FREIGHT AND PASSENGER RAIL: PRESENT AND FUTURE ROLES, PERFORMANCE, BENEFITS, AND NEEDS

(111–4)

HEARING

BEFORE THE

SUBCOMMITTEE ON

RAILROADS, PIPELINES, AND HAZARDOUS MATERIALS

OF THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

HOUSE OF REPRESENTATIVES

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January 26, 2009

SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Railroads, Pipelines, and Hazardous Materials

FROM: Subcommittee on Railroads, Pipelines, and Hazardous Materials Staff

SUBJECT: Hearing on Freight and Passenger Rail: Present and Future Roles, Performance, Benefits, and Needs

PURPOSE OF HEARING

The Subcommittee on Railroads, Pipelines, and Hazardous Materials is scheduled to meet on January 28, 2009, at 10:00 a.m. in 2167 Rayburn House Office Building to receive testimony on the roles of freight and passenger railroads in the U.S. economy; the impact of the current economic crisis on the railroad industry, its suppliers, and employees; the benefits of freight and passenger rail; and freight and passenger rail investment needs.

BACKGROUND

Railroads are the backbone of North America's transportation network. From the building of our nation's first railroad in 1828 – the 13-mile Baltimore & Ohio Railroad – throughout the next 180 years, railroads have played a central role in our nation's economic development.

Structurally, the U.S. railroad system is comprised of 140,810 miles of track, 562 common carrier freight railroads, and one national passenger railroad, Amtrak. Altogether these railroads employ more than 200,000 workers.

Under regulations prescribed by the Surface Transportation Board, all freight and passenger railroads are divided into three classes based on annual carrier operating revenues. Class I railroads are the largest railroads, with annual operating revenues of $319.3 million or more. They account for 68 percent of the industry's mileage, 89 percent of its workforce, and 93 percent of its freight revenue. The eight Class I railroads are Amtrak; BNSF Railway; CSX Transportation; Grand Trunk Corporation, which consists of the U.S. operations of Canadian National, including the former Grand Trunk Western, Illinois Central, and Wisconsin Central; Kansas City Southern; Norfolk Southern; the former Soo Line owned by Canadian Pacific; and Union Pacific.

Class II railroads, known as regional or short line railroads, are those with annual operating revenues of more than $25.5 million but less than $319.3 million. Class III railroads, known as local line-haul carriers, are those with annual operating revenues of $25.5 million or less. In 2008, there were 30 Class II railroads and 320 Class III railroads in the U.S.

Freight Rail Needs

In the United States, freight railroads account for more than 40 percent of all intercity freight volume – more than trucks, boats, barges, or planes. They move 70 percent of all automobiles produced in the United States, 30 percent of our nation's grain harvest, and 65 percent of the coal, which in turn provides more than one-half of our nation's electricity. According to the railroad association, the railroads move enough wheat to provide every person in the United States a fresh loaf of bread six days a week; enough lumber to build almost three houses every minute of every day; and enough concrete to build 45 miles of new highway every day.

Until the recent economic crisis, business for the freight railroads was booming. The U.S. Department of Transportation ("DOT") predicted that the demand for rail freight transportation—measured in tonnage—would increase 88 percent by 2035. Ton-miles of rail freight (one ton of freight moved one mile counts as one ton-mile) carried over the national rail system had doubled since 1980, and the density of train traffic—measured in ton-miles per mile of track—had tripled since 1980.

At the request of the National Surface Transportation Policy and Revenue Study Commission, the railroad association commissioned an assessment of the capacity of the nation's rail system to accommodate the estimated increase in rail freight traffic. *The National Rail Freight Infrastructure Capacity and Investment Study*, conducted by Cambridge Systematics, Inc., found the costs of improvements needed to accommodate rail freight demand in 2035 is estimated at $148 billion (in 2007 dollars). The Class I freight railroads' share of this cost is projected to be $135 billion while the short line and regional freight railroads' share is projected to be $13 billion.

Prior to the economic crisis, the Class I railroads anticipated that they would be able to generate approximately $96 billion of their $135 billion share through increased earnings from revenue growth, higher volumes, and productivity improvements, while continuing to renew existing infrastructure and equipment, leaving a balance for the Class I freight railroads of $39 billion or about $1.4 billion per year to be funded from other sources. Without this investment, Cambridge Systematics estimates that 30 percent of the rail miles in primary rail corridors (the preponderance of rail freight traffic) will be operating above capacity by 2035, and another 25 percent will be operating near or at capacity.

The $96 billion, however, had assumed that the railroads could continue increasing their investments in capital expansion. Due to the economic crisis, some railroads are cutting back on those investments. Rail volumes are sliding considerably. Just last week, the railroad association announced that carload freight totaled 267,063 cars, down 17.9 percent from 2008, with loadings down 13.2 percent in the West and 24.4 percent in the East. Intermodal volume of 199,117 trailers or containers was off 13.7 percent from last year, with container volume falling 10.2 percent and trailer volume dipping 27 percent. Total volume was estimated at 28.3 billion ton-miles, off 16.8 percent from 2008. Grain shipments, for example, are down 31.4 percent compared to 2008; lumber products are down 38.1 percent; chemical shipments are down 20.6 percent; auto shipments are down 64.6 percent; and coal shipments are down 2.5 percent. Employment levels in the railroad industry are also down. According to payroll data from the Bureau of Labor Statistics ("BLS"), as of December 2008, the industry employed approximately 232,000 people – a decline of 4,000 jobs in less than two years. Further cuts are anticipated. In addition, unpublished tables from BLS suggest that the unemployment rate in the railroad industry increased from 2.7 percent in the fourth quarter of 2007 to 6.3 percent in the fourth quarter of 2008 (not seasonally adjusted).

The need, therefore, for a Federal partner may be even greater, but currently the only programs available to help freight railroads invest in capital improvements are the Rail Line Relocation and Improvement program, authorized in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users at $350 million annually for each of fiscal years 2006 through 2009 for the purpose of providing financial assistance for local rail line relocation and improvement projects; the Railroad Safety Technology Grant program, authorized in the Rail Safety Improvement Act of 2008 at $50 million annually for each of fiscal years 2009 through 2013 for assisting railroads in the deployment of positive train control and other safety technologies; the Railroad Safety Infrastructure Improvement Grant program, authorized in the Rail Safety Improvement Act of 2008 at $5 million annually for each of fiscal years 2010 through 2013 for the purpose of making safety improvements to railroad infrastructure; and a program authorized in the Energy Independence and Security Act of 2007 at $50 million annually for each of fiscal years 2008 through 2011 for making capital grants to Class II and Class III railroads for infrastructure improvements. Additionally, funding is available through the Railroad Rehabilitation and Improvement Financing program, which provides direct loans and loan guarantees up to $35 billion to finance rail infrastructure improvements. However, Congress has provided little funding for the grant programs. The only funding that has been provided is $20 million for the Rail Line Relocation and Improvement program in 2008. [It is important to note that some rail projects have been funded through the highway program.]

Passenger Rail Needs

During fiscal year 2008, Amtrak served more than 28.7 million passengers, representing the sixth straight fiscal year of record ridership. With concerns still high on dependence on foreign oil and greenhouse gas emissions, Amtrak and the States are looking for opportunities to expand service.

The Passenger Rail Working Group for the National Surface Transportation Policy and Revenue Study Commission reported in 2007 that the total capital cost estimate for re-establishing the national intercity passenger rail network between now and 2050 was $357.2 billion (in 2007 dollars), for an annualized cost of $8.1 billion, about $5 billion of which the States would request from the Federal Government. These funds would be used to bring existing service to a state-of-good-repair, upgrade existing service where demand is greatest, and add new service where environmental and engineering work are complete, including the Midwest Regional Rail Initiative and the California high-speed rail corridor.

Investment in passenger rail service can have significant economic development benefits for communities, states, and the nation. An economic impact analysis of the 3,000-mile Midwest Regional Rail System proposed by nine Midwestern states (Indiana, Illinois, Iowa, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin) identified 58,000 new permanent jobs, $1.1 billion in increased household income, and $4.9 billion in increased property values around 102 stations served by the system.

These benefits can be significant for individual communities. Enhanced passenger rail service in Milwaukee, Wisconsin could generate up to 3,075 permanent jobs, $56 million in annual household income, and $227 million in increased property values around the downtown station. St. Louis, Missouri could expect an increase of up to 2,800 jobs, $57 million in household income, and $250 million in property value increases.

The State of California is anticipating a considerable boost to its economy as well, resulting from the planning, designing, and building of its high-speed passenger rail system. Estimates predict that nearly 160,000 construction-related jobs and an additional 450,000 permanent jobs are expected to be created by 2035 as a result of the economic growth the train system will bring to the state. This will result in the generation of more than $1 billion in annual revenue surplus in the state.

H.R. 2095, the Passenger Rail Investment and Improvement Act (Public Law 110-432), which was enacted at the end of the 110th Congress, authorizes a total of $13.06 billion over five years to help bring the Northeast Corridor to a state-of-good-repair, and encourage the development of new and improved intercity passenger rail service through an 80-20 Federal/State matching grant program. The Act also provides $1.5 billion for the development of high-speed rail corridors, in addition to the $30 million authorized annually through fiscal year 2013 for eligible high-speed rail corridor planning activities (see Section 26101 of Title 49, U.S. Code, as amended by Public Law 110-432). The expansion of the intercity passenger rail network presents an opportunity for new market participants to offer intercity passenger rail service. Private operators play a robust role in the U.S. transportation industry. The Alternative Passenger Rail Service Pilot Program, authorized in the Act, and Section 502, which requires the Secretary to issue a request for proposals for projects for the financing, design, construction, operation, and maintenance of a high-speed intercity passenger rail system, will provide an opportunity for private sector participants to bid on select Amtrak routes, which in turn could provide savings to U.S. taxpayers.

The draft American Recovery and Reinvestment Act of 2009 provides $800 million to Amtrak and $300 million to States for intercity passenger rail grants (and waives the State matching requirement).

<u>Some of the Benefits of Rail</u>

The demand for transportation is pressing the capacity of the nation's transportation systems, especially its critical highway and rail freight transportation infrastructure. On the highway system, vehicle-miles of travel grew by 96 percent between 1980 and 2005, while lane miles of road increased by only 5.7 percent. The result has been increasing highway congestion that the DOT has described as "chronic."

According to the Texas Transportation Institute's 2007 Urban Mobility Study, traffic congestion in the nation's 437 urban areas continues to increase. As congestion increases, the cost it imposes on our economy and on motorists also increases. In 2005, traffic congestion cost urban motorists $78.2 billion, compared to $73.1 billion in 2004, and just $14.9 billion in 1982. This level of congestion equates to an average annual cost per traveler of about $710 in 2005, up from $680 in 2004, and $260 in 1982. The hours of delay and gallons of fuel consumed due to congestion are the elements that are easiest to estimate. The effect of uncertain or longer delivery times, missed meetings, business relocations, and other congestion impacts are not included in this estimate.

Congestion has also increased in the air. In 2007, U.S. airlines set an annual record by carrying 769.4 million scheduled domestic and international passengers. The Federal Aviation Administration ("FAA") forecasts that, from 2008 through 2021, aviation passenger traffic will increase by 49 percent, to 1.16 billion passengers annually. The FAA predicts that, absent any changes to the aviation system, delays will increase by 62 percent by 2014.

According to the Commission on the Future of the U.S. Aerospace Industry, estimates of the cost of aviation delays to the U.S. economy range from $9 billion in 2000 to more than $30 billion annually by 2015. Without improvement, the combined economic cost of delays from 2000-2012 will total an estimated $170 billion.

Moving freight by rail can reduce congestion and save Americans hundreds of dollars and time in the car, according to the Federal Highway Administration's Congestion Relief Index, a study of traffic congestion in 82 major urban areas.

The study estimates that if just 25% of freight volume is shifted from trucks to rail, by 2026, each American commuter could save, on average, $985 -- and 41 hours of time in their car -- a year. The railroad association estimates that one single rail intermodal train can remove 280 trucks off the roads, or the equivalent of 1,100 autos. Amtrak removes another eight million cars from the road annually and eliminates the need for 50,000 fully loaded airplanes each year.. Development of high-speed rail corridors could further reduce congestion. In California, for example, the current trip time by car between Los Angeles and San Francisco is between six and seven hours. By air, including all time spent on the ground, the same trip takes at least 3.5 hours. Once completed, California's high-speed rail project is expected to make that trip in two hours and 38 minutes.

In addition to easing highway congestion, shifting freight and passengers from trucks and cars to rail has substantial environmental and energy benefits. Freight trains are at least four times more fuel efficient than trucks, and can move one ton of freight 436 miles on a single gallon of fuel. According to the Congestion Relief Index, since modern freight locomotives emit less nitrogen oxide and particulate matter than trucks, shifting 25 percent of freight volume from trucks to trains would decrease air pollutant emissions by 920,500 tons. To reduce emissions even further, railroads are deploying innovative hybrid and "gen-set" locomotives that reduce emissions as much as 90 percent, especially in rail yards.

Like freight rail, passenger rail has substantial environmental and energy benefits. The Sightline Institute (formerly Northwest Environment Watch) estimates that the average intercity passenger train produces two-thirds less carbon dioxide greenhouse gas emissions per passenger-mile than a car or truck and half the greenhouse emissions of an airplane. The intercity passenger rail mode also generates fewer emissions of other pollutants than other modes. For example, intercity passenger rail service improvements planned for by North Carolina and Virginia between Charlotte and Washington, DC will provide a net reduction of 531,000 pounds of nitrogen oxide per year as a result of auto diversion to rail. Electrified high-speed rail systems also have the potential to be powered with zero greenhouse gas emissions. In fact, the California High Speed Rail Authority is currently undertaking a study of how to power the system with zero greenhouse gas emissions by utilizing its surrounding energy resources such as wind and thermal solar power.

The Oak Ridge National Laboratory, which produces the annual Transportation Energy Data Book for the Department of Energy, further found that intercity passenger rail consumes 17 percent less energy per passenger mile than airlines and 21 percent less energy per passenger mile than automobiles. These energy savings can be significant in some corridors. For example, the intercity passenger rail service improvements planned for by the States of North Carolina and Virginia between Charlotte and Washington, DC will provide a net reduction of 9.7 million gallons of fuel per year. Nationally, a shift to alternative transportation modes can have a significant impact on energy usage. To illustrate, a 10 percent modal shift from surface transportation to transit would save the equivalent of all the oil we import from Saudi Arabia in a year – 550 million barrels.

Shifting freight and passengers from roads to railways can also have a positive impact on safety. Rail is one of the safest modes of travel. In 2007, there were 2,647 train accidents, resulting in eight fatalities and 293 injuries. In addition, there were 2,752 train accidents at highway-rail grade crossings, resulting in 335 fatalities and 1,048 injuries. In comparison, in 2007, there were more than six million police reported motor vehicle traffic crashes, resulting in 41,059 fatalities and nearly 2.5 million injuries. With respect to hazardous materials shipments, rail is the second safest mode of transport (water transportation of hazardous materials is the safest). In 2007, there were 748 rail incidents involving hazardous materials, resulting in no fatalities and 54 injuries. This compares to 16,887 incidents involving truck transportation of hazardous materials, resulting in 10 fatalities and 155 injuries, and 1,552 incidents involving air transportation of hazardous materials, resulting in no fatalities and eight injuries.

<u>Expected Witnesses</u>

Mr. Joseph Boardman
President and CEO
National Railroad Passenger Corporation (Amtrak)

Mr. Peter Buffa
Chairman
Orange Co. Transportation Authority (CA)

Ms. Anne Canby
President
Surface Transportation Policy Project

Mr. Lance R. Grenzeback
Principal
Cambridge Systematics, Inc.

Mr. Donald Griffin

Director of Strategic Coordination and Research
Brotherhood of Maintenance of Way Employes Division
International Brotherhood of Teamsters

Mr. Norman Jester
Vice President, Business Development and Political Affairs
Herzog Contracting Corporation

Mr. Will Kempton
Chief Executive Officer
CalTrans
On Behalf of the States for Passenger Rail Coalition

Mr. Phillip Longman
Schwartz Senior Fellow; Research Director, Next Social Contract Initiative
New America Foundation

Mr. Thomas Simpson
Executive Director
Railway Supply Institute

Mr. James Stem
National Legislative Director
United Transportation Union

Mr. James Young
Chairman, President, and CEO of Union Pacific Corporation
and
Chairman of the Association of American Railroads

Mr. Rick Webb
Chief Executive Officer
Watco Companies, Inc.
On behalf of the American Short Line and Regional Railroad Association

Mr. Ed Wolfe
Wolfe Research, LLC

FREIGHT AND PASSENGER RAIL: PRESENT AND FUTURE ROLES, PERFORMANCE, BENEFITS, AND NEEDS

Wednesday, January 28, 2009

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
SUBCOMMITTEE ON RAILROADS, PIPELINES, AND HAZARDOUS MATERIALS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2167, Rayburn House Office Building, Hon. Corrine Brown [Chairwoman of the Subcommittee] presiding.

Ms. BROWN OF FLORIDA. Will the Subcommittee on Railroads, Pipelines, and Hazardous Materials come to order.

I want to welcome everyone to our first hearing of the 111th Congress. I am proud to say that we are now the second largest Subcommittee on the Committee on Transportation and Infrastructure. I think that is due, in large part, to the increased interest in freight and passenger rail as a solution to increased gridlock on our national roads and the environmental and economic problems that our Nation is facing. I think it is also a reflection of the big achievement that this Subcommittee made last session.

We have a number of new Members on the Subcommittee joining us this Congress, and I want to welcome them. Mr. Shuster and I are hosting a "meet to greet" with the new Members and representatives of the Railroads, Pipelines, and Hazardous Materials community on February 3 right here in this room, and we are asking all of our stakeholders to come out and join us for this "meet and greet" with the new Members.

However, I am saddened that the new Members will not have the honor to meet one of our brothers, "Brokenrail," who passed away on December 19. "Brokenrail" served as the national legislative director of the United Transportation Union. We will have a memorial service right here in this room today at 3:00. I hope that you all will join us for that.

The Subcommittee is meeting today to receive testimony on the role of freight and passenger railroads in the U.S. economy, the impact of the current economic crisis on the rail industry, its suppliers and employees, and the benefits of freight and passenger rail and freight and passenger rail investment needs.

Congestion has been a major problem across most of our surface transportation, including railroads. The U.S. Department of Transportation predicts that the demand for freight rail transportation will increase 88 percent by 2035. At the request of the National Surface Transportation Policy and Review Study Commission, the Railroad Association Commission has accessed the capacity of the national rail system to accommodate the estimated increase in freight traffic. The study found that the cost of improvement needs to accommodate rail freight demand to 2035 is estimated at $148 billion in 2007 dollars.

Prior to the economic crisis, the Class I railroad anticipated that they would be able to generate about $96 billion of that $135 billion share through increased earnings from revenue growth, higher volume and productive improvement, while continuing to review existing infrastructure and equipment, leaving a balance in Class I freight rail of $39 billion, or about $1.4 billion per year.

Without this investment, the study estimates that 30 percent of the rail miles and rail corridor will be operating above capacity by 2035 and that another 25 percent will be operating near capacity. Yet the economic crisis has hit the rail industry, and their investment needs may be greater than previously anticipated.

Funding must also be provided for intercity passenger and high-speed rail. With concern still high about the dependence on foreign oil and on greenhouse gas emissions, Amtrak and the States are looking for opportunities to expand service. H.R. 2095, which was enacted at the end of the last Congress, authorized about $13 billion for Amtrak and the States to help bring the Northeast Corridor to a state of good repair and for capital expenditures of the national rail passenger transportation system. We need to make sure that these programs are fully funded, and as we begin to develop and to reauthorize the next SAFETEA bill, it is critical that the needs for additional rail capacity for freight and passenger rail be addressed.

The future of ground transportation is on our rail, whether it takes freight off congested highways or moves people on high-speed rail corridors. There is no one solution that will solve rail congestion or the environmental and engine problems plaguing our Nation. New and creative ideas from the government and the private sector must be utilized to increase and to improve both freight and passenger rail capacity.

With this, I welcome today's panelists, and I thank you for joining us. I am looking forward to hearing your testimony.

Before I yield to Mr. Shuster, I ask unanimous consent that Members be given 14 days to revise and extend their remarks and to admit the submission of additional statements and materials for Members and witnesses. Without objection, so ordered.

I now yield to Mr. Shuster for his opening statement.

Mr. SHUSTER. I thank the Chairwoman.

I also would like to welcome everybody to the first hearing of the Railroads, Pipelines, and Hazardous Materials Subcommittee. Again, it is an honor for me to be the Ranking Member on this Subcommittee, and I look forward to working with Chairwoman Brown as we move through the 111th Congress.

Our government has had a history of supporting the development of a strong rail network in this country, and we have reaped the benefits of it over the past 180-200 years, starting in 1862 with the land grants that made the first transcontinental railroad possible.

The United States has supported the development of privately owned railroads. Our national investment in railroads has been repaid many times over, and I believe the continued investment will provide future generations with the building blocks for economic growth.

There is a lot that Congress can do and is doing to help the railroads. Last year, as the Chairwoman mentioned, we did pass probably the most important piece of rail legislation in over a decade, the Rail Safety and Amtrak reauthorization. The rail safety provisions of that bill will bolster railroads' already outstanding safety records by the development of new technologies such as positive train control.

The passenger rail provisions of the bill are also exciting. We are in the process of soliciting bids for the development of high-speed rail service on 11 corridors throughout the country . We also included provisions in the bill that allow private companies to bid and to operate certain routes that Amtrak now operates, whether by themselves or in conjunction with Amtrak. Private companies have a well-documented ability to lower costs in transit operations, including commuter railroads, and I expect that we will reap the same benefits for the U.S. taxpayer with regard to intercity rail travel.

Unfortunately, the freight rail industry has not avoided the economic downturn as we are all experiencing. At least one Class I railroad has been forced to furlough workers. Total rail volume is off by more than 18 percent this year as demand for rail service drops. Auto shipments are down 64 percent. Metals are down 41 percent. The chemical shipments are down 20 percent. This is a critical time for the railroad industry.

We can do more during this Congress to create an environment where railroads can succeed. We can enact a freight rail infrastructure tax credit. We can make railroads a bigger part of the next highway reauthorization bill, and we can fully fund programs that were authorized in rail safety and in Amtrak legislation that we passed last Congress.

What we should not do is to interfere with the railroads' ability to raise capital, which is critical. Railroad reregulation, I believe, is dangerous policy, and I believe that we will return the railroads to the dark days of the pre-Staggers, where dozens of railroads were bankrupted and where the government was forced to step in and prop up the industry.

Experimenting with policies that inject government further into pricing negotiations between private parties is a bad idea, I believe. Furthermore, the STB has taken dramatic steps to ensure that shippers have recourse in rate disagreements by reforming the rate case process. We should also oppose the railroad antitrust legislation. Railroads are already subject to most antitrust laws, and the limited exemptions are in areas already regulated by the STB. By allowing Federal courts to insert themselves into rate disputes, we risk undermining the STB in creating an unworkable patchwork of core decisions that would interfere with the national rail network.

Again, I am honored to be serving as Ranking Member. I look forward to working with Chairwoman Brown as we move into this Congress and make sure that we are doing the right things to strengthen the railroads, which I believe in turn will help to strengthen the economy.

So thank you and I yield back.

Ms. BROWN OF FLORIDA. Thank you.

I understand that Members would like to make opening statements. If we could, let's try to hold those statements to a minute so we can get to the great panel that we have here. We will start with Mrs. Napolitano.

Mrs. NAPOLITANO. Thank you, Madam Chair. Congratulations to you and to Chairman Oberstar for the work in the 110th Congress, as well as to Ranking Member Shuster.

Passing the Amtrak authorization, the railroad bill, made significant steps, although not as much as needed for our Nation's safety and passenger rail network.

Welcome, our distinguished guests, especially those from California.

Mr. Will Kempton, the director of Caltrans, welcome, sir. Peter Buffa, chairman of the Orange County Transportation Authority, just south of me. Chairman Young, who I have had the pleasure of meeting several times in my office, thank you, sir, for being here and for visiting with my elected officials last year in August.

Freight and passenger rail provide great service and benefits, but it also creates a lot of problems for my area. Some of those burdens really need to be addressed, especially with the Alameda Corridor going through my whole district. We look forward to working on being able to continue to invest in the grade separations in areas all over the United States, to doing more research in the quiet zones to be able to ensure we provide sufficient safety, to working on properly training our employees and on ensuring their safety, and to working collaboratively to address the needs of our Nation and of our community to ensure the Nation's economy continues to improve.

With that, I thank you, Chairwoman Brown, as we continue to work on those issues—track repair, maintenance—and all of the other stuff that we love dearly on this Subcommittee.

I thank our distinguished panel, and look forward to your testimony.

Ms. BROWN OF FLORIDA. Mr. Moran.

Mr. MORAN. Madam Chairman, thank you very much. I will forgo an opening statement at your request so we can proceed with hearing our witnesses. Thank you.

Ms. BROWN OF FLORIDA. Mr. Miller.

Mr. MILLER OF CALIFORNIA. Thank you, Chairwoman Brown and Ranking Member Shuster, for holding this hearing today. I think it is very important to deal with this issue that tremendously has impact on our region.

When imports come through the Ports of Los Angeles and Long Beach, most of these products are transported by rail to other parts of the Nation.

On that note, I am happy to introduce Peter Buffa. He is chairman of the Orange County Transportation Authority. He is one of our witnesses today. It is good to have you here today. OCT is a multimodal transportation agency serving Orange County. Mr. Buffa also served as a Costa Mesa city councilman, and you were the previous mayor over there, I believe. It is really good to have you here today.

The Committee welcomes the testimony of all of the experts we have today. It is going to be interesting to hear what you have to say.

While the use of passenger and freight rail corridors is critical to facilitating economic growth in southern California, the increased rail traffic has also imperiled the safety and quality of life of the surrounding communities. Not only does the increase in freight traffic cause tremendous traffic delays at local grade crossings, but it affects the quality of life for residents surrounding those communities.

A tremendous amount of goods come to the Nation through the Ports of Long Beach and Los Angeles. We have about 135 grade crossings in that region that are tremendously impacted by the ports that do ship goods over the rail. Now, a certain amount of it goes over our freeways also with truck traffic, but the bulk of it is on rail. And we have quite a challenge ahead of us in trying to deal with the emergency vehicles that have to cross those, the impact on the economy as individuals and trucks sit there, watching mile-long trains travel on our rails each day they go by. It is an issue that has to be dealt with. Billions of dollars of goods come into this Nation through our ports, and we need to take and to mitigate the impact caused by those goods.

I look forward to the testimony today.

I yield back. Thank you.

Ms. BROWN OF FLORIDA. Mr. Miller, would you like to introduce Mr. Buffa right now, your constituent?

Mr. MILLER OF CALIFORNIA. I just did.

Ms. BROWN OF FLORIDA. Mr. Walz.

Mr. Carney.

Mr. CARNEY. Thank you, Madam Chairwoman.

Just briefly, I wanted to congratulate you and my good friend, the Ranking Member, Mr. Shuster, from Pennsylvania. I anticipate a great year for this 111th Congress in terms of what we are going to do for rail and what rail will do for the Nation. As we work together, we have an enormous opportunity here to rebuild the rail, to put more freight on the rail and more passengers on the rail. When we do that, this Nation will be stronger, healthier and safer, and we look forward to working with all of you in that regard.

