is an important piece of the puzzle. This is why developing a federal funding mechanism for rail infrastructure is so important. OARP is pleased that Congress is discussing the issue.

It is important to note that any federal rail infrastructure funding program must be structured in a similar manner to highways and aviation whereby the federal government pays 80% of the capital costs. Anything less will hamper rail development by keeping it on an unequal footing.

To pay for rail development, OARP proposes that the following be considered as this committee discusses funding alternatives:

1. The creation of a federal tax-credit bond program dedicated solely to the development of passenger and freight rail infrastructure. This bond program would be *different* from the \$60 billion RIDE-21 proposal by issuing federal bonds instead of authorizing state-issued bonds. Moneys raised from the bond program would be used to provide an 80-20 federal-state funding partnership for capital projects. Such a bond program would foster considerable growth in our rail system, which could eventually lead to the implementation of a traditional user-fee based trust fund. Please note that OARP supports RIDE-21, but we feel it would be most effective if it were a federal bond program.
2. Refund *in current dollars* the tax the federal government collected on railroad passenger tickets between 1942 and 1962. Those moneys went into the general fund and were never spent on rail infrastructure development. Today, those taxes have a value of about \$30 billion and would also be an excellent source of seed capital for rail development that could eventually lead to the implementation of a traditional user-fee based trust fund.
3. Grant full flexibility to the states for how they spend their federal transportation dollars. We cannot achieve a truly intermodal transportation system as long as the federal government restricts the modes of transportation on which the states can spend their federal transportation dollars.
4. Re-directing money from existing maglev projects to conventional rail development. OARP feels that it is inappropriate to fund maglev when our current intercity rail system is vastly under-developed. Dollar for dollar, money spent on proven passenger rail technology will provide more transportation, much sooner, and to many more Americans than will expenditures on maglev. Maglev should be a long-term goal that is pursued after considerable development of a healthy, national intercity rail system, using proven technology, has occurred.

In addition to rail infrastructure funding alternatives, the issue of operating support for interstate passenger trains must be also addressed, regardless of who operates them. Interstate transportation is a federal responsibility. The federal government has

generously supported this role with highways, aviation, and waterways by paying 80 to 90% of the capital costs of highway and airport construction and by assuming responsibility for various operating functions including, but not limited to, airport security, air traffic control, and dredging of navigable waterways. No form of common carrier passenger transportation is operationally self-sufficient when all costs are considered.

The states cannot be burdened with the operating costs of interstate trains. If one state is unable or unwilling to support a given route, it will threaten an entire route with elimination. With only general revenues a funding source, several states including Michigan, Missouri, Oklahoma, and Oregon are having trouble paying for the limited train services they currently have. Clearly, the states are ill-equipped to fund the operating costs of interstate trains.

Thank you for considering our comments.

The Ohio Association of Railroad Passengers (OARP) is a non-profit organization funded by membership dues and foundation grants. OARP was formed in 1973 to advocate for improvement and expansion of intercity passenger rail services in and through Ohio.