I want to welcome all of the folks here who are testifying today. I look forward to hearing your testimony and to tossing around a few questions.

Thank you, Madam Chair.

Ms. BROWN OF FLORIDA. Mr. Latta.

Mr. LATTA. Thank you, Madam Chair. I will waive my opening statement, and will yield back my time.

Ms. BROWN OF FLORIDA. Ms. Markey.

Ms. MARKEY. Thank you, Madam Chairman.

I look forward to working on this Committee. As a new Member from Colorado, I know that railroads have been the backbone of our transportation system and have opened the West to economic development, so I look forward to working with you on this Committee and on the future role and needs of railroads in this country. Thank you very much.

Ms. BROWN OF FLORIDA. Thank you.

Mr. Cao.

Mr. CAO. Thank you, Chairwoman Brown and Ranking Member Shuster.

At least the southern part of Louisiana has been very much impacted by Katrina. For the last 3-1/2 years, the railway system has been one of the instrumental instruments in economic development in the area. I would hope to work with all of you in order to provide greater services and also to help the Second Congressional District redevelop many of its infrastructure and also the rail systems there in order to generate more economic development systems.

So thank you very much for being here.

Ms. BROWN OF FLORIDA. Mr. Boswell.

Mr. BOSWELL. Thank you, Madam Chair. Thank you for the intense attention you are giving to this subject.

Just two short things. You have heard me say it before: Many, many years ago when I returned as a soldier from an assignment in Europe, I thought somebody has got it wrong. They are expanding their ability, and we are taking up track. Well, I thought I knew then who was wrong, and I was right.

Madam Chairwoman, I hope we get into a real solutions discussion on how we are going to deal with these bottlenecks we have in Chicago. It is one of our great cities. There is no question about that, but we have got a problem. I know you know about it. We have got to deal with that, it seems to me, to move our economy and to move freight back and forth across our country. So I commend you for taking all of this on, and I am looking forward to participating.

Ms. BROWN OF FLORIDA. Mr. Guthrie, you pass.

Mr. Michaud.

Mr. MICHAUD. I want to thank you, Madam Chair, and the Ranking Member, for having this hearing. I also want to thank the panelists for testifying today, and I look forward to hearing your testimony. Since we will have votes this morning, I will yield back the remainder of my time.

Ms. BROWN OF FLORIDA. Mr. Teague.

Mr. TEAGUE. Yes, Madam Chairwoman. Thank you for allowing me to be on this Committee.

I am a newly elected Democratic candidate from New Mexico's Second Congressional District. I am proud to be on this Committee, and I am anxious to listen to the input of people who are intimately involved in this industry.

Thank you.

Ms. BROWN OF FLORIDA. Thank you.

I am pleased to introduce and to welcome our first panel—our witnesses here this morning.

Our first witness is Mr. Jim Young, who is chair, president and CEO of Union Pacific Corporation and who is chairman of the Association of American Railroads. Welcome.

The next is Mr. Rick Webb, CEO of Watco Companies. Mr. Webb is testifying on behalf of the American Short Line and Regional Railroad Association.

Of course, Mr. Joseph Boardman, president and CEO of Amtrak. Welcome in your new capacity.

Also, we have Mr. Will Kempton, CEO of Caltrans. Mr. Kempton is testifying on behalf of the States for Passenger Rail Coalition.

We have Mr. Thomas Simpson, executive director of the Railway Supply Institute.

We have Mr. James Stem, national legislative director of the United Transportation Union.

I remember that Congressman Miller has already introduced his person.

Let me remind the witnesses that, under Committee rules, all statements must be limited to 5 minutes, but your entire statements will appear in the record. We will also allow the entire panel to testify before the questioning of the witnesses begins.

TESTIMONY OF JAMES YOUNG, CHAIRMAN, PRESIDENT, AND CEO, UNION PACIFIC CORPORATION AND CHAIRMAN, ASSOCIATION OF AMERICAN RAILROADS; RICK WEBB, CHIEF EXECUTIVE OFFICER OF WATCO COMPANIES, INC., ON BEHALF OF THE AMERICAN SHORT LINE AND REGIONAL RAILROAD ASSOCIATION; JOSEPH BOARDMAN, PRESIDENT AND CEO, NATIONAL RAILROAD PASSENGER CORPORATION (AMTRAK); WILL KEMPTON, CHIEF EXECUTIVE OFFICER OF CALTRANS, ON BEHALF OF THE STATES FOR PASSENGER RAIL COALITION; THOMAS SIMPSON, EXECUTIVE DIRECTOR, RAILWAY SUPPLY INSTITUTE; PETER BUFFA, CHAIRMAN, ORANGE COUNTY TRANSPORTATION AUTHORITY (CA); AND JAMES STEM, NATIONAL LEGISLATIVE DIRECTOR, UNITED TRANSPORTATION UNION

Ms. BROWN OF FLORIDA. I am pleased to have you here. We will recognize Mr. Young to start.

Mr. YOUNG. Good morning, everyone. I will be using a few slides today, so watch the screens, please.

Chairwoman Brown, Ranking Member Shuster and Members of the Subcommittee, my name is Jim Young. I am chairman of the Union Pacific Corporation. I appreciate the opportunity to testify today, and I want to commend this Committee for holding this hearing.

The United States freight rail system is the envy of the world. It is efficient and cost-effective. One train hauls the equivalent of 300 trucks at about half the cost. It is vital to our economy. Over 40 percent of our Nation's freight moves by train on a private system that costs taxpayers virtually nothing. It is friendly to the environment. Trains emit about a third of the emissions per ton compared to that of a truck. In fact, if your family vehicle were as fuel-efficient as a train, you would get about 400 miles per gallon. In short, freight rail is a vital resource for our economy that stands ready to accelerate the economic recovery that our entire country is hoping for.

Like many companies, Union Pacific is facing extraordinary economic challenges. As our company started the fourth quarter of 2008, what had been a gradual decline in loadings became a sharp drop-off that surprised, even astounded, us all. In virtually every segment of our business, from automobiles to frozen chickens to Xboxes, our customers curtailed their shipping as credit evaporated, and consumer spending took the holiday season off.

Today, approximately 1 month into the new year, we are still searching for a firm base from which we can start to recover. At today's business levels, Union Pacific has in storage 1,200 locomotives at $2 million each and over 48,000 railcars. Even more discouraging is that over 3,100 of our employees are furloughed across our company. About half of these employees are covered by a new program that allows them to work 8 days a month and that maintains their full health care coverage. We have, essentially, stopped hiring until our furloughed employees can return to work and until the economy begins to recover.

We are taking prudent steps to protect the financial health of our economy while being certain that we retain a fast recovery capability. For example, we have frozen the salaries of our executives, have canceled meetings, have curtailed travel, and have sought the help of all of our 47,000 employees in identifying and in implementing ways to reduce costs.

We need to preserve our investment in the safety and maintenance of our railroad. That alone is well over $2 billion per year. We must also continue to invest in future growth that will make our service even more valuable to our customers. Financial returns drive growth investment. We are only able to make infrastructure investments for growth if our investors—pension funds, mutual funds, ordinary people—have some confidence that they will earn a satisfactory return on their investments. If the economy does not begin to rebound, or if we are somehow prevented from earning enough to pay for growth, they will take their money elsewhere and we will have to reduce our investment in new railroad.

There is much more to be done. Even with our record capital spending, our industry is only investing about half the level DOT studies say is needed to meet the demands on freight rail in the future. Clearly, our Nation is facing a monumental challenge. Railroads, particularly freight railroads, can be an integral part of meeting that challenge.

We have three suggestions for your consideration:

First, government must nurture policies that enhance the ability of the freight railroads to attract private investment and remain competitive. The less we utilize privately funded rail in this country, the more the taxpayer must subsidize other modes of transportation.

Second, Congress should enact an Investment Tax Credit for new rail construction. We have endorsed a proposal that has been introduced in this Congress that would provide a 25 percent Investment Tax Credit for new rail construction. This credit will allow us to accelerate our investments in rail, investments that are critical if we are going to meet the future demand for rail transportation.

Third, Congress should enact and fund programs that allow States to partner with freight railroads to move forward with projects that benefit both the freight railroad and the public. The best example of this type of project is the CREATE project in Chicago. This multibillion-dollar project will improve the fluidity of the freight railroads, will enhance passenger rail in the city and will reduce congestion on the highways. The freight railroads are willing to put up the money consistent with the benefits that we would receive while local, State and Federal governments put up the resources commensurate with the public benefits.

These are but three ideas for how our freight rail system can do even more to strengthen our economy. We stand ready to work with you to make them a reality. Thank you.

Mr. WEBB. Good morning, Madam Chair and Members of the Committee. My name is Rick Webb. I am chief executive officer of Watco Companies. We own 19 short lines, operating nearly 4,000 miles of track in 16 States. I am testifying today on behalf of the American Short Line and Regional Railroad Association.

The returning Members of this Committee know the short line story, and I will not repeat it here. For the new Members, let me just say the importance of the short line industry is in who and where we serve. America's 500 short lines operate nearly 50,000 miles of track, or almost one-third of the national railroad network. For large areas of the country and particularly for small-town America, short lines are the only connection to the national railroad network. For small businesses and farmers in those areas, our ability to take a 25-car train 75 miles to the nearest Class I interchange is just as important as the Class I's ability to attach that block of traffic to a 100-car train moving across the country. My Kansas grain customers cannot make the journey to export markets in the gulf without Class I railroad service, but they cannot start the journey by rail without short line service.

The talk in Washington today is all about economic stimulus, and in the time I have this morning, let me make four points.

First, short line railroads have enormous rehabilitation needs because they operate the most vulnerable track in the system. Today, short lines are yesterday's abandonment candidates. We have been very successful in turning these into profitable lines on a P&L basis, but we serve small customers who do not ship in volumes large enough to let us fund the enormous cost of eliminating deferred maintenance. Every time the Federal Government has given us a helping hand, either through the tax credit or through the low-interest, long-term RRIF loan program, which we appreciate very much, that help has leveraged significant additional private investment.

On Watco's Kansas and Oklahoma Railroad, for instance, the tax credit allowed us to undertake a $10 million track rehabilitation project on a 40-mile segment over which 75 percent of the railroad's traffic moved. We completed that project in 2006, and it increased speeds, improved safety and allowed us to increase traffic on the line for our customers. Without the tax credit, we would have done only 1 to 2 miles per year for the next 20 years.

Second, short line projects are truly shovel-ready projects. Short lines are constantly installing new rail ties and ballasts, the amount limited only by funding availability. If extra funds became available tomorrow, the work gang that is currently installing ties and rail between milepost A and B would be hired to keep going to milepost C. Because virtually all short line capital investment is made on existing company-owned rights-of-way, there is no regulatory, engineering, or environmental delay. The Short Line Association has identified $781 million in shovel-ready projects.

Third, most short lines do not have the in-house manpower to undertake rehabilitation projects and must hire contractors and laborers to do the work. We estimate that the $781 million in shovel-ready spending would result in the creation of 30,000 jobs during the course of the projects. These are direct jobs only, and they do not account for any of the economic activity generated by our purchases of rail ties and rock.

Fourth, at the risk of sounding boastful, short line railroads are managed by entrepreneurs who have taken considerable personal financial risk to build new small businesses, and that is a process our government should be encouraging.

My father was a unionized car repairman at the Kansas City Southern before he started our company. In 1983, he took out a $25,000 bank loan to begin our rail switching operations in DeRidder, Louisiana. That began Watco Companies. Today, Watco operates nearly 4,000 miles of short line track. We have a team of people 2,220 strong, and we move over 500,000 carloads annually. Hundreds of short lines across the country can repeat some version of the same story.

I do not begrudge the stimulus dollars the Federal Government wants to devote to public infrastructure, but I can tell you that every dollar you devote to short line railroad infrastructure will leverage significant additional private investment, and it will allow us to create strong small businesses that will be an engine for continuing job creation.

I appreciate very much the opportunity to be here, Madam Chair and Ranking Member Shuster, and I look forward to answering any questions you may have.

Ms. BROWN OF FLORIDA. Thank you.

Mr. Webb, I hope you know that Mr. Oberstar had included $100 million for the short line that, thus far, has not made it into the stimulus. But we will continue to work toward making sure that rail is included in the final product that leaves this Congress and goes to the President.

Mr. Boardman, I know that you cannot comment on Members and amendments, but there is an amendment on the floor today that takes out the $800 million—billion—million—million? Yes, it gets confusing around here with ″million″ and ″billion.″ The amendment on the floor takes this out of the bill.

So would you tell us how that would affect Amtrak? I have an amendment, you know, of $5 billion for the rail industry that included a substantial amount of more money for Amtrak. So we are waiting to hear from you. Thank you.

Mr. BOARDMAN. I will do my regular opening? Okay.

Thank you, Madam Chair and Members. I am happy to be here today and to be given this opportunity.

I have been in front of this Committee in two previous roles—first, as the commissioner of transportation for New York State and then, more recently, as the Federal Railroad Administrator, but on the day before Thanksgiving, I was given the opportunity to lead the finest group of men and women in passenger railroading in Amtrak.

Amtrak just finished in the Federal fiscal year that ended in September of 2008 with a record-setting performance. The company had an annual ridership record of 28.7 million passengers, which was an increase of over 11 percent from 2007. Each of the three rail business lines—the Northeast Corridor, short-distance corridors, and long-distance trains—grew markedly.

Both May and July were record months for ridership. Load factors were rising in the system. In time slots and services, the existing fleet was very nearly at capacity at the end of 2008. This record gave everyone a great sense of the strong demand that existed for intercity passenger rail and the importance of the rail mode in delivering safer, green and healthier transportation for all Americans. However, in the first quarter of fiscal year 2009, beginning this past October, overall ridership has fallen below our expectations by nearly 5 percent and revenue by nearly 7 percent below what we expected.

Our Northeast Corridor business line generally, and particularly Acela Express, led our decline in both ridership and in revenue. Acela ridership was down 12 percent below expectations while revenues were off by 15 percent below the expectation. We are seeing a mixed result on our short-distance corridors. Some of those that connect with the Northeast Corridor, like New York City to Albany, are seeing drops in ridership.

These circumstances demonstrate a strong need for funding, especially operations funding, at levels in our currently authorized bill. The critical need for Amtrak to be ready to meet the mobility needs of Americans in the United States faces a future marked by higher energy costs—everyone predicts that today—and a need to improve our environment.

Congress must help Amtrak with the funding to rebuild, to replace and to renew its human capital, its passenger and locomotive fleet, and the critical infrastructure owned by both Amtrak and the freight railroads that carry 71 percent of Amtrak's train miles, or they are going to face potential failure of one or of many of the components of an efficient and critical rail network. This remarkable network provides surface connectivity for passengers and freight from coast to coast and border to border. Congressional interest must make this investment a national priority for the next decade or beyond if we are to remain a competitive and healthy economic engine in the world.

One of the core competencies of our company is the specialized knowledge of our workforce in operating a nationwide passenger railroad. The men and women of our workforce keep this railroad glued together and operating. Amtrak's workforce looks like many other industries right now—gray.

More than 60 percent of our managers have been blessed with more than 50 years of life, and more than half of our total workforce is of the same vintage. Rail workers are generally eligible to retire when they reach age 60 and accumulate 30 years of railroad employment. We face the prospect of a major change in our workforce in just a few years, and we must both invest in and change our approach to human capital planning to maintain our core competence.

Our industry, both passenger and freight, is greener than our competitors'. We have got a smaller carbon footprint, but we could make a major leap forward by extending electrification. We should connect our rail network to the electric grid all over the Nation where it makes sense. That would go a very long way toward securing our energy future and in improving our environment. Railroads do not need to depend on liquid energy when the electric option exists and is available. This cannot be done, however, without a major policy decision by Congress.

Programs on this scale are being undertaken elsewhere—in China, for instance, where they are regarded as the vital component of a future economic development and as a major element of funding in their stimulus program. I think it is $88 billion for rail.

I think it is time for us to look for the investment opportunity that will do for us in this century what the canals and transcontinental railroads did for the 19th century and what the highways did for the 20th. This is the kind of project, the kind of moment, which demands, as the noted Chicago architect Daniel Burnham once said, that we make no little plans.

Thank you.

Ms. BROWN OF FLORIDA. Thank you.

We have a vote, and we have about 10 minutes left on that vote. So we are going to take an informal recess. It is just one vote, and then we will come right back.

Thank you very much.

[Recess.]

Ms. BROWN OF FLORIDA. Will the Committee please come to order.

Joining us now is the Chairman of the full Transportation Committee and, as I say, the transportation guru, Mr. Oberstar.

Would you like to give a few words before we get started back into the hearing?

Mr. OBERSTAR. Thank you, Madam Chair and Mr. Shuster. I thank you for the good work that you have done consistently on the rail issues, and I thank our panel for participating this morning.

The issue of Freight and Passenger Rail: Present and Future Roles, Performance, Benefits, and Needs. It is a big subject, but it is a good one on which to start this first session of the 111th Congress.

There are so many distinguished members of the panel. I want to welcome Mr. Boardman, and I want to thank him for continuing his service in rail and on Amtrak.

Mr. Kempton, if I may. Will, you have been of enormous service as we move ahead with the stimulus initiative, or the recovery bill, as it is called. In the teleconference session we had a couple of weeks ago, your testimony that the State of California, Caltrans, has been receiving eight bids for every contract offered and that they are coming in 25 percent below final design and engineering estimates has been a compelling argument in favor of our initiative and in favor of retaining the $30 billion—although, I personally think it should be $60 billion—for the surface transportation portion. It is the anchor element in our argument with the Congressional Budget Office that they are talking out of their hats in saying that the States cannot spend this money and cannot commit the first half in 90 days, $15 billion in 90 days. It is with this that I cite your specific experience, the biggest Transportation Department in the whole country. I thank you very much for your service and for your contribution.

In that vein, if we are going to make progress on unlocking the congestion in America—in our major metropolitan areas, in our extended areas, and into the suburbs and exurbs—we have to develop far more passenger rail service than we have in America today. It is the fastest growing segment of transportation. We ought to be able to do in the United States what is done in France with the TGV, and in Spain with the Talgo, and in Germany, with the ICE, and in Italy with the MTV, and move people at speeds of 184 miles an hour plus. But to do that in this country, we are going to have to have the participation and the cooperation of the freight rail sector.

In Europe, there is comparatively very little movement of freight by rail, which is why the European Council of Ministers launched a $1.3 trillion infrastructure initiative 5 years ago, a large portion of which is to develop freight rail service and to extend their existing high-speed passenger rail to build a 2,000 mile canal across Europe to link the North Atlantic with the Black Sea—they are about halfway through with that initiative—to shift freight from highways to water service, but also to extend their freight rail.

Unlocking that complexity of freight and passenger rail service on our side of the Atlantic is a challenge that this Committee has already faced and will continue to do. We passed the first major upgrade of rail safety in 100 years in the last Congress. With the participation of our ranking Full Committee Member, Mr. Mica, and the leadership of Ms. Brown and in partnership with Mr. Shuster, we passed the first authorization of Amtrak in 12 years. Now we have to invest in Amtrak.

I have already leaned on the incoming Secretary of Transportation, that among its top three priorities the first is to deal with the impasse over the air traffic controller contract. The second is to get serious about moving Amtrak ahead. The third is to partner with us in the new authorization bill.

So I think this hearing lays the groundwork for a great deal of what lies ahead of us in this country. I want to express my appreciation to the freight rail witness at this table and to the freight rail sector for getting serious about passenger rail and partnership. We have got a long way to go, but together we will do it. And I mean we will do it in this Congress, in this Committee.

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

Now Mr. Kempton.

Mr. KEMPTON. Thank you, Chairwoman Brown and Ranking Member Shuster and the distinguished Members of the Committee.

I would like to begin my comments by thanking our California delegation for their work in transportation—Mrs. Napolitano, Ms. Richardson, Mr. Filner, and Mr. Miller. Their Membership on this Committee is testimony to their commitment to transportation.

Speaking of commitment to transportation, Chairman Oberstar, no one in this country has the commitment to transportation that you do. And we appreciate very much the opportunity to work with you, and we were very impressed that you reached out to the States to ask our opinion on these issues, and we stand ready to assist you whenever possible.

I am Will Kempton. I am the director of the California Department of Transportation. It is also known as Caltrans. I want to thank you for the opportunity to testify before you today on the benefits of intercity passenger and freight rail. Today, in addition to representing Caltrans, I am also representing the States for Passenger Rail Coalition on behalf of Secretary Frank Busalacchi from Wisconsin.

I wanted to talk a little bit about the success that this Committee has had, the Subcommittee and the Full Committee, in terms of the Amtrak authorization and some of the other actions that you have recently taken relative to the stimulus.

First of all, the capital matching program that you have included in H.R. 2095 is a huge benefit to the States that are spending dollars on their own to try to make sure that they have a viable intercity passenger rail service. In California, we have spent over $2 billion of our own money to upgrade our intercity passenger rail system to make sure we have a viable service. Moreover, the bill stabilizes financing for Amtrak. We are hopeful, as we move through the appropriations process, that those dollars get put out very, very quickly.

I want to congratulate the Subcommittee and the Full Committee on their work on the stimulus package. As the Chairman indicated, we have I think crafted a very, very good package.

In California, on rail alone, we think we can get $342 million of intercity passenger rail work out the door very, very quickly. Our coalition of 31 States has a total of $1.6 billion of work that is ready to go. California has seen a resurgence of interest in the use of intercity passenger rail. For the State fiscal year ending last July, more than 5.3 million passengers rode California's three intercity passenger rail corridors. That is the San Joaquin service, which runs from Bakersfield to the Bay Area; that is the Capital Corridor service that runs from the city of Auburn through Sacramento to San Jose; and that is the Pacific Surfliner service which runs from San Diego through Los Angeles up to San Luis Obispo. That is a jump of 13 percent over the prior year.

California is second only to New York in total Amtrak ridership with 20 percent of all Amtrak riders, and we have the second, third and sixth busiest passenger rail routes in the country. In fact, just a tidbit of information. Last summer, when the price of gasoline had topped out, our Pacific Surfliner service was serving more passengers than the Northeast Corridor, and I am very proud of that fact.

New York, watch out.

The benefits of passenger rail are very, very significant. Obviously, there are congestion reduction benefits. One example would be, for the service that goes between Orange County and Los Angeles, we are taking away the need for an additional lane of freeway on the Interstate 5 corridor. That is very, very significant in terms of the congestion reduction benefits of rail. Passenger rail uses 15 percent less energy per passenger mile than the airlines, and 21 percent less per passenger mile than the automobiles. It produces 60 percent fewer greenhouse gas emissions than automobiles, and that is a significant environmental savings.

We also want to recognize the importance of freight rail. As a couple of Members of our delegation have indicated, the movement of goods through the State of California has a significant impact not only in our transportation system but also on the environment in the neighborhood of the ports.

So as Mrs. Napolitano and others have indicated, we need those grade separations. We need rail improvements so we can ship more of that freight traffic off of trucks, off of the roads, onto the rails, and with the grade separations, eliminate some of those bottlenecks that Mr. Miller talked about. We want to work with you on reauthorization because we think that is going to be a very, very significant step forward in terms of attention on intercity passenger rail.

In addition to the Amtrak authorization legislation, we think that the upcoming transportation authorization is important. The Surface Transportation Policy and Revenue Commission recommended $5 billion to $6 billion a year for intercity passenger rail. AASHTO, the American Association of State Highway and Transportation Officials, has suggested $35 billion over 5 years. These are levels we have never seen before, but these are levels that are needed to support intercity passenger rail in this country.

In closing, I would like to compare our investments in intercity passenger rail with other global economic competitors. In a January 23 article, The New York Times cited a World Bank report that in 2008 the People's Republic of China invested $88 billion in its intercity rail program after spending $44 billion the previous year. This is on top of massive investments in highways and ports over the past several years. If you have been to China recently, you can see the evidence of that infrastructure investment.

The European Union continues to invest heavily in alternative forms of transportation, notably passenger rail. Spain, which is similar in population and in gross domestic product to California, has spent nearly $30 billion over the last 4 years to upgrade its rail system. That nation intends to develop a 6,200-mile, high-speed rail network by 2020 at an estimated cost of approximately $150 billion. That does not include an additional $13 billion for conventional and commuter rail.

If we are to truly be competitive in the global marketplace, we have to address our infrastructure needs. The improvement of mobility and the development of alternative systems of transportation are vital—make that essential to our national economy, to our quality of life and to our standing in the world community. Intercity passenger rail is an important part of that solution.

That concludes my remarks, Madam Chairwoman. I am happy to answer any questions.

Mrs. NAPOLITANO. [Presiding] Thank you so much, Mr. Kempton, for your testimony.

Now we move on to Mr. Tom Simpson, executive director of the Railway Supply Institute.

Mr. SIMPSON. Thank you.

The Railway Supply Institute is a trade association that represents the Railway Supply Industry. Our members provide goods and services to our Nation's freight and passenger railroads and rail rapid-transit systems. There are approximately 750 railway supply companies in the United States. In a good year, our sales volume totals somewhere between $20 billion and $25 billion. The vast majority of these companies are small, with less than $10 million in annual sales.

Our members provide locomotives, new railroad freight cars and passenger cars. As well, they provide communication and signaling technology and modern maintenance-of-way techniques to our railroads. RSI member companies also own and provide for lease around 700,000 freight cars, or almost 50 percent of the freight cars operated in North America. We build virtually all of the railroad tank cars operating today, and we own 70 percent of the approximately 300,000 railroad tank cars in service. There is no safer way to move the hazardous commodities that our Nation deserves than by railroad tank car.

I had a boss who used to say, when railroads sneezed, we caught a cold. I think that when railroads sneeze now, we catch pneumonia.

Our economic record is decidedly mixed. As long as railroads continue to reinvest in their rights-of-way, then maintenance-of-way and communication and signaling industries do well and have reported a relatively good year in 2008. They are worried about 2009. New locomotive manufacturers have enjoyed strong orders in recent years, but deliveries in 2009 may be halved from those deliveries in 2008. Railcar leasing firms, those companies that own those 700,000 cars, have seen cars returned from lease and cars idled. One of my member companies has reported that miles of cars have been idled because of the economic downturn.

There are six major freight car manufacturers in North America that belong to RSI, and we have compiled order and delivery statistics. I just have compiled the 2008 numbers today, so this is relatively new news. Orders last year were on the magnitude of 22,000 new freight cars. Deliveries were on the magnitude of 48,000. Backlog freight cars ordered but not yet delivered were at 32,000. We have not seen orders of that magnitude since the early 2000s. Analysts I have talked to recently are predicting perhaps a 50 percent reduction in orders for 2009. We have not seen orders of the magnitude of 10,000 to 11,000 since the early 1980s. You may not be surprised to find out that not only are freight car manufacturers furloughing employees, but so are the leasing companies and so are the component suppliers.

Congress can help. I ask you to pass the stimulus legislation, not only funding for Amtrak but also funding for infrastructure for the materials moved by freight car. I urge you to pass an infrastructure tax credit providing a 25 percent tax credit for certain freight-rail capital expenditures. You should extend a short line tax credit. You should fund Amtrak at the levels contained in the Amtrak reauthorization legislation you passed last year.

Because of the uncertainty of the appropriations process, we must find an alternative funding source for intercity and high-speed passenger rail. Remember that these steps that you take are preserving and are creating jobs in my industry.

I am an optimistic person. I wondered how I was going to end this today, but I am deeply concerned and am worried about the future of the railway supply industry. Thank you.

Mrs. NAPOLITANO. Thank you so very much for your testimony, Mr. Simpson.

We will move on to Mr. Buffa, chairman of the Orange County Transportation Authority.

Welcome, sir, my neighbor.

Mr. BUFFA. Thank you, Madam Chair, Ranking Member Shuster and Chairman Oberstar. Thank you very much for giving me the opportunity to testify before you today.

My name is Peter Buffa. I am chair of the Orange County Transportation Authority, a multimodal transportation agency which was formed in 1991 with the consolidation of seven separate highway, bus and rail agencies.

I will give you a little background on Orange County. It is like nothing you have seen in the OC or have heard on the Desperate Housewives of Orange County. Do not believe any of that. It is the fifth largest county in the Nation, with over 3.2 million residents. More importantly, when combined with the other counties of southern California, we represent 25 million people, about 10 percent of the population of the United States.

Keeping those 3.5 million people in Orange County moving requires a multimodal transportation system that includes the 12th largest bus system in the Nation and the 91 express lanes, a highly successful 10-mile toll road that has become an international model for fully automated toll collection and congestion price management.

What surprises some people who visit Orange County is that, even though southern California is the land of the freeway and the car is king, we also have a vibrant regional rail network, both passenger and freight. Our commuter service is called Metrolink. It carries over 4 million rail passengers annually. The peak-hour ridership on Metrolink is so successful that without it we would have to build two more lanes on Interstate 5 from south Orange County to downtown Los Angeles to accommodate that peak-hour demand.

Our rail service runs along two major corridors. The first is the BNSF, the Burlington Northern Santa Fe corridor, which runs from the ports of Los Angeles and Long Beach—which Mrs. Napolitano is very familiar with—through Orange County and east to the San Bernardino and Riverside Counties, ultimately to the remainder of the United States.

The second major rail corridor is the passenger corridor called the LOSSAN corridor, LOSSAN being Los Angeles to San Diego. Ridership in the LOSSAN corridor has grown 500 percent since 1990, from 1.6 to 8.5 million trips today. Some 10 percent of Amtrak's trips nationally take place in the LOSSAN corridor.

A critical element in this system is the Anaheim Regional Transportation Intermodal Center, or ARTIC, which will be a multimodal gateway to Orange County and to southern California and a transfer station from the LOSSAN corridor to the planned California high-speed rail and to the planned California-to-Nevada superspeed rail system. Although private participation will be sought for this project, public funding is needed now to build the foundational transportation elements of the project.

I would like to focus the rest of my remarks on the rail capacity opportunities and challenges, because that is what they represent, presented by these two nationally significant rail corridors. OCTA hopes that we can join with the Federal Government as a funding partner in addressing these challenges. The BNSF corridor is one of the Nation's major goods movements corridors because it serves the Port of Los Angeles-Long Beach, which is the largest port complex in the United States and the fifth largest in the world.

To give you some idea of how we define "largest," it carries 16 million cargo containers a year. That is more container traffic than the ports of Oakland, Ventura, San Diego, Portland, and Seattle combined. Just under half of the imports to the United States travel through the Port of LA-Long Beach.

If you look at the graphic on your screen right now, it illustrates the goods movement flow in southern California to local, regional and national markets. Let me hasten to add that we have nothing against goods movement. We really like it because it means business, it means jobs. There are 700,000 jobs in southern California related to goods movement, 107,000 of them in Orange County. Those jobs generate a payroll of more than $6 billion. Regionally, those ports have delivered $256 billion in international trade to the rest of the country, which we think is a wonderful thing. It also creates some challenges for us.

So we are interested both in improving the capacity of rail but also in mitigating the impacts of rail. The present levels are challenging our system, particularly in terms of the interaction of rail with roads in major arterials. Grade separations are a major, major issue to us, particularly when you think that by 2010—just 1 year away—freight train traffic will increase substantially. Orange County alone will result in road traffic delays of up to 206 minutes.

If you look at the second graphic, that will give you an idea of how many grade separation projects are underway in Orange County but are not fully funded for which we very much need assistance in funding.

So, Madam Chair, if I were to make just one point today, it is that a dedicated funding source at the Federal level, both to improve goods movements capacity and to address congestion mitigation, is badly needed. We very much thank this Committee for their leadership on this issue. There have been a number of proposals for a container bill, one by Ms. Richardson. At the State level, there was a proposal last year for a $15 per container fee, which unfortunately the Governor vetoed. To give you an idea of how critical the issue is, the ports themselves have now volunteered to impose a fee which would be turned over to the MPOs, the local Metropolitan Planning Organizations, to apply to that issue of increasing capacity and goods movement.

In summary, significant as the benefits of freight and passenger corridors are to OCTA in Orange County, the challenges they present cannot be fully addressed without the Federal Government as a strong and financially involved partner. And we hope that that will become a dedicated source of funding through the reauthorization process this year. And we very much appreciate this Subcommittee's leadership on that issue. Thank you very much, Madam Chair.

Mrs. NAPOLITANO. [Presiding] Thank you, Mr. Buffa, for your eloquent testimony. And I can attest that is a big issue, not only in the BNSF line, but the Union Pacific line, the rail crossings, the grade separations.

Now we have Mr. James Stem, National Legislative Director for the UTU, United Transportation Union. Welcome, sir. And thank you for your continued effort to keep our employees safe.

Mr. STEM. Thank you Madam Chairman. We appreciate the opportunity to speak. We are specially appreciative of the honor that Ms. Brown bestowed upon Mr. Bruckenhaver. We thank you for the opportunity to speak.

Chairman Oberstar, Ranking Member Shuster, I first want to start my remarks by thanking this Committee for their leadership and their guidance in the creation of the Rail Safety Bill of 2008. That culminated a 10-year process for the United Transportation Union and most of rail labor. In trying to move those issues to the forefront, your leadership was much appreciate. The process of implementing the requirements of that new law have just begun. We will keep the Committee posted on the application of the provisions in the law, and we will work with you on further improvements in safety. The new law addressed many significant safety issues and there remain some areas that need attention.

We would also like to take this opportunity to offer our encouragement and support for the full funding of the Federal Railroad Administration. The new safety bill contained many mandates that will require additional resources. Our message this morning is focused on safety of the operation for rail and passenger railroad.

I also want to make sure that my remarks include our strong encouragement for inclusion of buy American provisions in all stimulus activity. The Federal Transit Administration currently has that. We encourage you to continue to support the buy American provisions.

Freight and passenger rail service in the U.S. economy have played a central role in the development of our Nation. From providing the spine for westward population settlement and commercial and industrial development in the latter half of the 19th century to transporting troops, arms, supplies during World War II, the Korean War, the Vietnam War, the Persian Gulf crisis, the rail industry formed the central core of the country's transportation system.

As we look forward, a balanced transportation policy serves our Nation's needs best. A national policy that demands the best use of our fuel resources, while providing sustainable and environmentally friendly transportation must take priority over expediency. The environmental link to national transportation policies find that railroads provide the greatest option, both freight and passenger.

Historically the rail industry has provided hundreds of thousands of middle class jobs. The passenger and freight rail industry, by its very definition, provided jobs in many rural areas all over our Nation. As we discuss ways to both stimulate our economy and also to provide middle class jobs, including rail at the core of the infrastructure piece of the recovery plan is a sound investment.

The role of Amtrak and high speed rail services in the future of transportation needs is integrally woven into our balanced and environmentally sound transportation policy. Amtrak is an essential component of our national transportation system and must be properly funded to allow the system to grow with the demand for service. Our Nation needs redundancy and reliability in our transportation system.

The impact of the current economic crisis has been significant for railroad employees. While the current economic crisis has already taken a severe toll on railroad workers, particularly operating employees, the overall health of the industry is sound, especially among Class I railroads. Financial reports for the fourth quarter of 2008 indicate that our Class I railroads and many other railroads enjoy significant growth, both in their net profits and in the reduction of their operating ratio.

As of this writing, an average of 12 percent of our operating workforce is in furlough status. We have heard from Mr. Young this morning that that figure is expected to go up by the end of this month. The unfortunate reality of moving employees around during these furlough periods, of eliminating some employees and requiring new job functions of other employees, is an inevitable compromise in safety because of the lack of experience in existing work force and the unfamiliar surroundings. We are expecting and have already seen the first signs of an increase in personal injuries as a result of this economic crisis and the reduction of forces in our industry.

Many of these furloughed employees will be needed by mid summer in order to meet the requirements from changes on the hours of service law, which were included in the new rail safety bill. Moreover, there will be strong demand for highly trained and highly skilled railroad workers when the economy begins to turn around and consumer demand is again on the rise.

I now want to talk momentarily about a significant safety issue that also is involved in our economic recovery issue. Some railroads are demanding from their employees and the Federal Railroad Administration the authority to operate trains with only one person on the locomotive, thereby, elimination of thousands of middle class jobs that are there today, willing to compromise the safety of the public and the safety of the operation.

When the demand was first made, during national negotiations the industry provided assurances and indicated that the safety of the operation could be authorized with only one person because of a pending development in positive train control. When research revealed that system wide implementation of any PTC system was many years and many billions of dollars away, the carriers continued with their demand.

Single person operation of freight trains involves a completely different analysis of the rail safety equation and a complete reassessment of the overall safety of operations that extends far beyond consideration of this specific issue. Responsibilities of the railroad to operate safely over public crossings, to inspect the moving train at every opportunity, to open public crossings quickly when stopped, and to interact with emergency responders are issues that are not addressed by any positive train control system.

Historically, each train has been considered as a self contained operating unit that had the capability of moving safely in and out of terminals and sidings and moving on main track, utilizes a variety of train control systems and methodologies. Each train was able to set out effective cars en route to provide self inspection and repair for dragging equipment, shifted lading, hot journals, broken coupling devices.

Mrs. NAPOLITANO. Mr. Stem, would you wrap it up, sir?

Mr. STEM. Yes, ma'am.

Mrs. NAPOLITANO. Thank you.

Mr. STEM. New computer and rail transactions have attempted to skirt the Railway Labor Act in some areas. We encourage the Committee to continue to insist on the application of current laws that exist today for railroads.

And my summary comment is about rail accident investigations. The National Transportation Safety Board is charged with the responsibility of investigating transportation accidents. We encourage and know that this Committee has no authority over the internal operations of the National Transportation Safety Board. However, when bureaucratic decisions are made not to investigate fatal accidents, we cannot understand the cause of those accidents or make corrective safety actions.

I thank you for the opportunity to speak.

Mrs. NAPOLITANO. Thank you so much for your testimony, sir.

We will begin the questions, and I will start with the questions.

Mr. OBERSTAR. Madam Chairman, if I might just intercede for a moment so I can run off to another Committee function. I want to observe for Mr. Buffa reference railroad grade crossings. I would like to read, ″amounts allocated from the appropriation made herein for the elimination of existing hazards to life at railroad grade crossings, including the separation or protection of grades at crossing, reconstruction of existing railroad grade crossings and relocation of highways to eliminate grade crossings shall be apportioned.″ That is not in the current recovery bill. That was in the WPA order and the law signed by President Roosevelt in 1935. I tried to include that in the current language, but it was considered new authority.

Mr. BUFFA. Don't give up, Mr. Chairman.

Mr. OBERSTAR. Don't worry. We are not giving up.

Buy America is in every feature of our Committee's jurisdiction. It was reaffirmed in the stimulus initiative. I want you to understand that.

The two-man crew issue, Mr. Stem, that you raised, the Federal Railroad Administration has assured us that they would have to approve a decrease and they have not done so, and they will not do so without an extensive review of the matter and consideration of the recommendations of the National Transportation Safety Board.

Mr. Kempton, your comments about ridership in California are right on. America's memory, however, is very short. As soon as gas prices went down, people started shifting to those big ugly SUVs. They will be running back to the rails as soon as the OPEC folks figure out how to jack the price of oil back up to $140 a barrel. But I assure you that this Committee is going to stay on top of our Amtrak legislation. The 11 corridors, Secretary of Transportation is on full notice to continue the work begun already in the previous Congress by the previous administration, but more vigorously, to implement those provisions; and we look forward to working with you on imaginative, creative financial solutions. And Mr. Boardman, will welcome that, I am quite sure.

There are many other comments. I just want to make those observations before I go off to other Committee business. Thank you.

Mrs. NAPOLITANO. Thank you, Mr. Chairman. And I certainly hope that we will also include a consideration of extension of the 90-day shovel ready project to 120 because that would give the locals the ability to be able to move on those projects. States could do it but I don't think cities would be in a position in 90. 120, yes.

Mr. OBERSTAR. My amendment will be in order on the floor some time in the course of today and I expect it to pass.

Mrs. NAPOLITANO. Thank you, sir. Thank you very much for your leadership.

Let's start off with Mr. Young. I have some questions that the Chairwoman left and I will infuse some of my own into the questions. To Mr. Young, when the economy was growing the railroads were having a difficult time making capital improvements to their infrastructure. You needed track time to do it. This was difficult given the increase in train traffic. Now that business has slowed, this is the time you should be making those investments because business is going to pick up again. It is not the time for cutting back.

What would it take for Union Pacific and the industry, as a whole, to start aggressively investing in capital expansion now? That is question number one.

Number two, and I will lead into it. A recent study found the cost of improvements needed to accommodate future freight and rail demand is estimated at $148 billion. Class I freight rail, which shares the cost is projected to be $135 billion, while the short line and regional freight railroads share is projected to be $13 billion. Prior to the economic crisis, Class I railroads anticipated they would be able to generate approximately $96 billion of their $135 billion share, leaving a balance of $39 billion or about $1.4 billion a year to be funded from other sources.

Given the state of the economy, do you believe that Class I railroads will be able to generate the $96 billion? If not, how much of the $135 billion will the Class I railroads be able to generate?

Mr. Webb, how much of the $13 billion will the short lines be able to generate?

And I will leave it to you two gentleman.

Mr. YOUNG. Congresswoman Napolitano, let's start with the first question. They are both related. While you have heard from the industry that there is some cut back in capital this year, we still have a relatively healthy capital investment program. And I will talk about Union Pacific specifically. Last year we spent $3.1 billion on new capital or on capital. Of that 3.1, about a billion is new investment. What we are looking at this year is around $2.8 billion. We have slowed down some of the investment. And you hit it right. Track time, now is the time to do it. Price of goods. You think about steel, the raw materials. This is the time to do it.

So we are going to continue our program. But there is a reality that we have to deal with in our business. This industry consumes a tremendous amount of cash. The credit agencies, Moody's, Standard and Poor's that rate our bonds, and that is our ability to go borrow in the markets, our industry is rated one notch above junk bonds. And the issue is that the huge capital investment that comes in is so substantial we have to look very carefully at our debt rating. So we are going to have a good, a healthy capital program, although I would also tell you that if things continue to deteriorate, we may have to hair cut it even more.

In response to the second question, what would it take to incent more aggressive capital, you know, we have got a proposal for an investment tax credit out on the table and I think that has, can make a real difference in terms of the financial returns and cash flow. And as a consequence, we would expend our capital investment.

Mr. WEBB. Madam Chairman, thank you for the question. And from a short lines regional railroad standpoint, that 13 billion is an absolutely impossible number, I believe, that is my opinion, without the type of assistance that the Federal Government has given to the short lines over the last 5, 4 years. With the short line tax credit that was passed in 2005, we have seen hundreds of millions of dollars of investment into the short line industry that would not have been made without that.

So I believe it is absolutely imperative that we continue programs like that. And we have several other ideas along with that. But the short line tax credit is a proven process that works.

And if I may, I would love to thank Congressman Moran because he was the guy that actually wrote the first short line tax credit bill back in 2005. And so I believe, without a doubt, you go to anybody, railroad contractors, customers, Class I partners and customers, they would say that the short line tax credit has been a huge success. But that can only take us so far. That is why, in the testimony that I gave, we have found another $780 million worth of projects that could move quickly.

And the last point I will make on that is the alternative to a lack of capital investment in the short line industry is abandonment. And from what I am hearing today, that is an alternative that would benefit no one. And so we ought to work together with you, with our customers, with our partners and make sure that we find the best solution possible to fund that $13 billion gap.

Ms. BROWN OF FLORIDA. [Presiding] Well, you know, Mr. Oberstar is still here and I wanted to mention that he included $100 billion for the short line in the bill.

Mr. OBERSTAR. 100 million, not billion.

Ms. BROWN OF FLORIDA. I get confused by those numbers, Mr. Oberstar. But $100 million in the bill for the short line. And we will continue to work to try to get some inclusion for the short lines.

I am going to let Mr. Shuster go on, but let me just say that what we need to start thinking about and one of the purpose that we had when we started this hearing was to think about the reauthorization bill and what we would like to see in that bill. And so that would be a question that I will follow up on. But now, Mr. Shuster.

Mr. SHUSTER. Thank you very much. I have a number of questions so I am going to try to package them together and if you would be brief and to the point I would appreciate that.

The first one, follow up with Mr. Webb on that. In the 100 million that the chairman proposed that didn't make it in there, you said you could move quickly to get that out there. I want to know how quickly, what does quickly mean?

And also, along the same lines, the investment tax credit, if we were to put that in the stimulus, how fast could Union Pacific move to put those projects in for creating jobs and getting things moving? So if you both could take a shot, Mr. Webb first, with the 100 million if you would.

Mr. WEBB. We believe, without a doubt, that we can do all projects; we can start all projects within 90 to 120 days, and most projects, because they are time projects that can be extended, we could actually start in less than 30 days.

Mr. YOUNG. Congressman, again in our industry I would see the same kind of relationship here. You have excess resources today in terms of people ready to go, equipment, engineering design is done. In many cases, these projects are an extension of programs that you have today that you had cut off and you would keep them going.

Mr. SHUSTER. Quickly, Mr. Webb, how many jobs do you think that would create? 100 million? Do you have any idea?

Mr. WEBB. We estimated about 30,000 jobs is what we thought is what we, direct jobs that we estimated for that investment. And one other thing, to briefly touch on a point that was made earlier, all the materials that we would use would be made in America.

Mr. SHUSTER. Mr. Kempton, the stimulus, we are debating the 90 days, the 180. I guess the chairman's going to offer to squeeze that down to obligate the funds. I have heard from states, my own in particular, that said it is very difficult, it is going to be very difficult to do that. Pennsylvania, for instance, will let about a billion dollars in bids and obligate about a billion dollars in the first 6 months and they are up to receive about 1.2 billion; half of that has to be moved forward, and they have told me and a couple of States have said it is a manpower issue.

At the Department of Transportation, we just don't have enough people to review and go through the process to do that. How does California view that and compressing the time frame are you going to be able to obligate those dollars?

Mr. KEMPTON. Well, Mr. Shuster, we think we will be able to under the chairman's proposal. I will say it is more difficult, obviously the shorter the time frame, and I think Mrs. Napolitano made a very good point when she talked about local governments not being able to utilize those funds in those short time frames. That is problematic because there is federalization issues involved and work that was not planned to be federalized in the first place. There are staffing needs at the Federal agencies, the Federal Rail Administration, Federal Transit Administration, Federal Highway Administration in terms of processing those dollars through, and there are, as you have indicated, Mr. Shuster, staffing concerns at the state levels.

We are in a unique position. Because of our bond program, we think we are going to be able to spend our share of those dollars in those shortened time frames, but I think it will be problematic for other States, as well as for some of our local partners.

Mr. SHUSTER. And I even hear you saying you are going to try. I appreciate that to be a positive, but there is a——

Mr. KEMPTON. Let me rephrase that. We will do it.

Mr. SHUSTER. I hope so. And I will be pleasantly surprised if this all goes forward as quickly as we hope it does.

Mr. Boardman, if I could ask you, on the high speed rail initiative that we put in the last Amtrak reauthorization, if you would talk a little bit about where that is and how that is moving forward.

Mr. BOARDMAN. Certainly. I know that it was about 60 days after the enactment there was a requirement for the DOT to come out and talk about it and that is exactly what happened. On December 15, I think they came out and began to talk about the concept of high speed rail. It has been a little over a month since then, and I don't think there is anything that is firmed up in terms of proposals at this point in time. But there are a lot of people right now, Congressman, that are looking at what does that really mean. And there is about a 9-month period from here on that it has been set in the law for people to really get together with a more serious proposal, so we expect that that may occur but we don't see anything real at this time.

Mr. SHUSTER. You see some action, you feel it is moving forward, though, in general?

Mr. BOARDMAN. I think most of the action for the last months or so has been on our part has been trying to get ready for the stimulus and doing all the other things in the Recovery Act at this point in time necessary to do those kinds of things. So there hasn't been a great deal of discussion on the high speed rail, but there is a potential for that.

Mr. SHUSTER. Okay. Thank you very much. Mr. Buffa, in your testimony you talked about the goods moved by rail from the ports of Long Beach and Los Angeles and the projections of increased loads. Is the situation improving there? Do we need to do more? What can the Committee do to support this?

Mr. BUFFA. Mr. Shuster, the situation certainly is not improving, and our concern is, you know, there has been something of a lessening because of the economic downturn. But this is going to come back. And no one responsible is going to predict when. But this will come back. And when we get back to some of projections that we have seen in the last year of what that freight traffic is going to become, it is a huge increase that is projected.

And again, we don't, we are not opponents of that process. We are very supportive of it. But we desperately need Federal help and a dedicated funding source for the mitigation measures for that freight traffic and to increase rail capacity on those lines that we have some control over. So it is definitely not getting better, other than whatever you might consider as something as part of the economic downturn.

But in the future, and we very much hope in the reauthorization bill, that we have your support in getting that funding source in place because we are going to need it.

When I have to explain the impact of goods movement on Southern California to someone, I invite them to come ride with me on a freeway that Mrs. Napolitano is very familiar with called the 710, the Long Beach Freeway. It is a constant 24-hour a day parade of trucks going from the ports to points east and back. And frankly, it is frightening to be on that freeway in a car because you are surrounded by tens of thousands of trucks at every turn and every time of day. So it very much needs your help.

Mr. SHUSTER. Thank you very much. I seem to have endless time here on my clock. Is that because I have been good and you are giving me more time? I have one more question——

Ms. BROWN OF FLORIDA. Okay. One more question.

Mr. SHUSTER. To Mr. Kempton on positive train control. Are you familiar with the mandate we placed?

Mr. KEMPTON. Yes.

Mr. SHUSTER. Can you tell us what is going on in California? Are you preparing to implement that? And can you give us a little update?

Mr. KEMPTON. We are. As you know, we have had a couple of serious accidents in the recent past in the Southern California area, primarily, so we are working very closely with our local partners, with Amtrak, with the private railroads to meet the mandates contained in the safety bill. And we look to have implementation underway by 2012. I would have to say that there are obviously some issues, funding being one of them, and so we are working collaboratively with those partners that I outlined. It is going to have to be literally a public/private partnership, a contribution of private dollars, along with our local partners, Amtrak and the States in terms of coming up with that system, and we are gearing up for that and coordinating with those folks.

There is also an issue of technology. Clearly, we do not want to get out ahead in California with a technology that doesn't match up well with what is being done in other parts of the country, and we are working with our private rail partners in that regard as well.

I would say it is even going so far to the point where we are loaning some of our intercity passenger rail equipment to BNSF so that they can look at the braking characteristics of our equipment as we work together to implement the system. Very important to us. We are very aware of the mandates and we intend to meet them.

Mr. SHUSTER. Thank you.

Ms. BROWN OF FLORIDA. I see Mr. Clement is with us, the former Member. Welcome. And Mr. Teague.

Mr. TEAGUE. Thank you, Madam Chairman. I am Harry Teague from New Mexico. And this is my first term and I am picking up on a lot of things here. But I had a few questions that I did want to ask. How many people can we put to work, and how many contracts can we get committed before the price starts going up and the value of the money we have appropriated starts coming down?

And then also, for Mr. Webb, is the cost for building and replacing a line on a short line, a mile of track, the same as it is on a heavy traffic line like Union Pacific, or is more reasonable? Do they have different standards that they have to meet?

And then also, all of the money that you receive in the short line rehabilitation tax credit, does that have to be private money, or can you go get State and local governments to help you with that match?

Mr. WEBB. Well, first of all, thank you, Congressman. From a short line standpoint, I will answer the last one first. We have to spend a dollar of private investment before we get anything back from the Federal Government. So it is really an accountability feature. We are not going to spend the money, we are not going to put our own dollar into it in order to get the 50 cents back if we don't believe it is a good project.

In terms of how quick we can put people to work, we can put people to work very quickly. And if we do the $780 million worth of projects that we talked about, we estimated that to be 30,000 direct jobs, many more jobs associated with that.

In terms of costs from a short line standpoint for rehabilitation, it generally costs less because our volumes are lower and we maintain our railroads to acceptable Federal Railroad Administration standards, but generally, they are much lower standards because we are not, number one, handling the same volume that our Class I partners and customers are; and number two, we are not traveling at the same speeds. And so, I hate to make any comparisons because you are really talking about two different maintenance standards. But the short line maintenance standards fits our rural America, small town America customers very well.

Mr. TEAGUE. And I understand that, and I wasn't trying to make an unfair comparison. But I mean, the speed limits and the weight limits and everything is different on the short line than they are on the cross country line, right?

Mr. WEBB. The speed limits for the most part are, for example, the majority of our 4,000 miles of track is at 25 miles an hour. I think that is vastly different for Mr. Young's railroad and every Class I railroad. But the weight limits are a major issue because our weight limits have to be the same in order for our cars to fit into the national network.

Mr. TEAGUE. Okay. Yeah. I was just wanting an explanation. I wasn't trying to create a rift between the short lines and the cross country.

Mr. WEBB. Believe you me, neither am I. They are a good customer.

Ms. BROWN OF FLORIDA. Mr. Moran.

Mr. MORAN. Thank you, Madam Chairperson.

Mr. Young, first of all, your testimony about government, embrace government policies, actually you are asking government to embrace policies that enhance the ability of freight railroads to attract private investment dollars. I also know that you are supportive, as am I, of the 25 percent tax credit. Is this a separate request? Is there something more that government policies can include that, beyond the tax credit?

Mr. YOUNG. Congressman, I think it covers the whole spectrum of areas. The investment tax credit is a piece of that, but I would also point out that there is not modal equity between highway and rail today when you look at paying a fair share, and that is a government policy that has been in place for a long time.

Now, truckers are my partners here, so I am not picking on them because we work together on a lot of projects here. But I think we want to be careful, we don't incent more business to the highway. That would be a mistake.

Environmental policies, permits. Today, it is interesting. We could build a bridge in Minnesota in, I think, about half the time. And yet, when you look at the time line today to permit a project, it has been elongated over the years. It is not unusual today that it is a minimum 2 years before you can get to construction on some of these projects.

Preemption, I think, at least I use that word, you may call it uniformity. When you are in the rail business and you operate in all these States, we can't pick up our track and move to Mexico. We have been there for many years and we have to be careful about policies that force us to operate under different rules in different States. That would be a disaster for our industry.

A simple example would be you think about emissions policies. If you have one State that has one criteria, another has a different, I mean, in the real world you would be changing locomotives at the borders. So those are the types.

And then obviously, we need to be careful on new economic regulation in this industry.

Mr. MORAN. Thank you very much. Mr. Webb, you were very complimentary of me earlier, and I appreciate that. It is your company, its leadership is one reason that I am an advocate for short line railroads because you run a railroad that takes care of customers and that is something I would like for you to explore with the Subcommittee. I am not an advocate necessarily for railroads or for short lines or for Class I carriers. I am an advocate for the people they serve. And how would increased Federal support for short line rail improvements improve the lives, the economy, the benefits that your customers enjoy?

Mr. WEBB. Well, I think that is a great question. The short line industry serves roughly 13,000 customers. And when we came to you with the idea of Federal support, we have lined up over 1,000 customers that believe railroad infrastructure investment can benefit them because it will allow the short lines, I think I have heard a lot of talk about safety, it will allow the short lines to operate more safely. It can increase transit times. Excuse me. It can increase cycle times. I will get it right. It can increase velocity, reduce transit times, reduce cycle times. And why that is important is because the short line side of the business really does feed the Class I network, and we are mainly competing against truck.

And so our customers that are out there generally have at least two options, sometimes three if they have access to the waterway. And if one of those options gets weaker, for whatever reason, then it puts the other option or mode of transportation at a distinct advantage. And so even though I couldn't say it very well, it is definitely something that the customers can benefit from because they get safer, more efficient, more timely service.

Mr. MORAN. What percentage of today's short line railroads, the rail and the bed, are in the condition that they should be to run a railroad efficiently? You talked a moment ago in response to the gentleman from New Mexico's question about short line maintenance standards. How close, I don't know what the right standard is, but are most of our lines, most of our tracks at the standard they should be, or a significant portion are not?

And then I hope that the short line tax credit as you indicated has been something that has been very helpful in meeting those kinds of standards. It expires again. It is an unending challenge, battle here to make certain that it has longevity. The fact that it will expire in 2009, what does that do to your investment decisions and your ability then to get the rest of the rail to the standards that they should be at?

Mr. WEBB. I can just tell you, from our example, that without the short line tax credit over the last 5 years, we would not have invested 50 percent of the capital that we invested, and right now we invest very similar to the rest of the industry. We will invest somewhere in the neighborhood of 12 to 15 percent, maybe 18 to 20 percent in good years and when we have the short line tax credit of our revenue. If we had not had that, then a bigger part of our network would be at slower speeds because, unfortunately, the fact of the matter is the short line system has a lot of deferred maintenance in it. And one of the biggest issues we have got facing us that we haven't addressed was what we brought to you today, the bridge issues that are out there from a short line standpoint. So I, without a doubt, believe that the short line tax credit has been a huge success. It has allowed us to get our track speeds, I would say, a number off the top of our head, our track speeds up in the neighborhood of 20 to 40 percent of our network has improved because of the short line tax credit. But there is a huge amount still left.

Mr. MORAN. Thank you, Mr. Webb for being here for your testimony, and thank you for running a good railroad. I consider you a Kansas railroad, but I know that you operate in 16 States, and I know from my constituents, grain elevators and others, that the services you provide are appreciated. Thank you, Madam Chairperson.

Ms. BROWN OF FLORIDA. Mr. Nadler.

Mr. NADLER. Thank you, Madam Chairperson, and thank you for holding this very important hearing. I have a number of questions for several of our witnesses. First, Mr. Buffa, you said, you talk about that your movement action plan has identified $50 billion in needed projects to address capacity improvements and mitigation projects on freight just in your area. And you talk about either a container fee, and then say even if this local fee can be successfully implemented, more needs to be done and should be done at the Federal level to address this issue of national significance. And certainly, it is an issue of significance in terms of the ports on the West coast as well as the East Coast. You say more should be done on the Federal level. Could you suggest what?

Mr. BUFFA. Simply because up to this point there has been no dedicated funding source at the Federal level for these types of projects.

Mr. NADLER. And you think there should be.

Mr. BUFFA. I think there should be.

Mr. NADLER. Could you suggest one?

Mr. BUFFA. Well, it is not our job to get involved in the mechanics of it. The most common that has been suggested so far is a container fee and there has been some conflict between the State and the Federal Government about who actually should be imposing a container fee.

Mr. NADLER. Not both?

Mr. BUFFA. It could be both. That is for you and the State to sort out. We think there is plenty of justification for the State because those impacts are localized. But while they are localized in our area, they are part of a national process, so certainly it could also be implemented by the Federal level, as was suggested in Ms. Richardson's bill. So it needs to be figured out. But again, as a sign of, I hate to use the word desperation, but it is a sign of the importance of when you get down to the point where the ports themselves are suggesting look, if nobody can figure this out, we will impose a fee, that is quite an indication.

Mr. NADLER. Thank you. Mr. Young, you talk about Congress should enact and fund programs that allow States to partner with freight railroads to move forward with projects that benefit everybody. Obviously, I agree with you. But first of all, I don't know why we have to tell the States that they can do this. They should be able to do it without our permission.

My real question is the following: Obviously the railroads, since the Staggers Act, and you have probably heard me say this on prior occasions, the railroads have invested an enormous amount of money in plant and equipment, and yet they have taken it out of their own internal capital and raised money on Wall Street, and yet the system is still shrinking. We have fewer miles of Class I railroad, although the need for railroad miles, for rail is greater than ever for rail freight especially, and yet we have fewer miles of Class I railroad every year and fewer miles of even Class III railroads. The system is shrinking. It is less than half the size it was after the war. We are clearly putting in far too little in capital investment in the railroads.

Now, the railroads have historically opposed a Federal role in the sense of a Federal, major Federal funding for capital investment the way we do for highways and so forth. Would you think that it might be time to consider a Federal role and not just in loans, but in grant programs in addition to what the railroads raise on their own?

Mr. YOUNG. Well, Congressman, I believe, and what I talked about in my testimony here was public/private partnerships where if the government is going to get involved it should help in the local communities in terms of maybe helping with some of the grade separations, the projects that we have in there. In terms of funding specific freight rail corridors, Union Pacific has not been in support of that over the years because of the, whatever you want to call it, strings that are attached.

Mr. NADLER. Well, for example, the I-81 corridor which goes from northern New York down to Tennessee through Virginia, Pennsylvania, is way over capacity. I-81 is way over capacity on trucks. It is going to increase incredibly. And yet you have got two not very well used old Norfolk Southern rail lines paralleling it, which, if greatly improved, for that entire carrier could take a heck of a lot of traffic and mode shift from highway to rail. And yet it would cost a heck of a lot of money to do that, probably a lot more than Norfolk Southern can afford to put into that. What should our policy be with respect to getting a major mode shift from highway to rail over a long stretch, which is clearly in the national interest to do?

Mr. YOUNG. The policy needs to incent more freight business, moving trucks off the highway, and that is a great example. You look at a specific project. We have not had many when you look at this.

Mr. NADLER. Have not had what?

Mr. YOUNG. We have not had many where it has been a specific government. I know that Norfolk Southern, I think, has had maybe one or two that look at it in the context of direct government investment in the railroad business. The benefits, as you have said, are tremendous. You can build a mile of railroad less than a mile of highway. It is probably five to 10 times the cost to build a mile of new highway. We know the energy benefits, the safety benefits that are there. Most of the programs and discussions that we have had where we have looked at this at the government level, unfortunately, in some cases, bring different requirements that, for example, expanded commuter rail on some locations that you look at.

Mr. NADLER. Well, that is a different problem and, frankly, one that if I had more time, I would go into because the last thing we want to do is burden freight railroads with commuter rail. Those are two separate problems. In fact, there are three problems. There is long haul passenger rail, Amtrak, there is commuter rail, there is freight rail, and we don't want them to get in the way of each other, frankly. And so I would never suggest that.

But it seems to me that we ought to be taking a lot of money that we are now spending on the highways and be spending them on rail instead, not just, I mean, certainly we ought to do the tax credits and those things but we ought to be having a major modal shift from highways to rail, and I don't hear an interest from you on that.

Mr. YOUNG. Well, Congressman, I guess I was maybe trying to be realistic from my perspective on what might happen on new money flowing into the rail network. And I think when you look at the needs in these communities and public/private partnerships, like the Chicago Create program, that is a $2 billion project alone. It has great benefits for the communities.

Mr. NADLER. It is a great project.

Mr. YOUNG. That are out here. If we can even partially start funding some of those projects it is pretty significant. Now, if we have enough money left over, that we can move it to a direct rail investment, I would sure like to look at that.

Mr. NADLER. Well, let me ask my last question, because my time is running over. One thing we clearly ought to be doing is what Congress was looking to do before Reagan was elected, which is major rail electrification, especially now where energy efficiency and getting off is so much more important, and how are we ever going to fund something like that if we don't have a major Federal component with major dollars in there?

Mr. YOUNG. Well, I think our first step, again, electrification is a significant investment, as you have said. We have a long ways to go with current technology. Latest generation locomotives that are being designed today will add another substantial reduction in emissions and increased fuel efficiency. So before we jump——

Mr. NADLER. But nothing can match electrification. I don't care what you are doing with locomotive.

Mr. YOUNG. No, but if you think about trying to take a railroad and convert it to electrification, in fact, I will be honest with you, I don't think it can be done.

Mr. NADLER. It can't be done?

Mr. YOUNG. I don't believe so.

Mr. NADLER. Or it can't be done for what you consider a reasonable cost?

Mr. YOUNG. It can't be done for a reasonable cost.

Mr. NADLER. Well, definitions differ on reasonable, obviously. My time is over. Thank you very much.

Ms. BROWN OF FLORIDA. Mr. Cao.

Mr. CAO. Thank you, Madam Chairwoman. This is just a question to the panel. I want to know whether or not, does any one of you have any plans for expansion in the New Orleans metropolitan area? This is for any Members.

Mr. YOUNG. Well, Congressman, Union Pacific obviously operates through the whole Louisiana area. We have been expanding for several years in terms of our capacity. There are targeted projects really along that whole southern corridor. In fact, one of our very important routes is moving business from L.A., Long Beach, along our southern corridor through to New Orleans, where we interchange with the CSX. But there is, I don't have the specific numbers, but when you look at our railroad infrastructure, you have got to have balanced capacity throughout the infrastructure. It doesn't do any good to build capacity in Arizona without recognizing you have got to get it all the way through to another State. So I have no question in my mind that we are spending money in the State of Louisiana this year.

Mr. SIMPSON. Sir, one of my member companies, Union Tank Car, through the generosity of the State of Louisiana has opened a tank car building facility in Louisiana and not in New Orleans, but nevertheless, in Louisiana.

Mr. CAO. Thank you.

Mr. KEMPTON. Congressman, we have partnered with the Kansas City Southern and ExxonMobil to build a storage facility near Baton Rouge, Louisiana, and again, it is to help improve throughput on the main lines and take the storage function into a storage function that you need into a more efficient, be handled in a more efficient manner in the Baton Rouge area.

Mr. BOARDMAN. Congressman, Amtrak, as a part of the requirement under PRIA will be doing a study on the Sunset Limited east of New Orleans into Florida at the request of the Chair.

Mr. CAO. And for those of you who are looking at expanding your businesses in the State of Louisiana, what are some of the obstacles that the New Orleans metropolitan area presents to you all? Are there any obstacles down there?

Mr. YOUNG. Well, Congressman, in terms of the freight railroad, you are always going to have some obstacle in terms of just your ability to expand the right of way to build new railroad. Again, many of these areas are residential on both sides. You have some challenges with permitting in terms of accelerating permitting for new projects. And again, to me it is one of those, does it make economic sense? We have a very large, as you know, chemical industry that we serve down there that they are struggling right now. So I think one of the challenges you have when you look long term is what is the outlook for that industry in terms of future growth.

Mr. WEBB. With our investment, there is a time frame to get it done. It is a substantial investment. I think we have 270 days to make the investment and the State and local governmental agencies have worked with us very well to meet that time frame.

Mr. CAO. Mr. Boardman, I have a question directly to you. Do you have—what are the plans that you have for emergency evacuations during a situation of crisis like hurricanes, and what are your plans for the future?

Mr. BOARDMAN. Our plans are directly related to how we work with FEMA. For example, in the evacuation where we moved over 2,000 people in the last cycle of hurricanes, we worked those plans out directly with FEMA. And each time that we have provided assistance, the plans have changed somewhat, depending on the host communities or how people needed to be moved. But again, we are available to work with FEMA and the emergency responders in both Louisiana and the entire gulf area to make those plans.

Mr. CAO. Thank you. That is all the questions I have.

Ms. BROWN OF FLORIDA. Ms. Napolitano.

Mrs. NAPOLITANO. Thank you, Madam Chair. I would like to first address my first question to Mr. Young in regard to the stimulus. Many of the projects in my district, as you well know, are seeking stimulus for the grade separation specifically. Congress has directed States to spend the money quickly or else the projects will not be funded. My question is that grade separation projects may not get the funding because of delays caused by railroads or other rail issues that come up that allow for this to happen. What can the rail industry or specifically, Union Pacific, do to ensure that these projects are constructed quickly in order to meet the time requirements that are going to be set by Congress?

Mr. YOUNG. Congresswoman, if you get the money, I can assure you that——

Mrs. NAPOLITANO. Everybody heard it.

Mr. YOUNG. Union Pacific will not be a barrier. Now, where you can help is in the permitting process, particularly in California, that there is a lengthy permitting process that we need to accelerate. We need to approach it the same way the interstate bridge was approached in Minnesota. But we have resources. We will commit them in terms of making certain that the railroad industry is not the barrier.

Mrs. NAPOLITANO. Great. Great. That is great news. And Mr. Kempton you heard that.

Mr. KEMPTON. I did Ms. Napolitano, and I agree with Mr. Young on that point, I think it is an issue at the Federal level as well as at the State level that we need to streamline these permits. We need to obviously provide for the appropriate environmental protections, but we need to make this process work faster. And we are doing our best in California to make that happen.

Mrs. NAPOLITANO. But we need to make it and making our best leads to what? What are we doing? What have you done to ensure that you begin once this goes through, that the moment that that bill is signed, that that is going to begin working the process, that the projects are being cleared, that the permitting is being done and not waiting until it goes down and then begin the process?

Mr. KEMPTON. We have in California, Ms. Napolitano, already underway a discussion with the members of the legislature on streamlining our State permitting process. And that hopefully will be approved as part of the budget which we expect to be I am hopeful is adopted in the next several days. We have also, the governor has also talked to the Obama administration about the possibility of applying similar streamlining mechanisms to the Federal process. But Mr. Young is absolutely right. We, on an emergency basis, like on the I-35W bridge in Minnesota, what we did on the MacArthur maze and the tunnel down on I-5 in Los Angeles, in those emergency situations, that is, we have an economic emergency and we need to react accordingly.

Mrs. NAPOLITANO. Thank you. And Director Kempton, the State of California may be getting $2.8 billion in highway funds and one billion in transit and then of course some of it into intercity passenger rail. The bill gives the States the authority to disburse of these funds. How will you be prioritizing and I am asking the question of some others, is who is going to get to it? How fast are we going to get these people back to work, that money working, which is the intent of Congress?

Mr. KEMPTON. Well, if you look at the total amount that is coming to California, we use a very conservative number for the amount of jobs created per billion dollars worth of capital investment. It is 18,000 jobs. The Federal Highway Administration uses $33,000. So if you do the calculations, that means the Federal stimulus money that is coming to California will create between 72,000 and 132,000 jobs. 27 percent of those jobs will be created in the first year.

Mrs. NAPOLITANO. But where?

Mr. KEMPTON. They will be created all over the State. And it will be, in large measure, driven by projects that are ready to go. So we have been gearing up in California working with the local partners, with the regions because a big share of these dollars, as you know, goes to the regions. We have been working with all these partners to get these projects ready to go. We have begun the federalization projects where those projects have not been federalized we are gearing up with our Federal Highway Administration and other Federal agencies to make sure that process flows smoothly; and we are talking about doing a new way of doing business in California so those dollars can go through much more quickly.

Mrs. NAPOLITANO. But are you targeting any of the areas that are economically depressed?

Mr. KEMPTON. We absolutely do want to look at focusing and targeting these dollars to the extent possible. But again, for the first 90 days, depending on whether these provisions go into effect, and we have good reason to believe that they will, that those dollars will primarily be focused on delivery. The longer term, going beyond the 90-day time frame, et cetera, we will be looking to try to target that more with respect to where the jobs are needed.

Mrs. NAPOLITANO. Okay. Because we received a list from COGS, the Councils of Government, where they have outlined that. I don't know if you have received it, but I would be glad to put it in your hands.

Mr. KEMPTON. I have seen it.

Mrs. NAPOLITANO. Okay. And also, States play an important role in assisting the FRA. And last year I tried to pass this particular amendment. I agree the current Federal law should continue to prohibit States from creating regulations that burden interstate commerce. But States should be allowed to regulate railroads in order to protect against local safety hazards. Do you agree with the California Public Utilities Commission that States should be allowed to regulate railroads in areas where the Federal Government has not acted?

Mr. KEMPTON. I do. From a safety perspective, I think it is important.

Mrs. NAPOLITANO. Thank you, Madam Chair.

Ms. BROWN OF FLORIDA. Mr. Arcuri.

Mr. ARCURI. Thank you, Madam Chair. Thank you, gentlemen, all for being here. Mr. Boardman, my constituent, thank you for being here again.

Just really quickly, I think Mr. Nadler was spot on when he talked about the rail lines that run along the 81 corridor. That happens to be in my district and it is my colleague's district in Pennsylvania just south of that. Mr. Young, a question that I had, you said that it cost five times as much to produce a mile of rail line as it does a mile of road?

Mr. YOUNG. No, the other way around.

Mr. ARCURI. Oh. Five times as much for road as rail.

Mr. YOUNG. Minimum.

Mr. ARCURI. Thank you. Mr. Boardman, one question for you. And thank you for attending the meeting that we had on rail in New York not too long ago. You have seen it all. You have seen it from the small transit authority, State and now as Amtrak. Some of us have grand ideas about what we would like to see rail do. But as a practical matter, as you pointed out, some of the things are achievable. Some of them are great things to wish for but much more difficult to achieve. What steps should we take incrementally to try to get us to the point where we want to get to, and that is to eventually have maybe high speed rail if we can. But what steps should we be taking as Congressmen to try to get us to the point that we want to be in a practical way?

Mr. BOARDMAN. We actually had some discussion, Congressman, and after the meeting we had the other day, how do we relate to the caucus up in New York? What would be the best way to move forward? In fact, I had a discussion a few minutes ago with Will, telling him that some of the California model and the way that they have done things may be applicable in New York because they don't just use rail in California and ignore all other modes. They have a very strong component in what they do in California involving bus connections.

So, for example, in upstate New York, if we were dealing with a bus connection, whether it be to Watertown or to Binghamton or wherever it would be, it would be coming out from the main spine of rail, through the center part of New York State. We also talked to staff that it probably would be useful for the caucus as well to get a tour of the line. In other words, ride one of our trains or CSX's trains to really understand what are the difficulties here, what are the crossings that we are dealing with, what is the characteristics of the line itself, which then gives you an ability to understand what it is that you could do to make real improvement. Because incrementally, if we can move from 79 miles an hour to 90 miles an hour, maybe even as far as 110—one of things that I think Rick was really talking about needs to be understood by Congress and by those who want faster speeds is, if 79 works for the freight railroad and they deliver what they need to deliver in terms of freight, as they move up, as we move up speed, there is a higher cost below the rail to maintain that railroad.

So there probably is a necessity at that point in time, if public policy decides that we are going to run at 110, to understand that difference and invest in that difference on a regular basis to ensure that we can keep that railroad at that speed, one of the difficulties we are having right now in Michigan, as Norfolk Southern is considering eliminating their use of that line in Michigan.

Mr. ARCURI. So it is not just the initial cost but it is the maintenance cost if we choose to employ that?

Mr. BOARDMAN. Yes.

Mr. BUFFA. Madam Chair, could I add a brief remark to that? In Orange County, the Orange County Transportation Authority is providing seed money—there are 34 cities in Orange County—to begin planning local feeder systems that will get their citizens to our metro link stations. That is a major problem in Southern California. The rail lines are expanding but there aren't sufficient feeder systems to get people to the station from their homes or their businesses.

So we have done a first round where we have spent a couple of million dollars, and the next round we will spend 6- to $8 million to assist all the cities that want to participate in planning how are you going to get your people in your community, business and residents to the next metro link station.

Mr. ARCURI. Mr. Buffa, are these primarily computer lines?

Mr. BUFFA. Yes.

Mr. ARCURI. Thank you, gentlemen, very much. I appreciate it.

Ms. BROWN OF FLORIDA. Mr. Brown.

Mr. BROWN OF SOUTH CAROLINA. Thank you, Madam Chair, and I know I will be brief with the bells ringing which means we have got votes before us.

Mr. Young, as part of your statement you said that the railroad industry will need to invest over $135 billion in rail capacity by the year 2035. And I know Mr. Buffa mentioned that they are almost at capacity over in Los Angeles. But I know that y'all are aware that we are in the process, as we speak, to enlarge the Panama Canal. And I know that is going to make some freight differentials between the East Coast and the West coast. And I was just wondering if y'all are planning what the new capacity is going to be influenced by that change?

Mr. YOUNG. Congressman, I think we do look at the expansions at the canals, and it will be limited. Again, you could project out with not only what they are doing on their size, but on the size of ship that can move through the canals. It will take some of the growth off, but at the end of the day if you look particularly at the Ports of L.A. and Long Beach, they have grown at about an 8 percent rate in the last 10 years. You may cut that in half, but it is still growth.

I also believe, if you look at business moving on the highway where we want to incent more moving on freight railroads, that has nothing to do with, say, the canals; that has everything to do with what we are doing domestically here. So the challenges are very, very high here, and the costs are very significant.

Ms. BROWN OF FLORIDA. We have four more Members, and we need to finish with Mr. Brown. So we have got a vote on. I know you all have been very generous with your time.

We have two votes. Then we will come right back so we can finish up with the other Members. Thank you very much. It is only 8 minutes.

Mr. BROWN OF SOUTH CAROLINA. I would like to ask Mr. Webb a question.

Mr. Webb, I noticed you stated in your presentation that you are actually losing ridership in the Northeast Corridor, so I guess those routes are not profitable at this time.

I am sorry. I meant Mr. Boardman.

Mr. BOARDMAN. No, none of the routes have been profitable for Amtrak, and they never really have been. We have come closest in the Northeast Corridor to covering our operating costs.

What is happening in the Northeast Corridor is a result of the business, especially the financial services industry, downturn and the reduction in the price of fuel. We are seeing much less use in the Northeast Corridor right now. There is also a flattening of the connections to the Northeast Corridor.

Yet there are other areas, and I think Will Kempton said it well; in the San Joaquin, for example, we are still seeing growth in ridership. When you look at services out of Chicago, we are still seeing a growth in ridership, not as much as we sustained last year, but we are still seeing that growth.

Mr. BROWN OF SOUTH CAROLINA. I thought you said, in the Northeast Corridor you are actually losing revenue and passenger load.

Mr. BOARDMAN. Yes. As our passengers go down—and about half of our ridership is in the Northeast Corridor—our revenues drop as well.

Mr. BROWN OF SOUTH CAROLINA. Do you still have the connect route between the East Coast and the West Coast?

Mr. BOARDMAN. We have several connections between the East and the West, all emanating from Chicago. There is the northern route, which is our Empire Builder service. There is our Zephyr service. There is the Texas Eagle. Then there is the Southwest Chief.

Mr. BROWN OF SOUTH CAROLINA. Thank you.

Mr. Webb, just one quick question of you.

On the short line railroads, are you all looking at expanding the passenger service in the short lines or are you just focusing primarily on freight?

Mr. WEBB. We are focusing primarily on freight, but on a couple of our lines, we have actually been asked to take over the freight portion of a commuter line. In Austin, Texas, for example, we do that. Then out in southern California, we do that as well.

So there is a role for freight railroads and for commuter lines to play. From a short line standpoint, we think we can provide that freight service in conjunction with commuter lines where it makes sense.

Mr. BROWN OF SOUTH CAROLINA. Thank you.

Thank you, Madam Chair.

Ms. BROWN OF FLORIDA. We are in a temporary recess.

[Recess.]

Ms. BROWN OF FLORIDA. This is such a high-powered panel, and the information is so important to where we want to move the industry, so I want to thank you again.

Mr. Lipinski has a question.

Mr. LIPINSKI. Thank you, Madam Chairwoman. I thank Mr. Carney for letting me butt ahead here, and I thank the panel for sticking around.

I have to run to the floor to testify on an amendment that Mr. Nadler has, to give $3 billion more to transit in this bill. Unfortunately, Chairwoman Brown's amendment to have $5 billion for rail infrastructure was not made in order by the Rules Committee. Her amendment is certainly something that I strongly support, and I hope that we can make some changes to the bill before we are finished with it.

I wanted to very quickly respond to Mr. Stem.

Mr. Stem, you talked about Buy America. We have good, strong Buy America provisions. We have had for iron and steel and for transportation projects.

I had tried myself to get an amendment in the stimulus bill to have a strong Buy America provision for all materials and products in this bill. Unfortunately, as of now, that amendment was not accepted by the Rules Committee. We are still working on that in the stimulus bill, but that is something that is very important in that if we are going to spend all of this money, we should be spending it here in America.

Mr. Kempton and Mr. Buffa had mentioned grade separations. I was talking last week to the new Transportation Secretary, Ray LaHood from Illinois. We were talking about the problems, especially in Illinois, but also in other States across the country—certainly in California, in New York and in Ohio. There are other States that have major problems with trains that are blocking roadways and that are causing congestion. It is part of the CRE-

ATE program in Chicago, but while CREATE is under way, that part unfortunately we have not gotten moving. Well, there is one grade separation that was done, but there is more to be done.

One of the problems is that Illinois right now only receives $10 million a year from the Federal Government for funding for grade separations, and this is something that I really think that we need to change. I am very hopeful in the upcoming highway bill that we will see that change. I know that certainly there is the support from some of our witnesses here today for that.

Now, there is one thing I wanted to ask. I worked last year on that Amtrak bill with Chairwoman Brown and Ranking Member Shuster and Chairman Oberstar and Ranking Member Mica. I was very happy they were able to add language to help advance—to give grants—for Positive Train Control. Also, there is something very important in there from Amtrak in terms of putting money in there to help improve on-time performance and to get rid of some of the problem areas that Amtrak has with congestion.

I took the train a few months ago from Chicago down to Springfield—to the State capital. Unfortunately, as everyone told me, we had problems. That is the Heritage Corridor there, and that is near the top of the list that Amtrak put out of congested areas that Amtrak wants to put money into fixing. It would make a great difference for Amtrak and also for metro commuter rail.

I just want to ask Mr. Boardman if he has any information—any ideas right now—about the time frame. I want to know whether you have any information right now—and you can get back to me—on a time frame for improving efficiency there along the Heritage Corridor.

Mr. BOARDMAN. I do not have it, Mr. Lipinski, right this minute, but we will get back to you with a plan for what we are going to do there. I do not know.

Mr. LIPINSKI. Does anyone want to add anything else to the grade separation? Actually, there is money there for grade separations that the Federal Government sends to the States, but it is so small—$10 million in Illinois. $10 million is not going to get you one grade separation.

Does anyone have any comments on this?

Mr. KEMPTON. Mr. Lipinski, in California, we had the voters of our State approve a $20 billion bond issue for transportation back in November of 2006. This measure was sponsored by the governor, approved by the legislature and presented to our voters, who saw the wisdom in that measure and who approved it by a 60 percent-plus vote.

I have to say that, as we divided a piece of that money, the Trade Quarter Infrastructure Fund piece of that, there was a significant amount of attention, in large measure from our partners in southern California, to focus some of those dollars on grade separations. There was also a separate component in the package for grade separations—something on the order of $250 million, as I recall—which is not as significant an amount of money given the grade crossing needs that we have in California. But for the piece of the Trade Quarter Infrastructure Fund that went to southern California, the members of the group that decided on how those dollars should be spent—including the Orange County Transportation Authority, which Mr. Buffa is representing—did, in fact, dedicate a significant portion of their dollars for those projects as well.

So we have a good pot of money. We would welcome more. It is obviously critical from an air quality perspective, critical from a congestion reduction perspective and critical to getting that modal shift that Mr. Nadler talked about accomplished as well.

Mr. BUFFA. Mr. Lipinski, as you know, it is an enormously expensive undertaking. $11 million for the State of Illinois was not going to buy you one grade separation.

As Mr. Kempton said, this is finally on the public's radar screen. It is such, kind of an arcane matter that the public has not been plugged in, but they have finally realized that it is like a three-legged stool.

It certainly makes their lives better. It makes their lives safer because of the interaction of rail lines with major arterials. It is better for the rail system. It significantly increases through-put for them. So it is a hugely important issue. It just does not have a lot of sex appeal for the public.

At least in California they have finally figured out ″my daily life, my daily commute is really affected by this issue.″ As Mr. Kempton said, they supported a substantial bond issue which was called Proposition 1B to pay for it. So, yes, it is usually expensive, but it is also hugely important to metropolitan areas across the Nation.

Mr. BOARDMAN. Mr. Lipinski, if I could just add, one of the difficulties that we have with this is that the grade crossing money generally comes out of the highway side of the world. I cannot remember the particular section of that, but it is identified for grade crossings.

Some of the difficulty that the highway folks have in regard to this is when they are losing 40,000 or 50,000 people on the highway itself in terms of their safety difficulties, when they look at the highway-rail grade crossing, it is a very low number in comparison to that. Less than 1,000 is where we are at this point in time. So that huge amount of loss on the regular highway overwhelms the grade crossing parts of this thing.

I think one of the things that really could happen in the reauthorization is for Congress, for the policy to really be understood, to get 90-mile-an-hour or 110-mile-an-hour rail service, we need the funding necessary to seal a corridor, which is some of the things that are being looked at at this point in time; and that is just a rational high speed, not a super high speed where you are going to have to totally grade separate.

So there is real need out there. Amtrak operates all over this country where we could make some improvements and could increase speeds even on existing freight track if those dollars were made available.

Mr. SIMPSON. Mr. Lipinski, the program that Mr. Boardman is talking about is the Section 130 Grade Crossing Safety Program.

In the decade of the 1990s, back in ISTEA days, $160 million a year was set aside for the Section 130 Grade Crossing Program. That is allocated to each of the States. Hawaii gets money, Puerto Rico gets money, the District of Columbia gets money, and States like Illinois that really, really need the money are part of the allocation process. We argue that when you reauthorize SAFETEA-LU that you ought to take a look at that Section 130 Program and put some real money in that.

Mr. LIPINSKI. Thank you very much. I could not agree more.

I thank the Chairwoman, and I thank Mr. Carney.

Ms. BROWN OF FLORIDA. Mr. Carney.

Mr. CARNEY. Thank you, Madam Chair.

I think when we were leaving, Mr. Boardman and Mr. Webb, we were talking about the profitable or the close-to-profitable Amtrak lines. Where are those? It is not in the Northeast anymore, or it is still the Northeast? Is it getting worse in the Northeast?

Mr. BOARDMAN. No. There has been a decline in the Northeast since the end of the fiscal year last year. It is not a question of, I think, getting worse. What is really going to happen here is that we are going to be in the same situation again in just a few months. As the economy rebounds or as the price of energy increases, there is going to be a shifting again to the Northeast Corridor. So part of our difficulty is short term in some ways.

Part of my point was that we need to make sure that we get the operating assistance, because we talk about capital; and we are very thankful for the $800 million, and we are very thankful for the $500 million in our normal appropriation for capital for stated good repair.

But our difficulty at this point in time is, because our revenues are down and we are trying to demonstrate where that was happening and why that was happening, we are in a situation where, in order to maintain our services, we are going to need additional assistance.

Mr. CARNEY. This is for everybody. How much thought has gone into the notion of intermodal transportation connected to rail?

Mr. BOARDMAN. Well, I think connected transportation today is being talked about more and more by many folks, whether it is Will here in California or whether it is perhaps Anne Canby later when she speaks on the next panel.

Part of the need here today and part of the concept that I think even the freight railroads understand and that everybody understands is, we need to work together whether we are in the freight business or whether we are in the passenger business or whether we are in the bus business. If we are going to move people or if we are going to move freight onto the railroads, we have got to have trucking as partners on the freight side. We have got to have buses and light rail and commuters as partners.

Mr. CARNEY. I could not agree more. I am asking, how far down the road are you in this discussion with bus folks and with truckers and things like that.

Mr. BOARDMAN. I will let Will answer that. There are tremendous improvements in California, and we are making them in other places as well.

Mr. KEMPTON. We have a great partnership with the bus services in California, and I will use the San Joaquin service which, as you may recall, Mr. Carney, is the service from Bakersfield into the Bay Area.

We have a number of connecting routes that provide for service over the Tehachapis to Los Angeles, as an example, and connections to other parts of California, too. It is absolutely integral to the success of our rail system.

You also talked about intermodal activities. As Mr. Buffa spoke earlier on the ARTIC project in Anaheim, we are proposing to build and are working together to build a regional intermodal transportation center in Anaheim. That will bring high-speed rail, intercity rail, bus operations together, the Transbay Terminal in the San Francisco area, which is the granddaddy of them all perhaps, maybe next to Union Station in New York.

We are really making an effort to tie our services together where you can come in on an intercity rail service and go cross-platform to a commuter rail service, and you can have a rail-to-rail pass, a ticket structure that will allow the passenger to step off one train and get onto another so that there is an ease of interface.

These are all things to accomplish the intermodal goal that you are talking about.

Mr. BOARDMAN. If I could just add for a minute, one of the places in Pennsylvania, which you are familiar with, is with the 110-mile-an-hour service into Harrisburg. At this point in time, there is tremendous growth on that particular corridor. So many of the other corridors connected to the Northeast Corridor have had a flattening and a reduction in ridership. The Keystone Corridor has not. There are additional announcements today. I do not know exactly how the bus service out of Pittsburgh to Harrisburg is working, but it is one of the things that is attracting attention and activity by the private sector.

Mr. CARNEY. From Pittsburgh to Harrisburg?

Mr. BOARDMAN. Yes.

Mr. CARNEY. It is kind of a long bus ride.

Mr. BOARDMAN. It is, but it is a high-quality, Megabus-type service, just like is operating out of Washington, DC.

Mr. CARNEY. We do it well in Pennsylvania.

I submit you would probably increase your Northeast ridership if you would tap into the Northeast part of Pennsylvania, frankly. We have a lot of folks in my district along the Delaware River who work in New York City every day and who would love a train to get into work rather than to clog I-80.

Mr. BOARDMAN. There is a study right now going on in that area that involves Binghamton into Scranton, so we understand that.

Mr. CARNEY. Yes. We want to see that come on line as quickly as possible.

This is a larger question for all of us to ponder: How do we change the culture in this country so people want to get on a train again? I think that is the fundamental root of this whole discussion.

Mr. BUFFA. Mr. Carney, could I take a shot at that? Will and I were discussing that. Particularly in California but in the West, it is a huge problem.

We are talking about a cultural issue. I happen to be a former New Yorker. I grew up with trains. I had no desire to drive a car until I was 18, and that is only because I was leaving to go to Arizona to go to college. I would not have done it then.

Californians, in their heart of hearts, still kind of think, if you get on a train, you ain't coming back. They are scared of them.

They are not sure how they work. That is a huge cultural issue for us to deal with. So, in addition to all of the infrastructure problems we have been talking about—I mentioned earlier this go-local problem where we, as an agency, are going to spend tens of millions of dollars to encourage communities to come up with these feeder lines.

The big problem is a psychological one. Californians are married to their cars. They are very reluctant to get out of their cars. They have to be convinced that, yes, you will return home.

More important are the people who are parents, who are worried during the day about getting that call about their kids at school or, you know, that your husband has had appendicitis and he is in the hospital. They are frantic about, how can I deal with that if I begin to use public transit?

Easterners are very used to that. They know how to do that. Now, they have the infrastructure to support it.

We need to greatly expand the infrastructure. That psychological element, that cultural element, is a huge barrier that we are not close to solving in the western United States.

Mr. CARNEY. I am not sure we are close to solving it in most of the country, frankly, with the exception of New York and the Northeast. But it does, I think, get to the heart of this entire issue of passenger rail, which I think everyone in this room would agree we have to promote. We have to do more to ease congestion and to clean the environment and to be efficient in how we move folks around.

I appreciate your time. I am late for another meeting, but I really appreciate all of your insights, and I look forward to working with you closely in the coming years. Thank you.

Thank you, Madam Chair.

Ms. BROWN OF FLORIDA. Mr. Schauer.

Mr. SCHAUER. Thank you, Madam Chair. It was certainly worth the wait.

I represent the Michigan Seventh. To put it in Amtrak parlance, it includes the Wolverine line and the Blue Water line. I have worked with CN, with Norfolk Southern and with Watco to tackle a number of freight issues.

I want to talk mostly about passenger here, and I understand there is a clear relationship with, I think, an entirety of leased lines within my district. There is a lot of interest in my district in expanding passenger rail. Maybe you can help me distinguish what I think of as a traditional intercity passenger Amtrak service, which we have now. The Detroit-Chicago corridor has been designated as a high-speed rail corridor. There are a number of other commuter rail projects kind of percolating up.

I think one of the reasons that this is important to my district is that times are tough in Michigan. I have a number of smaller, urban core communities as well as smaller rural communities that I think would like to see the economic impact of being connected, for example, to Jackson, Michigan, which has a station that I think Amtrak owns and that we are trying to repair and turn into an intermodal hub.

Jackson, for example, would very much like to hook up with Ann Arbor with some kind of high-speed commuter service. So how do we do this?

I am certainly interested in the Chair's support and in Chairman Oberstar's support as to the resources that it would take to do this. I guess, to all of you: What do we need to do to make this happen in a way that helps create jobs in the short term, but helps create economic stimulus over the longer haul?

Mr. BOARDMAN. I will take a start at answering the question you have asked.

I think it has been a question that has been asked in the past, not about Michigan so much, but about other places. How do we get these things done? There is usually a different way to get it done in every community that you operate in or in every State that you operate in.

One of the things that the Federal Government and this Committee and the Senate did 2 years ago was to begin to establish a program of matching with State governments for improvements in rail. It was a small program to begin with, and we are on a continuing resolution right now, but we believe that we will have a program out of normal appropriation that will come forward again this year. It allows the States and the Federal Government to work together to make those kinds of improvements, the ones that you are really talking about.

I think what you are talking about is, there is almost a no-man's land between the transit program of commuter rail and the need or the request. Part of what I think Mr. Webb was talking about in Austin was, it is related both to the transit side, and it is also a commuter-freight kind of a connection, so it takes a relationship with either a short line or with one of the Class I's.

It a commitment from the State. The State puts forward the dollars necessary. It takes a Federal program, as you have already produced here, to make that happen. Then, if it is an Amtrak that operates this, it takes Amtrak's being involved from early on to figure out where the equipment is going to come from. How do we get the crews in place? What is the commitment to really provide that service?

Mr. Carney, who is gone now, really talked earlier about the need for connectivity so there is enough ridership here that it is a success in the end.

So it really does fit together. There is a program here. There is a way for Michigan and for the people who are involved to get the right parties at the table to make this happen.

Mr. SCHAUER. Madam Chair, I would look forward to working with you and with the Committee and with all of you to make that corridor a priority. I mean, I just saw an estimate of the time. If we can make that line between Detroit and Chicago more efficient, I think the sort of door-to-door time would be something like 3 hours and 45 minutes. It is 5 hours-plus now. I think that would have an incredible economic stimulative impact for all of the communities there.

So it is a high priority in the short run in terms of the jobs. And we can create, obviously, any new equipment; we have the capacity in Michigan in terms of plants and people. But for me, this is all about creating jobs and helping communities become more healthy economically.

Mr. BOARDMAN. I think Michigan is a member of the Midwest Rail Coalition as well.

Mr. SCHAUER. Thank you, Madam Chair.

Ms. BROWN OF FLORIDA. Thank you.

Mr. Young, Mr. Nadler asked about providing Federal funds for freight rail. The Senate stimulus bill provides $5.5 billion to States to use on highways, bridges or freight and passenger rail.

When we look at the SAFETEA-LU reauthorization, or whatever we are going to call it, don't you think that this type of funding is needed for freight rail?

Mr. YOUNG. I think it has the potential to be a great program, and we are going to take a hard look at it in terms of how it works and how quickly it can be used. But we will see; it still needs to get out there, and I am looking forward potentially to taking advantage of it.

Ms. BROWN OF FLORIDA. I guess, if freight is competing with highways and bridges, it is going to be very difficult.

Mr. YOUNG. It will. Although I think that is the program that is set for high-impact projects that I believe—when you look at high-impact projects that include the freight, I think they will clearly be at the top of that list in terms of priorities.

Ms. BROWN OF FLORIDA. Mr. Boardman, you don't have to answer this question. I just want you to think about it.

What is it that we need to do to get passenger rail up and operating efficiently and effectively and competitively? Where do we need to be?

Mr. BOARDMAN. I will come back and meet with you on that.

Ms. BROWN OF FLORIDA. Yes, sir.

Mr. Kempton, there is an amendment that I was just talking to Mr. Shuster about that is on the floor, which is about Mr. Oberstar's amendment pertaining to 90 days, that the money has to be spent in 90 days.

Is that going to be a problem for the States to obligate this money? By its very nature, a "stimulus" means that you are going to be able to spend that money to kick-start the economy.

Mr. KEMPTON. Madam Chair, as I responded earlier, I think, in an exchange with Mr. Shuster, California as a State will meet that requirement if that is deemed to be appropriate by the Congress.

It will be difficult for some States, and it will be difficult for local governments. I think that was the point I made earlier, that some of them will have difficulty in terms of federalizing projects and in going through the steps that will be necessary to be able to spend those dollars.

I believe we are going to be ahead of the game in California because we do have a bond program that has been stalled by our State's budget problems, and we will be able to move those dollars out very, very quickly.

Again, I think there will be issues in other localities around the country.

Ms. BROWN OF FLORIDA. Mr. Stem, a question about the layoffs in the industry now:

What do you think we need to do in the stimulus to get the industry to bounce back so that we can put people back to work?

Mr. STEM. Find a way to generate freight. Find a way to generate projects on the railroads. As for those projects that were discussed here earlier and as Mr. Young and as Mr. Oberstar referred to, those people are in place. They are at home, wishing they had a job; and they are ready to go back to work tomorrow once they have funding for those projects and once they have a need for the employment.

Ms. BROWN OF FLORIDA. Now, there was one person there. I went out to see him in Orange County, and he actually had an earthquake arranged so that I could know the urgency of having that rail project out there.

Mr. BUFFA. Madam Chair, Mayor Pringle of Anaheim is quite proud of that. You have become a legend in Orange County politics because you were the Congresswoman who came to visit us and who had the bad misfortune of being on the seventh floor of the Anaheim City Hall when a 5.2 earthquake hit.

Not only that, but you were apparently the coolest head in the room. Some of my Orange County compatriots were either under the table or in a doorjamb.

Ms. BROWN OF FLORIDA. Definitely under the table.

Mr. BUFFA. You stood your ground, so you are famous in Orange County.

Ms. BROWN OF FLORIDA. We will forever bond.

I want to thank you all so very much. This has been so timely, particularly while we are dealing with this stimulus and are getting ready to start the TEA-LU process. I am hoping that everyone in this capital is listening to what you are saying, because I do think that you all are the engine that will really move this country forward.

Thank you very much for the time that you have given us today.

I want to welcome you all. Sorry that the first panel went so long, but I understand that we are on a real time frame because we are having the memorial here this afternoon, so we will get through this quickly. I would like to welcome and introduce our second panel.

We have Mr. Ed Wolfe from Wolfe Research; Mr. Lance Grenzeback of Cambridge Systematics; Ms. Anne Canby, President of the Surface Transportation Policy Project and member of the OneRail Coalition—you are going to tell us about that; I understand you all had a major announcement recently.

We have Mr. Phillip Longman, Research Director of the Next Social Contract Initiative at the New America Foundation. We have Mr. Chuck Baker, President of the National Railroad Construction and Maintenance Association. Finally, we have Mr. Leon Fenhaus, Director of Government Affairs for the Brotherhood of Maintenance of Way Employees Division of the International Brotherhood of Teamsters.

TESTIMONY OF ED WOLFE, WOLFE RESEARCH; LANCE R. GRENZEBACK, PRINCIPAL, CAMBRIDGE SYSTEMATICS, INC.; ANNE CANBY, PRESIDENT, SURFACE TRANSPORTATION POLICY PROJECT, AND MEMBER, OneRAIL COALITION; PHILLIP LONGMAN, SCHWARTZ SENIOR FELLOW; RESEARCH DIRECTOR, NEXT SOCIAL CONTRACT INITIATIVE, NEW AMERICA FOUNDATION; CHUCK BAKER, PRESIDENT, NATIONAL RAILROAD CONSTRUCTION & MAINTENANCE ASSOCIATION; AND LEON FENHAUS, DIRECTOR OF GOVERNMENT AFFAIRS, BROTHERHOOD OF MAINTENANCE OF WAY EMPLOYEES DIVISION, INTERNATIONAL BROTHERHOOD OF TEAMSTERS

Ms. BROWN OF FLORIDA. Let me remind the witnesses that under our Committee rules, all statements must be limited to 5 minutes, but your entire statements will appear in the record. We will also allow the entire panel to testify before the questioning begins.

I will begin with Mr. Wolfe.

Mr. WOLFE. Thank you, Madam Chairman and Ranking Member Shuster, as well as the other distinguished Members and your staffs, for the invitation to present today.

My name is Ed Wolfe. I am the Managing Member of Wolfe Research, which is the leading boutique research firm on Wall Street focused on freight transportation and the macro economy.

Our clients are the shareholders and debt holders of the public and some private railroads and other transport companies. My slides and testimony are available outside, and they also should be up on the screen.

I see they are. That is good. They are also on our Web site.

In my 13 years on Wall Street as well as my several years prior as an attorney, I have never before seen the U.S. or global financial markets and the economy deteriorate in such a broad-based manner or at such a rapid pace. These are truly unprecedented times.

The following slides show how quickly freight transportation demand has fallen off by mode and, more specifically, for the railroad-by-end-user segment. I have also added some slides on rail and truck pricing, on rail capital spending, returns and recent stock performance, as well as your estimates for rail volumes, yields, revenue, and EPS for the rails in 2009 relative to 2008.

Am I going to have to change these slides? Okay. Well, you are going to need good eyes.

Slide 1 lists several of the key reasons why rail infrastructure is critical and is becoming more so for our Nation's transportation needs. Railroads comprise only about 7 percent of total freight transportation spent in the U.S., but they have become an increasingly critical line-haul component of moving bulk commodities and consumer goods to businesses and, ultimately, to consumers throughout the U.S. and between Canada and Mexico.

This has been accelerated over the past decade with the rise of global trade and offshore Asian imports into the U.S., which lend themselves to large, less expensive, non-time-sensitive, long-haul moves on railroads rather than other modes of transportation. We estimate that rails are more than three times more fuel efficient than trucks.

With increasing highway congestion, the rails are one of the few alternatives for truck freight with meaningful potential capacity to help decongest highways and make America more productive, safe and environmentally responsible.

Slide 2 lists some of the major multiyear U.S. capacity expansion projects currently under way by each of the major railroads. These are some of the questions that have come up already. Someone mentioned I-81. Norfolk has a project, for instance, on the Crescent Corridor, but they are listed on slide 2.

I will now turn to some thoughts on the freight macro economy generally and on Chairwoman Brown's request for an update on how railroads are faring in the current economic crisis.

Our sense is that the recent further freight downturn since Thanksgiving reflects a material inventory drawdown and extended production shutdowns around and since the holiday as freight has seemingly ground to a halt. Based on our channel checks, we expect these very weak freight trends to continue well into the first quarter of 2009; hence, our expectation for minus 5 percent GDP during both the fourth quarter 2008 and the first quarter 2009.

Beyond extended shutdowns from the Big Three auto makers, we have seen announced production curtailments from a broad array of companies and industries. We expect these shutdowns to further negatively impact already weakened freight volumes, as we have seen in December and January.

Slide 3 summarizes 13 freight data series that we track each month. As shown in the column on the right, only one of those 13 series improves sequentially in the most recent month of available data from November or December versus the prior month. The one positive trend of truck bankruptcy showing relative improvement likely reflects the recent plunge in oil prices, keeping the small truckers in the game a bit longer than normal, given how weak demand is.

Slide 4 shows the Cass Freight Index, which has plummeted recently, including a 23 percent year-over-year drop in December, the sharpest decline in the 18-year history of the index, which is now at its lowest absolute level since January 2004. This shows how bad freight is currently in December and January.

Slide 5 shows monthly year-over-year changes in freight volumes for the past 3 years for domestic truck, airfreight and rail volumes as well as West Coast ocean import and export volumes. Each of these modes of transportation fell materially in November and December from recent trends. Notably, export ocean volumes were up 20 percent on average in the first 8 months of 2008, but were down almost 20 percent year over year in November and were down over 27 percent during December. That is quite a swing.

Slide 6 breaks out the eight major rail product segments showing annual year-over-year growth for the past 6 years on the left side of the slide and data for the past eight quarters on the right side. Fourth quarter 2008 and full year 2008 total rail volumes were down 9 percent and down 4 percent respectively. This marks the worst quarter since at least 1990 and the worst full year since 1985. Note that in the fourth quarter, as was the case for full year 2008, seven of eight segments were negative year over year with only coal volumes positive. In the fourth quarter, automotive, metals, paper, and lumber volumes were the worst-performing volume segments for the rail—down 30 percent, 25 percent and 16 percent—while coal volume, up three, remained the only positive segment during the fourth quarter, although it turned negative in December and remains weak thus far in January amidst the shutdown of several mines and a weaker demand generally.

Slides 7 and 8 show the 62 percent correlation between U.S. GDP and rail carload volumes and the even higher, 68 percent, historical correlation between industrial production and rail volumes.

Slide 9 tracks rail and truck pricing over the past 32 years. Since rail deregulation in 1980, the spread between truck and rail pricing has widened, in part driven by trucks being less fuel-efficient and requiring higher fuel surcharges as oil prices have risen.

Slide 10 highlights rail capital spending as a percentage of total rail revenue for each of the Class I railroads since 1995, compared to the average capital expenditures as a percentage of revenue for the Dow Jones 30 industrials.

On average, over the past 5 and 10 years, as reflected at the bottom of the table, railroads have spent 16.5 and 16.8 percent of their total revenue on capital spending. This is almost three times higher than the spend by the average Dow Jones 30 company during these periods.

Slide 11 looks at each rail's return on capital relative to the rail industry's cost of capital as published each year by the STB. While the rails' returns have, on average, improved from a low of about 6 percent in 2000 to 10.7 in 2007, they remained below the industry's cost of capital during 2007. Norfolk Southern was the only U.S. railroad to return its cost of capital in 2007. While rail returns were likely higher in 2008, they will be materially lower in 2009.

Slide 12 lists our current forecasted volume, yield, revenue, and EPS declines for the railroads in 2009. Our numbers have been coming down quickly over the past 6 months. While we think we are getting closer to a bottom, at least for 2009, we are not yet confident our estimates have bottomed.

In our current assumptions, we are assuming about a 6 percent decline in volumes, on average, for the four major U.S. rails next year despite easy comparisons of minus 4 and minus 3, on average, in the previous 2 years. In the prior 3 years from 2004 to 2006, the four U.S. railroads averaged volume growth of nearly 4 percent. These significant volume declines, along with slower real pricing gains and materially lower fuel surcharge revenue, should translate to about a 14 percent revenue decline on average in 2009. This is down from 10 percent revenue growth on average in the previous 5 years through 2008.

Combined with negative operating leverage for the high fixed-cost rail networks, we anticipate about a 16 percent drop in rail earnings per share next year down from a 27 percent earnings growth on average over the previous 5 years.

Finally, slide 13 reflects recent annual and quarterly stock performances of the rails relative to truck and airfreight and logistics stocks, as well as the S&P 500. While the rails outperformed the other transports in the market over most of the past 8 years, in 2008 during the past fourth quarter and thus far in January, the rail stocks have underperformed as prospects have become less positive, reflected by our expectations on Slide 12.

In conclusion, the rails are vital to the North American transportation network and will be increasingly important to infrastructure in order to alleviate highway congestion and to promote a more efficient and environmentally conscious transport grid. While the group has seen strong earnings and stock performance in recent years, this is the most capital-intensive industry of which we are aware.

2009 looks to be very challenging for volumes, yields and profitability, yet the group intends to minimally reduce their strong spending initiatives. Given low financial returns, if the downturn lasts beyond 2009, we would expect shareholders would demand more substantial capital plan reductions and shippers would demand some pricing rollbacks.

I thank you for your time, and I look forward to answering your questions.

Ms. BROWN OF FLORIDA. No signal? Okay. We are ready.

Mr. GRENZEBACK. Thank you.

Madam Chairman and Mr. Petri, my name is Lance Grenzeback. I am Senior Vice President with Cambridge Systematics. We provide transportation, policy planning and management consulting services. We authored the Freight-Rail Bottom Line Report for AASHTO and, more recently, the National Rail Freight Infrastructure Capacity and Investment Study for the AAR and the National Transportation Policy Commission.

Freight rail is a critical part of the freight transportation spectrum. Intermodal rail competes with trucking to move international and domestic containers. Rail carload service carries thousands of products from lumber in bulkhead flatcars to chemicals in tank cars, and unit trains haul enormous quantities of bulk commodities, including 30 percent of the Nation's grain harvest and some 65 percent of the coal used to generate electricity.

Rail productivity and cost effectiveness have improved significantly. Rail rates are about half of what they were in 1980. Freight tonnage has doubled; today, it accounts for about 30 percent of all ton-miles of freight movement and over 40 percent of the long-distance intercity ton-miles. Rail reduces the cost of maintaining public highways and bridges by keeping the equivalent of 100 million trucks and 1.5 trillion ton-miles of freight off the highways.

Rail is more than twice as energy efficient as trucking on a ton-mile basis. In a world worried about climate change, rail accounts for less than 3 percent of all U.S. transportation petroleum use and greenhouse gas emissions.

However, rail traffic has not grown significantly since 2005, in part because of growing rail system congestion. Rail traffic is now dropping. As Mr. Wolfe noted, volumes in 2008 were the fourth highest in history, but in December, rail carload traffic fell 14.2 percent, intermodal 13.7 percent. The decline continued in January, and all indications are that it will continue through the rest of the year.

In the AASHTO and the AAR studies, we reported that the economy would grow at about 2.8 percent per year, resulting in a 70 percent increase in rail tonnage between 2005 and 2035. With the economy now estimated to grow at 2.5 percent or lower over that same period, we expect that forecast to be delayed at least 3 to 5 years.

More importantly, the recession will reduce revenue for new capacity expansion. Investment in new capacity has been increasing from about $1.1 billion in 2005 to $1.9 billion in 2007, but this performance will not be replicated in 2009 and in 2010.

Maintenance and replacement will be cut back, and investment in new capacity expansion will largely cease. We will not see investment to untangle congestion at major rail hubs, such as Chicago, or to add track or to rebuild and expand rail terminals.

As a result, when the recession eases and the demand for rail freight picks up, we will likely find ourselves with less capacity than we have today and well behind what we will need for tomorrow.

What might that look like? In 2007, we estimated that about 13 percent of the primary rail corridor miles were operating near or above capacity. This is shown in the slide in the red and yellow. We projected that without capacity expansion improvements totaling nearly $150 billion over the period, 30 percent of mileage would be operating above capacity by 2035. If we delay improvements to the freight rail system, we may find ourselves closer to this hypothetical 2035 situation than we anticipated.

Two events could and will likely accelerate the need for rail capacity. If oil prices increase again, as is likely with an economic recovery, we can expect to see freight shift from truck to rail, which will quickly absorb any available capacity. If we follow through on our promises to make much-needed improvements to our intercity passenger rail services, we will need to add capacity to many, already congested, freight lines. Five to 8 years from now, we could find ourselves out of capacity and struggling to catch up.

In closing, we have an opportunity now to prepare for the recovery and to position the freight rail industry to absorb future growth. To do this, we need to establish a national rail policy and outline the future of a national rail system. We do not need a detailed blueprint, but we do need a broad consensus on when and where we must make major improvements.

We should increase the public and private investment, as has been much discussed today, in both freight and passenger rail, but we also need to agree on how we will share the benefits, costs and risks of doing so.

We should create a mechanism, such as a national infrastructure investment bank, to finance freight and passenger rail improvements—those projects of national significance where the costs are too high for a single railroad or State to undertake, but where the improvements benefit many States and industries.

Finally, we should look to expand State and local rail programs to coordinate freight and passenger services, to build grade separations—which are going to be critically important as the volumes and speeds increase—and to mitigate the community impacts of more train traffic.

I thank you for the opportunity to appear before you today, and I would be happy to answer questions later.

Ms. CANBY. Thank you very much, Madam Chair and Representative Petri.

My name is Anne Canby. I am head of the Surface Transportation Policy Partnership and am the founding member of OneRail, a new coalition dedicated to advancing rail as a critical element of our national transportation system.

Earlier this month, 10 organizations came together to form the OneRail Coalition. Our goal is to promote the benefits of rail, both passenger and freight—which is the first time these interests have come together—as an essential element to the future of the economic growth and well-being of our Nation.

In our principles, which are attached to my statement, my OneRail colleagues and I propose and recommend to you three major areas of activity:

One, expanding and strengthening the Nation's passenger train network and ensuring capacity for both passenger and freight growth in the years ahead;

Two, enacting policies and programs that expand public and private investment in rail freight mobility;

Three, supporting a dedicated funding source for intercity passenger train expansion.

We must maximize the transportation options that enhance our mobility, achieve energy efficiency, reduce greenhouse gas emissions while boosting economic growth and improving the quality of life for all Americans.

Working separately on intercity passenger rail or freight makes no more sense than looking independently at highway corridors. As we identify critical corridors, we must create the institutional capability for all interests to work in concert to identify the optimal investment regardless of mode.

With regard to the economic recovery proposals pending, OneRail has urged the Congress to recognize rail as a full partner in the economic recovery measure; and we greatly appreciate this Committee's effort, under the leadership of Chairman Oberstar, for the $5 billion, and we share your disappointment that the figure is considerably less than that. We are, however, pleased with the Senate appropriations actions yesterday, allocating substantial amounts to rail as well as expanding eligibility for rail projects.

Our preference is that currently authorized programs for both passenger and freight, such as the rail-freight relocation, Positive Train Control, capital grants for Class II and III railroads be fully funded. In the case of Amtrak, our view is that their capital investments should be augmented with additional funding for major catch-up investments.

Our second proposal is to permit funds allocated to States and localities to be used for investments in passenger and freight transportation. Because the source of these stimulus funds will be general funds, broad eligibility should apply. Even if the stimulus funds are allocated pursuant to Title 23 provisions, the recipients should be able to invest in projects with the highest payback in terms of job creation and environmental benefit without regard to mode. We are encouraged so far by the progress in both the House and the Senate, and are ready to work with you to ensure that rail receives its full due in the final economic recovery program.

The benefits of rail have been well stated today, and I have also highlighted them in my testimony. Let me speak for a moment to my experience when I ran the Transportation Department in Delaware.

It was troubling to me that our Federal funds could be used for commuter rail, but not for intercity rail service on the Northeast Corridor, which is a critical link for my State of Delaware. Because we were funding commuter rail, we were able to use our Federal funds. However, many States do not have this option today. Federal funds, in our view—in my view—flowing to the State DOTs should be eligible for both intercity freight and passenger improvements.

Also, while I was in Delaware, we recognized the growing truck volumes along I-95 between Washington and Delaware, and actually asked Mr. Grenzeback to help on a study to determine what rail improvements in that corridor would enable us to improve both the performance on the highway as well as on the rail network. This resulted in the Mid-Atlantic Rail Operations Study, which identified over $6 billion worth of improvements, including the Howard Street tunnel in Baltimore, supported by five State DOTs and three railroads. These projects remain basically unfunded.

In terms of the authorization that your Committee will be dealing with later this year, since we have just gotten organized, OneRail is still considering the specific proposals that we will make, but let me make a few comments from my position at STPP:

First, we need a clear national purpose and strong provisions for accountability and measurable outcomes that reflect the national interest. The new law must, in my view, incorporate all forms of surface transportation, and that means rail. We have one system that is made up of several modes. Each of them plays a very important role in the moving of both people and goods, but we have not really put this together into a systematic and integrated network. We must do so.

Finally, the Federal policy and programmatic framework that emerges from this next authorization should reshape our transportation systems to meet the goals of energy independence and a dramatic reduction in the level of greenhouse gas emissions, while assuring that we are positioned to meet both passenger and freight travel in a safe, economically and efficient way. These are not separable goals. We must meet them all. And I thank you for this opportunity to testify.

Ms. BROWN OF FLORIDA. Mr. Longman.

Mr. LONGMAN. Madam Chairman, Members of the Committee, my name is Phil Longman. Good afternoon. I am a senior fellow at the New America Foundation, which is a public policy institute here in Washington. And I am also the author of a cover story in the current issue of the Washington Monthly that addresses what is for many folks a rather novel idea, and I am grateful to have the opportunity to sketch it out for you. It is a proposal that offers stunning improvements in highway safety, maintenance and congestion costs, energy use, greenhouse gas emissions, public health, shipping costs, and plenty of economic stimulus as well. If it was fully implemented, it would get 83 percent of all long-haul trucks off the road by 2030. It would reduce carbon emissions by 39 percent and reduce energy consumption by 15 percent.

The best way to explain this project is to use a concrete example that has been alluded to several times in this hearing; that is, I-81. This is a highway that starts in northern New York, Canadian border, goes down through the Shenandoah valley into Roanoke and on into Tennessee. It is a rather obscure interstate as they go, because it doesn't connect much of any big population center.

Nonetheless, the road is being pounded to pieces by trucks. One out of every four vehicles on this road is a long-haul truck. And people in Virginia have been trying to figure out, what should we do? What can we do? Most of these trucks are not even stopping in Virginia. They are on their way to somewhere else. So the conventional idea would be, you know, add more lanes. That is what highway departments do. But it turns out that is incredibly expensive. So the next conventional wisdom thing to do is let us put tolls on their road. And that idea was floated early last year, created a political firestorm.

Thankfully, there is a better way and some progressive-minded folks in Virginia, particularly Virginia Rail Solutions advocacy group and Virginia DOT, have had the idea of, instead of taking the money—take the money that would have gone to adding lanes on I-81 and put it into rail infrastructure. There happens to be two parallel lines owned by Norfolk Southern going along the same route as 81. Norfolk Southern says they can divert 2 million trucks off the road with this infrastructure.

Now, I don't aim to tell you all the advantages that come from that, the improvements and congestion. You know, trucks kill 5,000 people a year nationally. But I do want to add that there is the opportunity here for something much broader, using that I-81 example as a beginning point.

There has been some allusions to railroad electrification. One hundred years ago there was a railroad called the Chicago, Milwaukee, St. Paul and Pacific that took 100-car freight trains over the Rockies and Cascade Mountains using electricity generated entirely by hydropower, which is abundant in the region. You think about what that is. That is zero-emissions freight transportation.

The Millennial Institute, which is best known for its work on modeling environmental scenarios, has calculated that for an investment of about $250 billion, we could, by electrifying major Class 1 mainline railroads, bring all these tremendous reductions in carbon emissions and gas use that I alluded to before.

It is work that can start right away. Importantly, too, it is work that doesn't beg any questions about what kind of energy you use. You can use wind. In fact, wind power, the most sensible use for it in many ways is for powering passenger trains, because you don't have any transmission laws; solar where it is appropriate; hydro where it is appropriate; coal; nuclear, if you want to go there. But this is an opportunity to do something truly dramatic about a whole host of problems. It is kind of like the Swiss Army knife of public policy proposals in that we just solve so many problems.

My feeling is that some of the Class 1 railroads are a bit reluctant to take this on; it sounds like pie in the sky. But I think dramatic national interests are at stake here, and it may be even appropriate to think about compelling some electrification, because when you look into the details, there are just tremendous opportunities here.

Thank you, ma'am.

Ms. BROWN OF FLORIDA. Mr. Baker.

Mr. BAKER. Madam Chairman, Congressman Petri, and Members of the Committee, good afternoon. I am Chuck Baker, the president of the National Railroad Construction and Maintenance Association, known as the NRC. Norm Jester, who is a vice president of Herzog Contracting Corporation and a member of the board of the NRC, was scheduled to testify, but the winter weather caused his flight into D.C. to be cancelled, so I will be your witness today.

I am speaking on behalf of the NRC and RAILCET. The NRC is the trade association representing the independent railroad construction and supply industry. RAILCET is a group of 30 NRC member companies that have signed a national labor agreement with the Laborers International Union of North America and the International Union of Operating Engineers. LIUNA is supporting this testimony.

We believe that freight and passenger railroads provide important benefits to the American economy and environment. Our freight-rail system is widely regarded as the world's most efficient, and it is a major contributor to the economic competitiveness of American industry.

Railroads are three to four times more fuel efficient than trucks on a freight-ton mile basis. Passenger rail also benefits the environment, and investments into rail transit systems encourage more efficient and environmentally sound land use patterns.

Freight and passenger rail play a crucial role in removing cars and trucks from the road. A typical freight train takes over 200 18-wheelers off the road. And last year alone there were over 4 billion trips taken on rail transit systems. Without these rail systems, highway congestion would become even more intolerable.

Railroads also play a crucial role in the safety and security of our country by efficiently transporting military personnel and equipment, lessening our dependence on foreign oil, providing disaster evacuations and safely transporting hazardous materials.

Given the economic, environmental, safety and security benefits of rail, it should be a goal of public policy to shift more freight and passenger traffic to rail. To do that, additional capacity must be added to the system. The rail network is currently constrained by a lack of capacity, which causes higher prices for shippers and decreased efficiency for carriers.

An investment of $148 billion for rail infrastructure expansion over the next 28 years is required just to keep pace with economic growth and meet the forecasted demand from shippers. Freight railroads will be able to supply much of this capital through internally generated cash flow, but a significant amount will need to be funded from outside sources. The economic stimulus package being debated right now is an excellent and timely opportunity to direct funding and improvements into the rail network.

Investing in rail infrastructure is an efficient way to stimulate the domestic economy. These investments create well-paying, local construction and permanent operating jobs that cannot be outsourced, and the effect is immediate. Shovel-ready rail projects are constructed on existing company-owned right of way and require no additional permitting or review.

Beyond the stimulus, the NRC believes the Congress should use the opportunity of the next transportation reauthorization to revamp transportation law in this country. As many of the leaders of this Committee have stated, the next reauthorization should not be incremental in nature; it should be transformational. As a basis for this transformation, we endorse the Transportation for Tomorrow framework put forward by the National Surface Transportation Policy and Revenue Study Commission.

Specifically, we recommend, in the stimulus bill, invest at least $12 billion into the rail transit system as proposed by Chairman Oberstar, and we do support the Nadler-DeFazio-Lipinski amendment being offered on this topic today.

Congress should adopt the proposed 25 percent freight-rail infrastructure capacity expansion tax credit with Davis-Bacon provisions.

Congress should extend the Short line Railroad Rehabilitation Tax Credit through 2015 and raise the credit cap from $3,500 per mile to $10,000.

Congress should appropriate at least $100 million for capital grants to Class 2 and 3 railroads, as proposed by Chairman Oberstar.

Congress should provide $1.5 billion for capital grants to Amtrak, as proposed by Chairman Oberstar.

We can also leverage additional private investment into rail by improving the RRIF loan program by setting an interest rate of 1 percent and deferring initial principal repayment by up to 6 years.

We recommend strong Federal support of public/private partnerships, such as Chicago CREATE and CSX's National Gateway.

And finally, Congress should invest $3.4 billion into high-speed and intercity passenger rail capital grants, as proposed by Chairman Oberstar and Chairwoman Brown.

In the reauthorization we do support increased investment into intercity passenger rail, with reform of the current Amtrak system.

We believe that the Alternate Passenger Rail Service Pilot Program and the High-Speed Rail Corridors program provided in last year's Passenger Rail Investment and Improvement Act is a good start towards reform, and that efforts such as this to encourage greater private participation in the intercity passenger rail network should be expanded.

Thank you.

Ms. BROWN OF FLORIDA. Mr. Fenhaus.

Mr. FENHAUS. Madam Chairman, my name is Leon Fenhaus, and I am the Director of Government Affairs for the Brotherhood of Maintenance of Way Employes/International Brotherhood of Teamsters. BMWED represents over 35,000 men and women who perform the infrastructure work on the Nation's Class 1 railroads and many regional and short line carriers as well. The BMWED is a member of the Teamsters Rail Conference, which includes the Brotherhood of Locomotive Engineers and Trainmen, representing the interests of over 40 percent of the Nation's railroad employees. Railroads have played a major role in the U.S. economy since the Baltimore & Ohio Railroad began operations in 1830.

Railroad industry employee productivity increased by 42 percent between 1997 and 2006, compared to 12 percent in trucking. Rail transportation is efficient due to a highly skilled and productive professional workforce that is vital to the U.S. economy.

No nation's economy is strong if those who toil within its industries do not receive wages and benefits sufficient for them and their families to thrive. The railroad industry provides such solid middle-class jobs. As of 2007, collective bargaining resulted in an $11.6 billion payroll for the 167,000 overwhelmingly unionized employees of the Nation's Class 1 railroads, employees with disposable income. In 2008, the medical plan will pay out $1.7 billion in benefits. This collectively bargained benefit supports the U.S. economy because railroad employees do not forego medical care and do not rely on financially strapped local and State governments for health care.

Additionally, all railroad employees in the United States participate in the Railroad Retirement System, which provides, in essence, a financially sound and solvent defined benefit retirement annuity. Given the great influx of employees to the industry during the 1970s, an entire generation of railroaders are nearing retirement age. The ability of those long-serving workers to retire with a secure pension will open up positions for younger workers, especially those workers who have become unemployed in other industries.

Investment in passenger rail is a necessary part of any coherent national energy and transportation policy. Rail passenger operations are the only intercity transportation mode that delivers passengers directly to the heart of cities.

The BMWED commends the hard work performed by this Subcommittee that resulted in the passage of the Passenger Rail Investment and Improvement Act of 2008. That commitment helps preserve existing jobs and should create new employment opportunities.

The major Class 1 railroads performed well in 2008 and remain in strong financial shape. However, it must be noted that the slowing down of the U.S. economy is being felt by the railroads as reflected in lower car loadings. Historically, freight railroads have been responsible for the investment in their infrastructures, but today there appears to be a perceptible slowing of private investment in infrastructure by the major railroads.

It is in our Nation's and the railroads' interests to continue to perform maintenance and capacity work, especially during the current economic downturn, for the inevitable rebound of the economy, but in order to accomplish this, the industry must keep all of its current workforce employed and immediately hire new employees to learn the skills and acquire the experience necessary to seamlessly transition through the imminent retirement of the baby boomers.

BMWED supports further investment in the expansion of passenger rail and new investment in freight rail, but Congress should ensure that it is not done on the cheap with unqualified workers, with contractors who lack experience and do not have overall responsibility for all rail operations.

Congress should act to ensure that owners of rail lines in the Interstate Rail System and that the persons who perform rail work, especially work involved with the movement of people, are the professional, qualified railroad workers already employed in the industry, and that they must be subject to the Federal laws created for railroads and railroad workers.

BMWED continues to study the various proposals and suggestions for ways freight railroads can invest in improving and expanding their infrastructure. We can offer no specific proposal at this time, but we intend to continue to study the matter and hope the Subcommittee will hold additional hearings.

I thank you for the opportunity to express BMWED's issues.

Ms. BROWN OF FLORIDA. Thank you.

And thank all of the panelists.

Question for the panelists. What specific actions should the Federal Government take in the short term and the long term to increase rail capacity, reduce congestion and improve service and reliability? Let us start with Mr. Wolfe, and anyone can respond.

Mr. WOLFE. I think it is pretty clear, since deregulation in 1980, that the railroads respond best to the carrot relative to the stick. So I would say the 25 percent tax credit as a way to stimulate investment is probably the best measure that I have seen.

At the same time, you have got the issue of captive shippers and pricing, so I think that is an area that needs to be addressed as well, but not by reregulation, by stimulating through incentive. And I think that is very clear. So I think a tax credit during this period of highway reauthorization and infrastructure is something that is tied in and comprehensive, involves rail, highway and port, and looking from a Federal Government standpoint of the needs of all those, I think the railroads look very good. And yet we don't see any dollars for other than the 100 million for the short line railroads right now in the stimulus bill. I would like to see the tax credit get in there. I think that would be very important and effective. I'll leave the specifics of how to spend the funding to the railroads and policymakers

Mr. GRENZEBACK. Madam Chairman, I would suggest perhaps we focus on three areas. One would be projects of national and regional significance. The Chicago CREATE program was a good example. There are Mississippi River bridges and other projects out there which are simply too large for a single railroad or State to risk taking on at the time, whether you use grants or loans or loan credits for those. There are good examples in the TIFIA program of how that could be done.

I think there is a second tier of work that needs to be done, which is on the corridors that are going to be sharing freight and rail, passenger rail, we are going to—in most of those areas, we are going to be looking at either adding track or adding right of way. And in many areas of the country, we have done the easy work now. When we go from one- to two-track and then existing right of way, it is not a problem. When you go to a third one, you have to sort of add bridges and improve the systems considerably. That is going to be a very expensive area.

The third area is a very quiet, hidden one. The railroads do a very good job of investing in upgrading the lines, the long-haul lines between cities. But when we get into the cities, particularly in our very densely developed urban areas, we are going to have terrible problems and a lot of expense sorting out the rerationalization of rail lines, upgrading rail terminals, sorting out truck access. We are seeing in the rail industry a tendency to consolidate long haul, move it to the outskirts of the city, and then worry about the city—let the State and the city figure out how to manage the traffic inbound. I think that is a third-tier program where Federal action and State action combined will be very, very helpful.

Ms. CANBY. Madam Chair, I would just reiterate what I said. First, broadening eligibility so that States are able to make an intelligent decision as to the best investment on intercity transport versus the highway programs that they might normally do. As a former DOT director, we didn't have that flexibility.

Secondly, ensuring that there are clear outcomes that are expected from the investment of these funds, and particularly focusing on the energy and the climate emissions issues; and as Lance suggested, using potentially the program that is in the Senate proposal now for major corridors, to take advantage of the discretion that is there. Longer term, clearly, at the State level, we have to find ways in the current safety law to have much better integration across modes and to rationalize a system that has just been piled one on top of the other without thinking about how they work together.

Mr. LONGMAN. In the short term, there are a few small projects that would make an enormous difference. CREATE is one example. Another example is just a few feet from us actually, literally. Why are there so many trucks on I-81? It is because I-95, going from Maine to Florida, is so overwhelmed with trucks that other trucks divert to get around it. The railroads only have 2 percent market share on that lane. And why is that? It is because the Virginia Avenue tunnel right over here is too narrow to let double-stack trains through, and it is because the Howard tunnel in downtown Baltimore, which is listed on the Register of Historic Places, is too old and too antiquated to let these trains through.

So, just focusing on those little projects has an enormous bang for the buck. And this is very different than with the highway projects because typically you can't do anything to increase the capacity of a highway except add new lanes. With rail you can often do that.

The other thing I would say in the slightly longer term is that many studies were done in the 1970s of rail electrification. People like Governor Milton Schapp of Pennsylvania got very involved. These studies are sitting on shelves. They are ready. We would have to update them somewhat, but it is not entirely pie-in-the-sky stuff. The business of putting up cantonary involves special skills, but it is not something that a laid-off auto worker couldn't learn in short order.

Thank you.

Mr. BAKER. I think if you are looking at short term, you obviously have to focus on the stimulus, which is the only real opportunity, you know, today. I think there is three categories. First, you have got to make sure that on the House side you guys keep the good stuff that you have already achieved in the bill. That would be the intercity passenger rail program, although we wish it was more; the Amtrak grants; and then all the transit funding.

I think then you have to look at—in the inevitable conference committee that is coming with the Senate, you have to try to take what was good about the Senate packages, especially that $5.5 billion Competitive Surface Transportation Grants program; and also the $2 billion High-Speed Rail Corridors program is excellent. And then I would love to see both the 25 percent capacity expansion tax credit and the 50 percent short line tax credit added in. I think those would both provide an excellent carrot to the railroads.

Mr. FENHAUS. As I stated earlier, we have no specific proposals at this time; however, any of the number of proposals that have been presented today, we would take a critical look at them from the standpoint of, first, what is the impact on rail labor; secondly, certainly the impact on the carriers; and finally, at a minimum, analysis of the impact to the Federal Treasury. But that would be our start point.

Ms. BROWN OF FLORIDA. The safety bill that we passed had language in there to ensure that we have qualified people to run the trains, to make sure that safety provisions are taken care of. Did you have any comments about that?

Mr. FENHAUS. No, I do not.

Ms. BROWN OF FLORIDA. Mr. Petri.

Mr. PETRI. Thank you very much. Thank you all for the testimony that you have spent.

I have lots of questions. I will only ask one or two. And I think the first was of Mr. Wolfe, and that has to do with investment in the rail industry from private sources. There, for years, there was disinvestment in the industry. More recently, I guess is it because mainly high energy prices, there has been—smart money has been moving into the rail industry, Warren Buffett and other long-term investors. Is that trend continuing? And how is anything that we do in terms of public/private partnerships or infrastructure investment at the Federal level likely to affect private support of the rail industry?

Mr. WOLFE. Thank you for the question.

We have seen what on Wall Street is referred to as a railroad renaissance, and I showed some levels where the stocks really since 2000 have outperformed the market and done very well. And there has been increased investing by some very high-profile people; as you say, Mr. Buffett. Some well-known hedge funds as well have entered into railroads, something they have never invested in before. I think it is a combination of a sense long term that the need for infrastructure, and being fuel efficient, and generally a push towards commodities and everything that moves them or touches them.

The most recent downturn has been particularly harsh for commodities and everything that moves them. And in the last quarter, as I noted, in fourth quarter and so far in January, the rail stocks have underperformed, and we have seen a lot of capital leave this space.

At some point, while the rails have grown earnings, the valuations of the railroads have really not accelerated. They are still trading at the same valuations that they traded at, the same multiples of earnings and cash flow that they traded at all the way back in the 1980s and 1990s.

What has grown has been the earnings. The railroads have done a better job through productivity, through mergers, and through some pricing recently that they haven't had. The reason investors haven't yet given them higher multiples is because the returns on capital and the asset intensity is so great. So I showed slides that show that CapEx is 17 percent of revenue, and for most industrials it is only 6 or 7.

That is a real issue longer term, and I think the only thing that is going to increase investing ultimately long term in the railroads is if we can improve those returns. In trucking, there has always been the Federal Government, through taxes and tolls and gas taxes paying for the maintenance of the highways. The railroads pay all of the maintenance of their own track and facilities. So when Jim Young was testifying that he is going to spend $2.8 billion, down from $3 billion, you know, 2 billion of that is maintenance of his way, and to spend more is going to require a carrot and some infrastructure, I think.

Interestingly, last night Canadian Pacific filed for a $500 million equity deal. What is interesting about that is after the railroads have pulled back so much, to offer equity to dilute shareholders and not offer debt is a sign that they don't feel comfortable they can find debt. So we did some math, and if they had—based on the amount of equity they issued, to be equally dilutive they would have been paying a coupon of about 14 percent on their debt, which is very high cost to do business. So I think that the credit markets and those issues are a further issue for railroads if this downturn continues as we go on.

Mr. PETRI. Thank you. I would like to explore that, but I only have a limited time. And I have a question I wonder if Ms. Canby and maybe Mr. Grenzeback would like to comment on, and that has to do with both what the Senate is working on in their economic package is a $5.5 million pot of money for infrastructure, and your testimony about possibly national infrastructure bank. You were talking about the CREATE project in Chicago and the need for—the difficulty of local people doing some of these projects.

We did not cover ourself with glory in the last transportation bill where we had projects of national significance, and it all kind of got hijacked or earmarked. Could you comment on how we can do that? If we turn it over to the Secretary, there is this big risk going down the road that it tends to be a—the Secretary's discretionary funds historically end up getting earmarked somewhere in the process or allocated by Congress, congressional people or whatever, so there doesn't seem to be a pristine way of doing this in the real world. Could you just expand a little bit about what we can do in this area, or should be doing in this area, besides just sort of laying out a broad plan, but to actually make things happen?

Ms. CANBY. Mr. Petri, let me try and give you a few thoughts on this. I would say, first, hope springs eternal that we might get it right one of these days, you know? Our sense is that if we are able to establish a clear national purpose in this law, which in our view has been somewhat absent in the past, and have also very clear outcomes that we are seeking, then it might be possible to structure a discretionary program around meeting those particular objectives with clearly a feedback loop to see whether or not it is happening. I mean, the more light we can shed on potential projects and then the outcomes, I think, helps keep within more reasonable bounds the tendency to earmark without any concern about the outcomes.

So I would say that this is the first instance where we have really had an across-all-modes opportunity to look at a range of potential investments and to pick the ones that make the most sense from a clear set of objectives, and that is what I would hope we could come out with.

The points you raise are very well taken, and history does not necessarily bode overly well for it to work, but I think we need to keep trying because I think this will spur competitive and creative thinking that may be missing now, absent having this kind of a competitive process.

Mr. GRENZEBACK. I have a colleague who keeps telling me that earmarks are really a symptom of a failed program; that earmarks are money looking for solutions that aren't coming out of a program. And I think that very broadly what in the next authorization you might attempt to achieve is to balance that by building up the programs.

If we take a look at the national freight network, including rail, the kind of problems out there that are really very big, expensive problems pop up pretty quickly. There were a number of them cited here today. What we have now done to date is to collect that into a national vision of what we have to fix and where we have to go.

We know something about the capacity of the railroads to invest. We know demand patterns, we know where the population growth is. We can pretty well estimate where our needs are and where the bottlenecks are. That needs to be elevated to the point where, when people say there is money in a program, but by the way, I would like to earmark it somewhere else, it becomes very visible and very difficult to earmark it to other needs.

You want people to say: what happened to Chicago? What happened to the east coast problems? I don't know that there is a clear and obvious answer, but I think it is the failure on the program side and a failure of the national mandate for the last years that have been the problem. We haven't had to worry about investment in rail because we have had a mandate and a consensus to invest in highways as the practical engine for economic development.

We basically filled up both the highway and the rail systems, and now we are going to have to make a series of very specific choices about where to invest to improve pieces of those systems. I think the demand will be there, the revenues will be there, but there are going to be some projects that are simply going to pop up and be very visible, and it would help to make them very visible, to target the money and set criteria—which Congress can do—and then to say we don't want to waste it. Why isn't it going to that project? It will take continual oversight by Congress to force us to behave logically.

Mr. PETRI. Thank you. Thank you all very much.

Ms. BROWN OF FLORIDA. Mr. Grenzeback, you were making great points until you started talking about earmarks. In this Committee, we call it Members' priority.

Mr. GRENZEBACK. Well, when I get them, I call them wonderful.

Ms. BROWN OF FLORIDA. We will talk about that later.

But I had a question for Ms. Canby. Given that the freight railroads are privately and profitable to some extent, Congress has been reluctant to provide funding for freight infrastructure improvement. We have always believed that they are able to help themselves and improve their infrastructure. I personally think it is a bit shortsighted, since the railroads have different priorities than the Federal Government does when it comes to rail expansion. They look at the bigger bang for the buck, and we are looking at opportunities for public benefits, reduced congestion, increased passenger rail service, et cetera.

The Committee will reauthorize the surface transportation program in Congress. As president of the Surface Transportation Policy Project, what role shall rail play in reauthorization? Should we provide funds in the bill for rail? If so, why?

And, Mr. Longman, you may want to respond to that also.

Ms. CANBY. Thank you, Madam Chair.

We definitely believe that rail should be a part of the next authorization because it is such a critical part of addressing some clear national objectives that have come to the forefront. And so the challenge is going to be to figure out how do we integrate the public and private aspects of our rail network and the public benefits that it brings in ways that can enhance the overall performance of the transportation system, both on the road side as well as on the rail side, passenger and freight, intercity as well as metro area.

And so there is a lot to sort out. And as Lance suggested, there are probably a need of some overhaul of the overall program structures as we think about this so that we can incorporate rail and have the kind of partnership that benefits both the private sectors needs and what they are able to provide as well as then having it augmented by the public sector.

But I definitely think that as we move forward, we have got to find creative ways to incorporate the public and private interests into a collective strategy, which now doesn't particularly exist. We don't have the institutional structures which we need to give some thought to, and I am hoping that this is one of the areas where OneRail can contribute and advance the conversation and the thoughts in terms of how we would move forward.

Ms. BROWN OF FLORIDA. Okay. Mr. Petri, did you have another? You could have 1 minute if you want to have a closing statement before I close.

Anyone?

Mr. LONGMAN. Well, I would just amplify, think big, big enough to capture the public's imagination. In my limited time in working this issue, I have found that what gets people's attention is trucks off the road; whether or not you believe in the global warming or all the rest, trucks off the road.

Ms. BROWN OF FLORIDA. Anyone else?

Well, in closing I want to thank the witnesses for their testimony and the Members for their questions. Again, if the Members of this Subcommittee have additional questions for the witnesses and ask a response, the hearing record will be held open for 14 days, and

Members wishing to make additional statements or to ask further questions will have the opportunity to do that.

Ms. BROWN OF FLORIDA. At 3 o'clock today we are going to have a memorial for "Mr. Brokenrail" here in this room. And on February 3rd, at 5 p.m., we are going to have a meet and greet for the new Members of the Committee to meet with our stakeholders.

With that, if there are no additional questions or comments, thank you very much for your time, and we are looking forward to moving rail forward.

[Whereupon, at 2:30 p.m., the Subcommittee was adjourned.]

OPENING STATEMENT OF REP. STEVE COHEN

Railroads, Pipelines and Hazardous Materials Subcommittee Hearing

"Freight and Passenger Rail: Present and Future Roles, Performance, Benefits and Needs"

January 28, 2009

This hearing today coincides with House consideration of landmark economic recovery legislation, which includes $800 million for grants to Amtrak for capital projects as well as $300 million for discretionary grants to states to help fund capital costs associated with intercity rail services, with an emphasis on developing high-speed rail services.

Freight and passenger rail is certainly important in the City of Memphis, which I represent. We have an Amtrak station as well as five Class I railroads operating through the region: Norfolk Southern, Burlington Northern Santa Fe, Canadian National, Union Pacific and CSX.

During the 110th Congress, this subcommittee laid the foundation for enactment of the Railroad Safety Enhancement Act. The law authorizes $13.06 billion over five years for passenger rail – more than $2.6 billion annually for Amtrak, intercity passenger rail, and high speed rail programs. The law also includes a feasibility study to extend the South Central High-Speed Rail Corridor from its current end point in Little Rock to Memphis.

Improvements to the South Central High Speed Rail Corridor will yield substantial improvements in mobility, transportation efficiency, environmental quality, safety and health for residents and business throughout the Mid-South. The extension would greatly benefit travelers in Memphis as well as enhance the critical role that Memphis and the greater Mid-South region play in our national transportation network.

I look forward to hearing from our witnesses today regarding the impact of the current economic crisis on the railroad industry as well as determine rail investment needs that would further economic development and overall transportation efficiency and safety in our communities.

Statement by Congressman Jerry F. Costello
Committee on Transportation and Infrastructure
Subcommittee on Railroads
Hearing on the Roles of Freight and Passenger Railroads in the US Economy
January 28, 2009

Thank you, Madame Chairwoman. I am pleased to be here today as we discuss the role of freight and passenger railroads in the US economy. I would like to welcome today's witnesses.

During these trying economic times, many of our transportation modes have been hard hit. I am Chairman of the Aviation Subcommittee and that industry has slashed jobs; cut capacity; cut service routes; and increased prices to combat increased fuel costs, decreased passengers and to preserve the solvency of the industry.

I understand that the railroad industry is also starting to experience decreased tonnage. Our current rail network spans approximately 143,000 route miles. This rail network connects businesses all over the country to move commerce efficiently and effectively.

The rail system and the rail workforce are extremely vital to ensuring a safe, efficient, and effective means of movement for both passengers and cargo.

Again, thank you Madame Chairwoman for calling today's hearing.

Elijah E. Cummings

Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials

"Freight and Passenger Rail: Present and Future Roles, Performance, Benefits, and Needs"

January 28, 2009
10:00 a.m.
2167 Rayburn House Office Building

Opening Statement of Congressman Elijah E. Cummings

Madam Chair:

I thank you for calling today's hearing to enable us to examine the present and future roles of our freight and passenger rail networks—as well as the performance, benefits and needs of these two systems.

As you know, America's railroads are essential to maintaining a robust economy and a world-class transportation network. Whether moving freight or the traveling public, it is critical that our railroads function in an effective and efficient manner.

Railroads offer businesses and citizens a safe, environmentally friendly alternative from our increasingly congested highways.

As we witness record ridership numbers from Amtrak and commuter rail services around the country, we must explore and adopt comprehensive strategies that will allow Congress to help passenger rail operators meet this new demand.

H.R. 2095, the Passenger Rail Investment and Improvement Act (P.L. 110-432), which was enacted at the end of the 110th Congress, is an excellent beginning; however, there is still much work to do to make our passenger rail network a model for the rest of the world.

We must also be sure to take the needs of our freight rail operators into consideration. Before we realized the depth of the problems plaguing our economy, we witnessed an escalation in the amount of freight shipped by rail and statistics indicated that our freight lines would soon be as congested as our highways.

In fact, some reports indicated that rail tonnage would grow some 60 percent by 2035. However, with our economy facing continuing struggles, freight volumes have declined over the past few months.

If volumes continue to decline, this will greatly reduce the amount of capital freight rail companies can invest in equipment and infrastructure improvements.

Unfortunately, there are a limited number of programs available to help freight railroads invest in capital improvements and these programs are not funded at the levels that are required. In response, some rail projects have been funded through the highway program.

We are all aware of the efforts Chairman Oberstar and Ranking Member Mica have made to obtain as much funding as possible for our railroads in H.R. 1, the American Recovery and Investment Act of 2009, and I applaud their efforts.

It is imperative that the Members of this Subcommittee continue to work with our partners in both the public and private sectors as we continue to work towards a modern, world-class train network. The benefits of these efforts will be abundant, including helping to stimulate the American economy.

I look forward to hearing the testimony of today's witnesses and any insight they may be able to offer.

Thank you and I yield back the remainder of my time.

Congresswoman Laura Richardson
Statement at Transportation and Infrastructure Subcommittee on Railroads, Pipelines, and Hazardous Materials
Hearing on "Freight and Passenger Rail: Present and Future Roles, Performance, Benefits, and Needs"
2167 Rayburn House Office Building
Wednesday, January 28, 2009
10:00 A.M.

LRichardson 1/28/09

Madame Chairwoman, as a new Member of the Railroad Subcommittee, I am honored to join you, Ranking Member Shuster, and the rest of the Members of this Subcommittee. I thank you for holding this hearing on the present and future roles of freight and passenger rail.

As the Representative of the 37th District of California, I understand first-hand the importance of rail, and its deep connection to creating jobs and strengthening our economy. In 1869, the railroad line connecting Los Angeles and San Pedro was completed, which was the same year our nation's first transcontinental railroad was completed. Today, the Alameda Corridor, which connects rail lines in downtown Los Angeles to the ports of Long Beach and Los Angeles, is an essential aspect to the goods movement.

45% of the nation's imports coming onto American soil enter the San Pedro Bay Port Complex and pass through my District. Many of these goods are transported by rail to the rest of our nation, and freight rail transports more than 40% of all intercity freight volume. Rail infrastructure is a crucial component of the goods movement and inevitably tied to our economy.

The current state of the economy is negatively affecting the railroad industry and ultimately affects our country's global competitiveness. Freight rail investments have decreased, shipment volumes have decreased, and unemployment levels have increased. Investment in rail is critical and the more than 200,000 workers employed by the U.S. railroad system must be protected.

The future of rail in our country greatly depends upon the partnership provided by the federal government. Emerging new technology such as a maglev freight system can greatly reduce congestion at the ports, and along with my colleague Representative Rohrabacher, I am interested in promoting this sector. The existing state of our passenger rail system must be improved for its environmental, energy, and safety benefits.

I am looking forward to working with Chairwoman Brown and the other Members of this Subcommittee to implement real change to our nation's railroad structure. Our witnesses will undoubtedly shed light on the benefits and needs of freight and passenger rail, and I eagerly await their testimony.

Thank you, Madame Chairwoman.

Written Submission of Norm Jester
Vice President of Herzog Contracting Corporation
Member, Board of Directors, National Railroad Construction and Maintenance Association (NRC)

Testimony Submitted on Behalf Of:
National Railroad Construction and Maintenance Association (NRC)
Railroad Cooperation and Education Trust (RAILCET)

Submitted to the:
Transportation and Infrastructure Committee of the Unites States House of Representatives
Subcommittee on Railroads, Pipelines, and Hazardous Materials

Hearing on:
Freight and Passenger Rail: Present and Future Roles, Performance, Benefits, and Needs
Wednesday, January 28, 2009, 10:00am
2167 Rayburn House Office Building

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NRC Overview

The National Railroad Construction and Maintenance Association, known as the NRC, is the national trade association representing the independent railroad construction and supply industry. There are over 650 independent railroad contracting companies in the United States performing over $10 billion worth of rail infrastructure construction and maintenance work every year.

The majority of the rail contracting industry is unionized and over 30 of the NRC's most active members have signed a national labor agreement with the Laborers International Union of North America (LIUNA) and the International Union of Operating Engineers (IUOE), forming a joint group known as the Railroad Cooperation and Education Trust (RAILCET). **This testimony is presented as a joint effort of the NRC and RAILCET, with the support of LIUNA.**

NRC members perform every type of rail infrastructure work imaginable - from design and engineering to basic construction and maintenance to highly specialized and custom jobs, including Design, Build, Operate and Maintain (DBOM) projects which in some cases involve Public Private Partnerships (PPPs). Work includes installing new rail, rail welding, rail grinding and surfacing, ballast distribution, tie insertion and removal, grade crossings, signal systems, switches, turnouts, re-railments, bridge maintenance, track design, and track inspection.

NRC members provide service to every type of track owner, including Class 1 railroads, short line and regional railroads, industrial track owners, the United States military, port facilities and terminals, and rail transit agencies operating light rail systems, street cars, subways, metro systems, and commuter rail systems.

In addition, some NRC member companies operate commuter railroads and intercity passenger trains on a contract basis, including such services as Trinity Railway Express in Dallas, New Mexico's RailRunner, the Altamont Commuter Express from San Jose to Stockton, CA, and the Coaster from San Diego to Oceanside. CA.

Benefits of Rail

The improvement of the rail freight industry since de-regulation by the Staggers Act in 1980 and the growth in rail transit have provided tremendous benefits to America. Our rail freight system is widely regarded as the **world's most efficient,** and is a major contributor to the economic competitiveness of American industry. The railroad industry employs well over a quarter million people, pays billions of dollars in taxes, efficiently serves tens of thousands of shippers, and is one of the true economic success stories of the last 25 years.

Moreover, moving freight and people by rail is **environmentally friendly**. Railroads are three to four times more fuel efficient than trucks on a freight-ton mile basis. A railroad can move one ton of freight from here in Washington DC to Boston on one gallon of diesel fuel. Moving freight by rail, as compared to trucks or even water barges, dramatically reduces greenhouse gas emissions and cuts fuel consumption. Steel wheel on steel rail is simply the most efficient way available to move freight in this country.

Moving people by rail transit on public transportation systems has an equally dramatic effect. By taking existing public rail transportation instead of driving a car, a single person saves 4,800 pounds of carbon dioxide emissions per year. Commuting by rail transit to work provides greater benefit to the environment than adjusting the thermostat in your home, installing energy efficient light bulbs, and buying Energy Star appliances combined.

Investments into rail transit systems also have the benefit of encouraging more efficient and environmentally sound land-use patterns and facilitating high-density economic development focused around rail transit stations.

Taken together, freight rail and passenger rail play a crucial role in removing cars and trucks from the road and **decongesting our crowded highway system**, which is already unacceptably saturated – the Texas Transportation Institute tells us that motorists in the largest urban areas in the country are spending 54 hours in traffic delays every year. That is more than a full working week each year of completely unproductive time spent sitting in traffic. TTI also estimates that traffic congestion cost our economy $78 billion last year. A typical freight train takes over 200 18-wheelers off the road, eliminating close to 100 million truck trips last year. Last year alone, there were over 4 billion trips taken on rail transit systems. Without these rail systems, highway congestion would become intolerable and result in gridlock across much of America. With increased investment into these rail systems, highway congestion can be significantly reduced and the pressure and expense of building new highways can be relieved.

Railroads also play a crucial role in the **safety and security** of our country by:
- efficiently transporting military personnel and equipment;
- lessening our dependence on foreign oil;
- providing disaster evacuation and recovery assistance during catastrophes (railroads are often the most resilient form of transportation); and
- safely transporting the vast majority of hazardous materials in the country

Capacity
Given the economic, environmental, safety, and security benefits of freight and passenger rail, it should be a goal of **public policy to shift more freight and passenger traffic to rail**. To do that, the current rail network must be maintained properly and made more efficient, and additional capacity must be added to the system.

Even taking into account the recent economic weakness, the **rail network is constrained by insufficient capacity**, and it will undoubtedly get worse unless we start prioritizing the issue and fixing the problem as soon as possible. Commissioners on the National Surface Transportation Policy and Revenue Study Commission believe that freight volumes will be 70% higher by 2020 than they were in 1998. According to AASHTO, the organization of State DOTs, tons of freight shipped into the U.S. will rise from 16 billion in 2007 to 31 billion in 2035. A lack of capacity causes higher prices for shippers, decreased efficiency for carriers, and the loss of the benefits that rail transportation can provide for our country.

The major recent study by Cambridge Systematics estimates that, using today's dollars, an investment of $148 billion for rail infrastructure expansion over the next 28 years is required to keep pace with economic growth and meet the U.S. DOT's forecasted demand for rail freight. And this does not take into account the desired shift in market share to rail that would provide further benefits to the country. Of this $148 billion amount, the Class 1 freight railroads' share is $135 billion and the short line and regional freight railroads' share is $13 billion.

The Class 1 railroads anticipate that they will be able to generate approximately $96 billion of their $135 billion share through internally generated cash flow. This would leave a balance for the Class 1 freight railroads of $39 billion, or about $1.4 billion per year to be funded from outside sources, simply to maintain their current share of the freight market. The amount of funding required is much higher if we aim for our goal of expanding freight rail market share.

This problem, of more funding being required than the private rail system can generate on its own, is precisely the issue this Committee will have to grapple with during the next transportation re-authorization legislation. The short line and regional railroads face the same issue as the Class 1s, and rail transit systems throughout the country are also seeing demand for their services far exceeding funding resources that are currently available.

So, it seems clear that freight and passenger rail transportation is highly beneficial to America. And it is equally clear that the current rail system is lacking in capacity and needs an infusion of new investment to meet demand in the future. **The rail system is an integral component of the nation's intermodal transportation network, but it can and must do more.** And I think we would all agree that the current transportation legislation framework is not organized in a way that makes it easy for Congress to direct increased funding to the rail system.

Rail Infrastructure Investments as Economic Stimulus

The timing is right! The economic stimulus package being debated right now is an excellent opportunity to direct some immediate funding and improvements into the rail network. Investing in rail infrastructure is an efficient and cost effective way to stimulate the domestic economy. These investments create well-paying local construction and permanent operating jobs that **cannot be outsourced**. The supply industry that supports the rail industry is almost entirely based in the U.S. – everything from the railroad ties to the steel track to the heavy earth moving equipment required for rail construction is produced domestically and investments into rail infrastructure will create jobs in these sectors too.

Shovel-ready rail projects are generally constructed on existing company owned right-of-way, and thus require no additional local permitting or environmental review. These projects will not be delayed by regulations and the **stimulus effect will begin immediately**. Tax credits and RRIF loan interest rate reductions can also leverage substantial additional private investment into rail infrastructure.

Legislative and Policy Proposals

The NRC believes that Congress should use the opportunity of the next transportation re-authorization legislation to completely revamp transportation law in this country. As many of the leaders of this Committee believe and have stated publicly, the next transportation re-authorization legislation should not be incremental in nature – it should be **transformational.**

Transportation for Tomorrow

As a basis for this transformation, we endorse the Transportation for Tomorrow framework put forward by the **National Surface Transportation Policy and Revenue Study Commission.**

Specifically, we support:

- In the stimulus bill, invest at least $12 billion into **the rail transit system**, as proposed by Chairman Oberstar, including $6b for Transit Capital Assistance (as proposed by the House Appropriations Committee), $3.5b for Fixed Guideway Infrastructure Investment (up from proposed $2b), and $2.5b for Capital Investment Grants/New Starts Funding (up from proposed $1b)
    - In the SAFETEA-LU Reauthorization, **grow the current federal transit program in size, while maintaining the overall structure and funding guarantee system.** This system has been very successful and simply needs to be bigger to meet rail transit demand. Transit projects would also benefit from expedited review and project delivery reforms, which would help limit their high cost.
        I. The simplest and most efficient way to grow the Highway Trust Fund (which should be renamed the Surface Transportation Trust Fund) that the transit program is funded out of is to **increase the gas tax**, and the NRC supports this method. We reject the notion that the political will for a gas tax increase does not exist. We believe that the American public will support a gas tax increase if it believes the additional funding will be invested efficiently into useful transportation infrastructure.

- The adoption of the proposed Freight Rail Infrastructure Capacity Expansion Act (H.R. 272) with Davis-Bacon provisions, which provides a **25% tax credit for rail infrastructure investments that would expand capacity**. This credit has been introduced by Representative Kendrick Meek (D-FL).

- Extend the **Short Line Railroad Rehabilitation Tax Credit**, which provides a 50% tax credit for railroad rehabilitation spending to preserve the viability of short line and regional railroads as feeder lines for the national rail network, through 2015 (expires December 31, 2009) and raise the credit cap from $3,500 per track mile owned to $10,000 per mile

- Appropriate at least $100 million over two years for **capital grants for Class II and III railroads** through a DOT competitive grant program as authorized by 49 U.S.C. 22301, as amended by section 1112 of the Energy Independence and Security Act of 2007 (P.L. 110-140) and proposed by Chairman Oberstar in his "Proposal To Rebuild America By Investing In Transportation And Environmental Infrastructure"

- Of all the potential stimulus spending proposals that we are aware of, we believe that grants to short line railroads would be spent the quickest and most efficiently. Most of the 550 short line railroads in America have additional infrastructure maintenance and improvement work that they could literally begin tomorrow if the funding became available, and railroad contractors are ready and available to perform this work.

- Leverage additional private investment by improving the **Railroad Rehabilitation and Improvement Financing (RRIF) loan program** by setting an interest rate of 1% on all qualified rail infrastructure investment projects and deferring initial principal repayment by 6 years
  - Innovative financial tools and programs such as **TIFIA** are already working well, and they should be expanded. RRIF is a valuable infrastructure program that is under-utilized by the railroads. RRIF provides low interest, 35 year money for railroad rehabilitation and construction. The FRA has approved 20 RRIF loans for a combined total of $743.6 million. One of the reasons the program is underutilized is the unnecessary length of time it takes to process an application, due to institutional opposition to the program in the OMB. The OMB should not oppose a successful program that would increase rail capacity. The RRIF program was enacted in 1998 and no railroad has ever missed a single RRIF loan payment. The program should be expanded and improved.
  - One of the benefits of RRIF and TIFIA, in addition to the tax credit programs I have noted, is that they **leverage private investment**, rather than providing direct government funding. This ensures that taxpayer money will never be invested in projects that should not be funded.

- Strong federal support of **public-private partnerships** such as the Alameda Corridor, Chicago CREATE, Norfolk Southern's Heartland Corridor, CSX's National Gateway, and the Orlando commuter rail/CSX deal.

- Invest $3.4 billion in **high-speed and intercity passenger rail capital grants to States** through DOT competitive grant programs as authorized by 49 U.S.C. 26106, as added by section 501 of the Passenger Rail Investment and Improvement Act of 2008 (Division B of P.L. 110-432) and chapter 244 of 49 U.S.C, as added by section 301 of the Passenger Rail Investment and Improvement Act of 2008 (Division B of P.L. 110-432), and as proposed by Chairman Oberstar (up from $300m in proposal by the House Appropriations Committee)
  - It is the NRC/RAILCET position that intercity passenger rail operators should be under the railroad labor laws and railroad retirement system, even for intrastate operations. However, we are adamant that employers who provide contract services to public authorities or private entities for maintenance of track, infrastructure and signal systems are not rail operators and should not be treated as such. It would not make sense for these private construction contractors who provide services to a broad array of transportation providers to operate under the

very unique railroad carrier specific labor and retirement laws. They should continue to operate under the National Labor Relations Act, Social Security and the standard industrial laws of the country as they do today.

- In the SAFETEA-LU Re-Authorization, the NRC supports a **major increase in investment into intercity passenger rail, with reform of the current Amtrak system.** The eventual goal should be true high speed rail, with dedicated track and right of way. However, the current reality is a system of joint use by freight and passenger rail. Passenger rail should be improved, but that can not come at the expense of freight rail or else it is counter-productive to the country and our goal of increased rail capacity.
- We believe that the **"Alternate Passenger Rail Service Pilot Program"** provided in Section 214 of the Passenger Rail Investment and Improvement Act of 2008 (Division B of P.L. 110-432) is a good start towards reform and that efforts such as this to encourage **greater private participation** in the intercity passenger rail network should be expanded – competition between Amtrak and qualified private operators with the approval of track owners will result in better service for all rail passengers.
- This Committee should consider the establishment of a dedicated **Passenger Rail Trust Fund**, which could be funded through a combination of ticket surcharges, a portion of a new carbon tax, a portion of a gas tax increase, or general fund revenues.

- Provide $1.5 billion for **capital grants to Amtrak**, as proposed by Chairman Oberstar (up from $800m in proposal by the House Appropriations Committee)

- The continuation and enhancement of the **Section 130 Grade Crossing Program**, which has a long record of success in improving public safety.

- This Committee should also consider the establishment of a national, multi-modal freight transportation program, paid for with a new, dedicated **freight trust fund**, as called for by the National Surface Transportation Policy and Revenue Commission. This program would be mode-neutral and direct federal funding towards projects on a strictly **merit-based approach**. The program would provide public investment in crucial, high-cost transportation infrastructure including strategic intermodal connectors, key freight corridors, and national rail bridges and tunnels where the cost of construction exceeds the return on privately invested capital.
    - This concept is being developed by The Coalition for America's Gateways and Trade Corridors (CAGTC), a group that the NRC is a member of, along with various State DOTs, ports, planning commissions, and private engineering and construction companies.
    - Revenue raising options for this fund include a national bill of lading fee, a new freight consumption fee, increased customs fees, or a dedicated national sales tax, with the following three conditions:

I. Any freight fee should be paid by the beneficial cargo owner, not transportation intermediaries such as steamship, trucking, or rail companies.
II. The private sector should neither bill nor administer the fee.
III. A national freight fee should preempt all local fees.

The **project delivery process** must be reformed by significantly shortening the time it takes to complete reviews and obtain permits. Projects must be designed, approved and built as quickly as possible if we are to meet the huge transportation capacity challenges facing us. It takes too long to deliver projects, and the waste due to delay in the form of administrative and planning costs, inflation, and lost opportunities for alternative use of the capital hinder us from achieving our capacity expansion goals.

- This expediting of transportation projects can be accomplished while retaining all current environmental safeguards.

Finally, we'd like to strongly urge that all rail construction and maintenance work performed with federal assistance be **competitively bid** out to the independent railroad construction industry, to the fullest extent possible, to ensure the most efficient use of taxpayer dollars.

There should be fair treatment for employees in all circumstances, with prevailing wage criteria applied to federally funded projects. To the extent consistent with railroad labor agreements, all federally financed or subsidized rail projects should be subjected to fair and competitive contracting between responsible contractors which adhere to a set of professional standards.

Railroad contractors have a long and well-documented history of providing quality services at competitive prices. We have learned how to do more with less, and the efficiency and competence we bring to this task will be a big benefit as we all search for ways to improve America's transportation infrastructure and **stretch available capitol dollars** as far as possible.

TESTIMONY

OF

JOSEPH H. BOARDMAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
AMTRAK

BEFORE THE

SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS

OF THE

HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

WEDNESDAY, JANUARY 28, 2009
10:00 A.M.
2167 RAYBURN HOUSE OFFICE BUILDING

Good morning, Madam Chair and members, thank you for the opportunity to testify today. I have been blessed in my working lifetime to have spent nearly forty years in the transportation business. I have appeared before this committee in two previous roles--first as the Commissioner of Transportation for the State of New York and then more recently as the Federal Railroad Administrator.

On the day before Thanksgiving of 2008, I was given the opportunity to lead the finest group of men and women in passenger railroading. On that day, I was asked to accept the leadership of Amtrak as its newest President and CEO.

As I took that leadership role, Amtrak had just finished FY 2008 with a record-setting performance. The company set an annual ridership record, carrying 28.7 million passengers, an increase of 11.1% over FY 2007. Each of the three rail business lines (Northeast Corridor, short distance corridors, and long distance trains) grew markedly, and both May and July were record ridership months. Load factors (the percentage of a train's seats or sleeping accommodations that are occupied) were rising across the system and in some time slots and services, the existing fleet was very near capacity at the end of FY 2008. This new record gave everyone a great sense of the strong demand that existed for intercity passenger rail service and of the importance of the rail mode in delivering safer, greener, and healthier transportation for Americans.

However, in the first quarter of FY 2009 beginning this past October, overall ridership has fallen below our expectations by nearly 5%, and revenue is nearly 7% below what we expected. Our Northeast Corridor business line generally, and particularly Acela Express, led our decline in both ridership and in revenue. Acela ridership was 12% below expectations, while revenues were 14% below our expectation. That contributed to a combined decline of ticket revenue for the NEC over 12% below what we expected, and nearly 7% below last year. We are seeing mixed results on our short-distance corridors. Those that connect with our NEC service, like New York City to Albany, are seeing drops in ridership. Our New York to Albany service on the Empire corridor is 10% lower than our expectations, and we are seeing a flattening out on other corridors and our long-distance trains.

These circumstances demonstrate a strong need for investment at the levels in our recently enacted authorization bill, and the critical need for Amtrak to be ready to meet mobility needs of Americans as the United States faces a future marked by higher energy costs, and a need to improve our environment. Congress must help Amtrak with the funding to rebuild, replace and renew its human capital, its passenger and locomotive fleet, and the critical infrastructure owned by both Amtrak and the freight railroads that carry 71% of Amtrak's train miles, or face potential failure of one or many of the components of an efficient and critical rail network. This remarkable network provides surface connectivity for passengers and freight from coast to coast, and border to border. Congressional interest must make this investment a national priority for the next decade or beyond if we are to remain a competitive and healthy economic engine in the world.

We recognize that Congress generally, and both you and Chairman Oberstar specifically, are prepared to step beyond the funding levels authorized in the recent bill. We see the projected $800 million that we currently have in the House version of the stimulus bill as a real opportunity for Amtrak to invest in some much-needed improvements and repairs that have gone wanting for lack of funds. We thank Congress for that opportunity, and we are preparing to move those funds quickly into productive effort for our nation and for our railroad.

One of the core competencies of our company is the specialized knowledge of our workforce in operating a nationwide passenger railroad. The men and women or our workforce number just a little over 16,000 strong, and they keep this railroad glued together and operating. We were all proud not only of the fact that President Obama and Vice-President Biden made a specific choice to use Amtrak trains to come to Washington for the inauguration, but that the Vice President would choose one of Amtrak's own, veteran conductor Greg Weaver, to introduce him in Wilmington on January 17. Last week was historic for Amtrak, as it was for the nation. Amtrak's workforce looks like many other industries right now: Gray. More than 60% of our managers have been blessed with more than fifty years of life, and more than half of our total workforce is of the same vintage. Rail workers are generally eligible to retire when they reach age sixty and accumulate thirty years of railroad employment. We face the prospect of a major change in our workforce in just a few short years, and we must both invest in and change our approach to human capital planning to maintain our core competence. Amtrak offers an excellent opportunity for those interested in railroading, and our wages and benefits are competitive both within the industry and in the larger economy, so we have the foundation that will allow us to maintain and improve our company with the right decisions.

Our industry (freight and passenger) is greener than our competitors; we have a smaller carbon footprint. But we could make a major leap forward by extending electrification. Amtrak operates the only intercity electrified corridor in the nation from Boston to Washington, DC through New York City. That corridor should be extended so that it operates from Miami to Maine for a greener and healthier future for the East Coast of the United States. Electrification should, however, not stop there; we should endeavor to connect our rail network to the electric grid all over our nation. This is not a new idea, but it is one that would go a very long way toward securing our energy future and improving our environment. Railroads do not need to depend on liquid energy when the electric option exists and is available. This cannot be done, however, without a major policy decision by Congress. I would settle for help extending our electrified territory to Richmond within the next five years, and making plans to extend that on to Atlanta or beyond in the next ten. In fact, Madam Chair, let's electrify to Jacksonville by then. Programs on this scale are being undertaken elsewhere – China, for instance – where they are regarded as a vital component of future economic development. I think it's time for us to look for the investment opportunity that will do for this century what the canals and the transcontinental railroads did for the nineteenth century, and the highways did for the twentieth. This is that kind of project I dream about, and the kind of moment which demands, as the noted architect Daniel Burnham once said, that we make no little plans.

Thank you for the opportunity to testify today, thank you for your support for the men and women of Amtrak, and thank you for providing the support that allowed 28 million Americans to choose Amtrak last year.

The Orange County Transportation Authority

Written Testimony of Peter Buffa, Chairman of the Board of Directors
Thursday, January 28, 2009

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United States House of Representatives
Subcommittee on Railroads, Pipelines, and Hazardous Materials
Of
Committee on Transportation and Infrastructure

Written Testimony of Peter Buffa
Thursday, January 28, 2009

Madam Chair and Members of the Subcommittee:

My name is Peter Buffa, and I am Chairman of the Orange County Transportation Authority (OCTA). It is an honor to have the opportunity to testify before you Madam Chair, and before this Subcommittee, which plays such a major role in determining national transportation rail policy and will be involved in writing the next transportation authorization legislation.

The Orange County Transportation Authority

OCTA was established as a multimodal transportation authority in 1991, in order to bring about a more efficient and comprehensive approach to transportation by consolidating seven separate transportation agencies. Since that time, Orange County has grown to be the fifth most populous county in the nation with over 3.2 million residents. OCTA has kept apace of that growth, and now operates a multimodal transportation system which includes the twelfth busiest bus system in the nation and the 91 Express lanes, a highly successful ten mile toll road connecting Orange and Riverside Counties.

In order to meet our growing mobility needs, we also provide regional commuter rail service, operated by Metrolink under the direction of OCTA and Los Angeles, Riverside, San Bernardino and Ventura counties. Metrolink is now providing over 4 million rail passenger trips annually in the three commuter rail lines which serve Orange County. This is the highest annual ridership since inception of service in 1994.

Rail service in Orange County is provided along two major corridors. The first major rail corridor in Orange County is the Burlington Northern Santa Fe (BNSF) corridor from the ports of Los Angeles and Long Beach through Orange County and east to San Bernardino and Riverside Counties, and ultimately to the remainder of the United States. While there is a large and growing commuter ridership on this corridor, the major use of the corridor is national freight movement into and out of the ports.

The second major Orange County rail corridor is between Los Angeles, Orange County and San Diego. This corridor, often referred to as the LOSSAN corridor, is the second busiest passenger rail corridor in the nation, surpassed only by the Northeast Corridor. Ridership on the LOSSAN Corridor has grown from 1.6 million annual trips in the 1990's to 8.5 million annual trips today.

I would like to focus my remarks today on an in-depth description of the rail capacity opportunities and challenges presented by these two nationally significant rail corridors. As we seek to implement the Passenger Rail Investment and Improvement Act of 2008 and draft new transportation authorization legislation, I hope that OCTA will be able to rely on the Federal government as a financial partner in addressing these challenges.

The BNSF Corridor and the Ports of Los Angeles and Long Beach.

Running across the northern part of Orange County, the BNSF corridor is one of the nation's major goods movement distribution corridors serving the ports of Los Angeles and Long Beach. This port complex is the largest in the United States and the fifth largest in the world. In 2007 nearly 16 million cargo containers traveled through these ports to or from the rest of the country. This container traffic represents more than the total container traffic in Seattle, Portland, Oakland Ventura and San Diego, combined.

The accompanying map illustrates commodity flows between Southern California and its local, regional and national markets. The map demonstrates the importance of both domestic and international trade shipments between Southern California and the rest of the nation and the need for effective transportation networks to link the region's economy to the rest of the country.

There is little doubt that goods movement is an important source of good jobs. In Southern California alone, goods movement has fueled the creation of 700,000 jobs, including 107,000 goods movement related jobs in Orange County. In turn, these jobs have generated a payroll of more than $6 billion. Regionally, ports have delivered over $256 billion in international trade to the rest of the country.

However, goods movement also presents a number of challenges for those areas impacted by goods movement activity. Even the present levels of trade volumes are challenging our rail system capacity and providing heavy congestion impacts. The future can only be expected to bring greater challenges. In 20 years the number of containers moving through southern California is expected to triple to an estimated 48 million. In 2025 daily freight trains moving through Orange County on the BNSF are expected to increase 123% from 112 to 250. By 2010 freight train traffic will increase street and road traffic delays from about 30 minutes to up to 206 minutes.

The result from this goods movement today in Orange County is persistent grade crossing congestion. In addition, this increased goods movement activity in southern California negatively impacts air quality and promises greater health-related and productivity impacts, including increased respiratory diseases and lost work days.

The southern California region has come together to recognize the challenges regarding goods movement and is working to identify those rail improvement projects which help to mitigate the adverse local impacts of goods movement. A Multi-County Goods

Movement Action Plan has identified $50B in needed projects to address capacity improvements and mitigation projects related to goods movement.

Critical to the capacity needs on both the BNSF and LOSSAN corridors are nineteen new railroad grade separation projects in Orange County (shown on the attached map). The cost to complete these grade separations exceeds $1.1 billion. Yet only a little more than $400 million is available for these projects from existing state and local funding sources.

No one in the region doubts the need for new revenue sources to address the dual objectives of keeping these ports competitive and mitigating the congestion and air quality impacts of a viable rail distribution corridor. Several bills on this subject have been introduced in Congress, but none have yet been enacted. State legislation passed last year would have assessed a $15 per container fee for mitigation and infrastructure projects in the region. Unfortunately, the Governor vetoed this legislation. The ports themselves adopted an infrastructure cargo fee in January of 2008. Beginning this summer, a $6 dollar per container fee will be placed on cargo containers entering or leaving any terminal by truck or train and will be used for goods movement-related projects along the entire corridor, including projects such as grade separation in Los Angeles, Orange, Riverside and San Bernardino Counties. Even if this local fee can be successfully implemented, more needs to be done, and should be done at the federal level to address this issue of national significance.

The LOSSAN Corridor.

Currently, three passenger rail services, Amtrak, Coaster, and Metrolink and one freight carrier, Burlington Northern Santa Fe Railway, operate along this corridor. Amtrak, with state financial assistance, operates the Pacific Surfliner intercity rail and bus service between San Luis Obispo and San Diego. The Southern California Regional Rail Authority (SCRRA), a joint powers authority created by the OCTA and the four other southern California counties, operates Metrolink commuter rail service between Los Angeles and Oceanside, and Los Angeles and Oxnard. The North County Transit District (NCTD) operates Coaster commuter rail service between Oceanside and San Diego. The OCTA owns one-third of the 126 miles of railroad right-of-way between Los Angeles and San Diego.

First opened in 1994, Metrolink's Orange County line currently offers 19 trains per weekday and serves 11 stations along the LOSSAN corridor in Orange County. Approximately 10% of Amtrak's total national trips take place in this corridor. Aside from its proven capacity to carry passengers from Orange County to Los Angeles or San Diego, if managed efficiently, we believe the LOSSAN Corridor offers great opportunities to increase mobility within Orange County and throughout the entire San Diego to Los Angeles corridor.

Two thirds of the population in Orange County, and two thirds of the jobs in Orange County, are located within a four-mile radius of the LOSSAN corridor. By increasing the frequency of service, there is an opportunity to use this rail corridor for traveling within and through Orange County and relieve congestion on the adjacent I-5 freeway. In fact, the peak hour ridership on Metrolink is so successful, that without it we would have to build 2 more lanes on I-5 from south Orange County to downtown Los Angeles just to ensure that traffic congestion would not get any worse. We think that Metrolink has been an excellent financial investment for Orange County and southern California and is an increasingly important component of the southern California economy.

With that purpose in mind, the OCTA Board approved a Metrolink service expansion plan in October 2005. This plan will implement high frequency Metrolink service between north and south Orange County. Engineering design is now complete for track improvements, signal system upgrades, and station and parking enhancements necessary to support this new service. Construction is anticipated to start in May of 2009. New locomotives and rail cars have also been ordered to support the expansion of the rail service.

While we have planned to largely fund this expansion program with local sales tax and state transportation funds, the recent severe downturn in economic activity has resulted in an inability to fund key components of this program. In order to keep this important program on track, we are seeking federal assistance for key project components, including $50 million for double track capacity expansion (Laguna Niguel to San Juan Capistrano), $30 million for station parking improvements (Laguna Niguel) and $50 million for the Anaheim Regional Transportation Intermodal Center (ARTIC)

These key components of expanding service in the LOSSAN Corridor are planned and are ready to become reality. In addition, these rail improvements can be accomplished without the delay of a Federal new start process or the expense and displacement of acquiring major new right-of-way.

A critical component of this corridor is the Anaheim Regional Transportation Intermodal Center (ARTIC) which will be a rail gateway to Orange County and provide a convenient transfer station from the LOSSAN corridor to future California high speed rail and the planned California to Nevada super speed or maglev system. ARTIC will combine a transportation gateway and a mixed-use activity center on a 16 acre site owned by the City of Anaheim and OCTA, a short walk from Angel Stadium and Honda Center professional sports venues, and a short shuttle to Disneyland and the Anaheim Resort. Although private participation will be sought for this project, public funding is needed now to build the foundational transportation elements of the project.

Recently, the OCTA conducted market research with focus groups to determine how we can provide better service in this essential corridor. That research has shown us that customers who ride on the LOSSAN Corridor, and more importantly, those who do not ride, experience confusion in navigating the complex set of logos, timetables, and administrative rules that come with Amtrak, Metrolink and the Coaster all providing service along the same corridor. We believe it would be far more efficient and customer friendly for there to be one service seen by the public, even if that service were to be jointly provided behind the scenes.

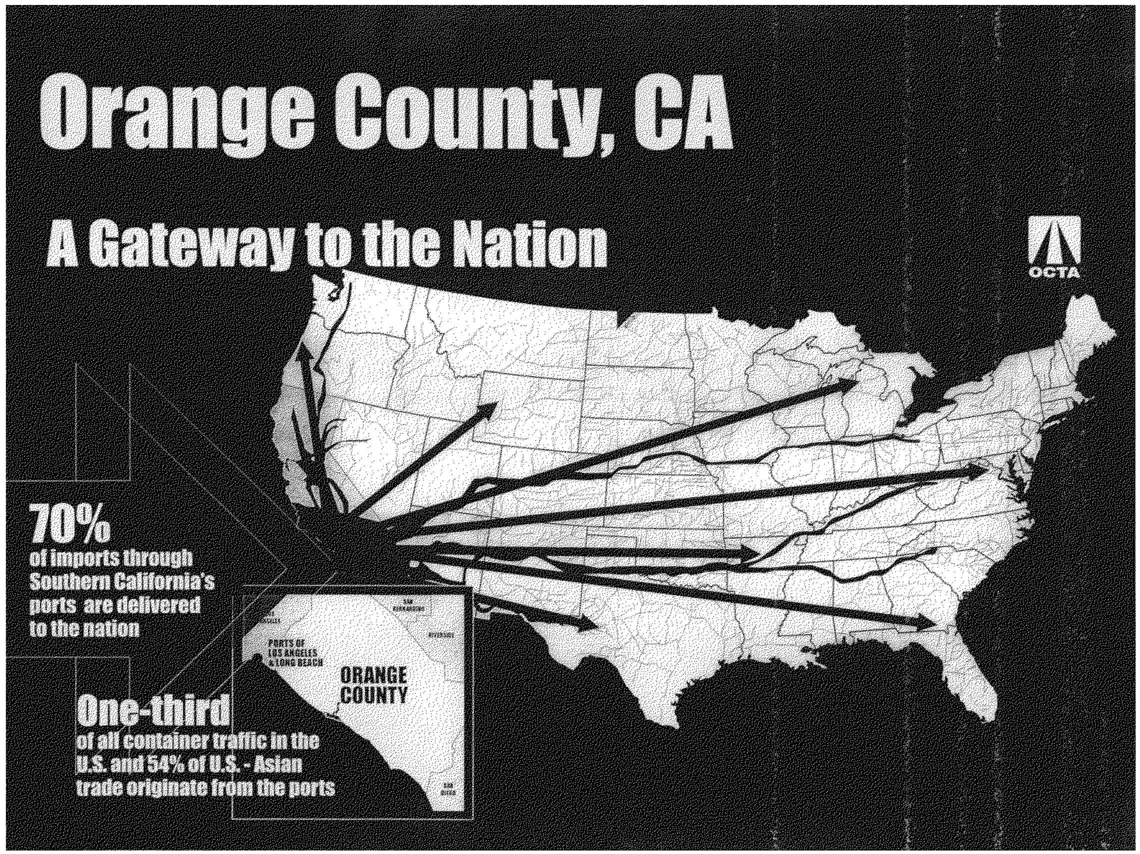
To that end, we have initiated efforts to work with the three current service providers to look at service integration and coordination opportunities. Some of these are as simple as integrated timetables or shared ticket offices. However, the full realization of this effort may lead to an entirely new manner in which to plan and manage the LOSSAN corridor as one coordinated and integrated passenger rail service. This may take the form of a joint powers authority or some other form of regional governance to fully realize the opportunities before us. We believe that this type of coordinated and integrated approach will lead to more service for the public, more efficient use of tax payer funds, and ensure that the LOSSAN Corridor lives up to its full potential.

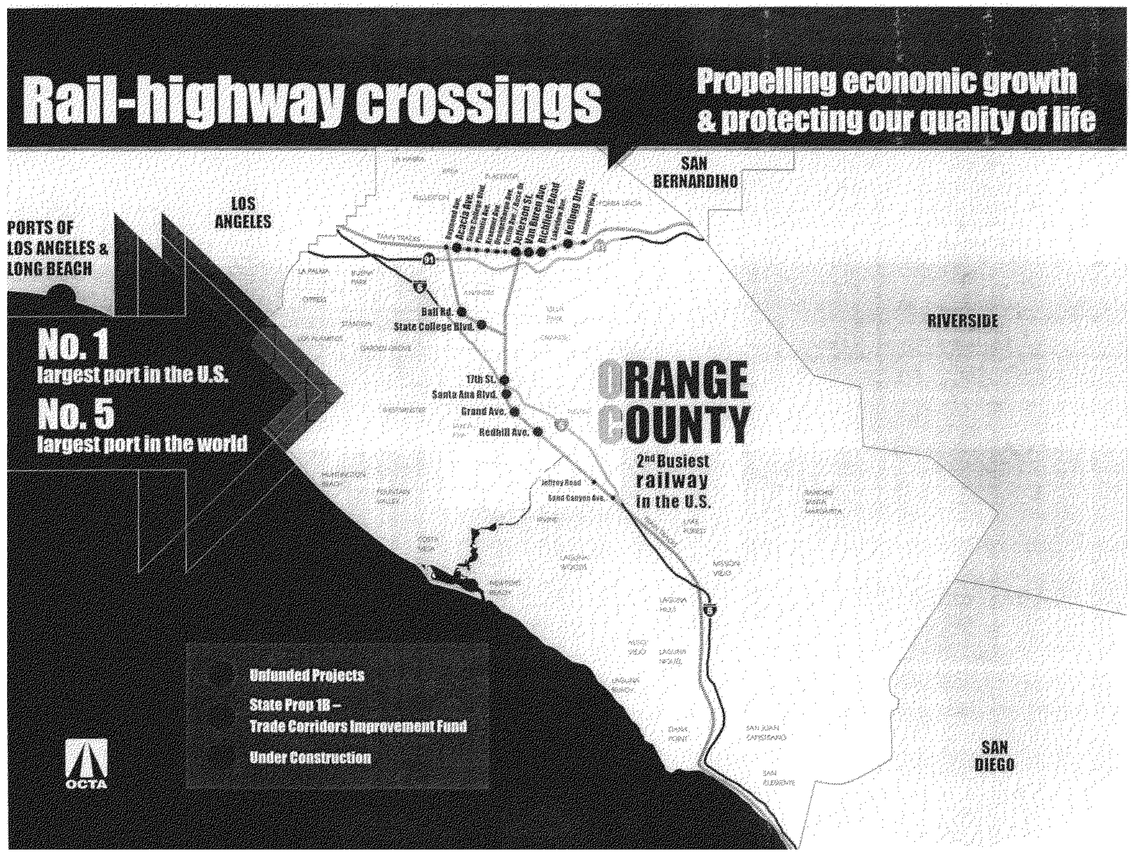
We are excited about opportunities to partner with Amtrak on making key capital investments and provide integrated, coordinated and expanded operations in this highly successful corridor. If planned and implemented correctly, we have the opportunity to create a southern California version of the highly successful Northeast Corridor.

Conclusion.

In summary, as significant as the benefits of the BNSF and LOSSAN rail corridors are to the OCTA and Orange County, the challenges they present cannot be fully addressed without the federal government as a strong and financially involved partner. We certainly hope to receive additional federal funding for these projects from the Passenger Rail Investment and Improvement Act of 2008 and the next reauthorization bill. That funding will match the significant local funding already committed for these projects. Just as important, we need the federal recognition in the next reauthorization legislation that assistance with these projects will further the nation's mobility goals and expand our national strategic rail infrastructure.

In the upcoming 111th Congress, we stand ready to work with you, and hope that your subcommittee will commit the federal government to work in active partnership with us, to increase capacity on these two corridors of national significance which serve riders in southern California and consumers nationwide.


Orange County, CA
A Gateway to the Nation
OCTA
70%
of imports through
Southern California's
ports are delivered
to the nation
One-third
of all container traffic in the
U.S. and 54% of U.S. - Asian
trade originate from the ports
PORTS OF
LOS ANGELES
& LONG BEACH
ORANGE
COUNTY


Rail-highway crossings
Propelling economic growth & protecting our quality of life
PORTS OF LOS ANGELES & LONG BEACH
No. 1 largest port in the U.S.
No. 5 largest port in the world
LOS ANGELES
SAN BERNARDINO
RIVERSIDE
SAN DIEGO
ORANGE COUNTY
2nd Busiest railway in the U.S.
Acacia Ave.
Jefferson St.
Van Buren Ave.
Richfield Road
Kellogg Drive
Ball Rd.
State College Blvd.
17th St.
Santa Ana Blvd.
Grand Ave.
Redhill Ave.
Jeffrey Road
Sand Canyon Ave.
Unfunded Projects
State Prop 1B – Trade Corridors Improvement Fund
Under Construction
OCTA

Testimony of
Anne Canby
President, Surface Transportation Policy Partnership
and
Member, OneRail Coalition
before the
House Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials

Chairman Brown, Ranking Member Shuster, and Members of the Subcommittee, I am Anne Canby, President, Surface Transportation Policy Partnership ("STPP") and a founding member of OneRail, a new coalition dedicated to advancing rail as a critical element of our national transportation system. Thank you for this opportunity to appear before you today.

For the first time, freight and passenger rail stakeholders, environmental advocates, a group of bipartisan public officials, and reform-minded transportation experts have come together, forming a new OneRail coalition to promote the benefits of rail – both passenger and freight – as essential to the future economic growth and well-being of the nation.

OneRail urges the Congress to include two critical priorities in the economic recovery measure: (1) full funding of all currently authorized rail infrastructure and development programs in addition to amounts proposed in the House economic recovery legislation; and (2) flexibility in the general funds allocated to states and localities for surface transportation so they can invest in rail projects as needed.

We call for change in our approach to surface transportation funding because the public's perception has changed. In a national survey recently commissioned by OneRail partner Building America's Future together with the National Association of Governors, pollster Frank Luntz found that 94 percent of Americans are concerned about our nation's infrastructure. 84 percent want more money spent by the federal government to address these needs. *And 81 percent would be willing to pay one percent more in taxes to improve America's infrastructure.* And, according to Luntz, more than 98 percent of Americans feel they have "the right to demand" infrastructure that is "efficient, convenient and modern."

We believe that includes rail.

In my testimony I will explain why our ten organizations have formed OneRail. I'd like to highlight, from my perspective as a former secretary of the Delaware Department of Transportation and now president of STPP, why it is important that our nation's surface transportation policies and programs fully embrace rail. I will detail our recommendations for the economic recovery program, and offer some preliminary thoughts on priorities for the pending surface transportation authorization.

OneRail

Recognizing that freight had finally arrived as a topic of national interest, STPP determined that it would be important to have a balanced discussion on how this growing demand should be addressed. At the same time, the public's increasing interest in intercity and high-speed passenger rail indicated that the next authorization must include an integrated rail strategy for passenger as well as freight service. Hence our drive to forge a new coalition of stakeholders – OneRail – to ensure that all aspects of rail would be incorporated into the basic structure of the legislation

On January 15, 2009, ten founding organizations announced a new joint initiative supporting both freight and passenger rail objectives to maximize transportation options that enhance mobility, achieve energy efficiency, reduce greenhouse gas ("GHG") emissions from global warming, boost economic growth and improve quality of life for all Americans:

American Public Transportation Association
Amtrak
American Short Line & Regional Railroad Association
Association of American Railroads
Building America's Future
National Association of Railroad Passengers
Natural Resources Defense Council
Railway Supply Institute
States for Passenger Rail Coalition
Surface Transportation Policy Partnership

My OneRail colleagues and I urge the Congress to:

- Expand and strengthen the nation's passenger train network by encouraging the development of commuter and intercity passenger train choices for Americans and addressing a critical missing link in our nation's surface transportation system. Needed solutions must ensure safety, achieve reasonable service levels, and provide enough capacity to protect the operations and future growth of both freight and passenger train service.

- Enact policies and programs that expand public and private investment in rail freight mobility. This includes encouraging continued private investment in rail freight capacity to ensure that rail freight capacity will meet growing demand and public investment when that investment supports appropriate public benefits.

- Support state efforts to seek an ongoing, dedicated funding source for intercity passenger train expansion. This includes designing a federal-state partnership and cost sharing agreements similar to those that built the nation's federal-aid highways and transit systems.

We believe strongly that rail must be an essential component of any national infrastructure investment initiative. Rail provides a solution for many of our most urgent transportation, energy and environmental problems. Our OneRail partners have declared:

Our nation's surface transportation infrastructure should strive to provide interconnectivity and be environmentally sound. Increasing investment in rail – both passenger and freight – is a critical step toward achieving this goal. **Amtrak President Joseph Boardman**

As we look to increase recovery and sustain economic growth, we ask that Congress and the administration focus investment on our U.S. rail system. That focus can help de-congest choke points, put more freight and passengers on fuel-efficient trains, and lower our nation's greenhouse gas emissions. **Frank Busalacchi, Secretary, Wisconsin Department of Transportation and Chairman, States for Passenger Rail Coalition and a member of the National Surface Transportation Policy and Revenue Study Commission**

The 2008 Commission's findings were clear. Increased investment in railroad infrastructure is essential to our continued mobility, economic competitiveness, and ability to create jobs, as well as to meeting the energy and climate challenges of the 21st century. **Edward Hamberger, President and CEO, Association of American Railroads**

It is essential that all parties work together to ensure the Commission's recommendations are acted upon and that all Americans experience the benefits that increased investment in rail infrastructure will bring. **Matthew Rose, Chairman, President and CEO of BNSF Railway and a member of the National Surface Transportation Policy and Revenue Study Commission.**

Rail should be a key element of any federal response to climate concerns. Improving surface transportation offers both immediate and long-term benefits by decreasing traffic congestion, helping to mitigate rising energy costs and reducing emissions related to global warming. **Peter Lehner, Executive Director, Natural Resources Defense Council**

The formation of the OneRail Coalition will enable the rail industry to speak with one voice to federal, state and local policymakers and overcome years of serious public underinvestment in our nation's rail network. **Polly Trottenberg, Executive Director, Build America's Future, an infrastructure initiative organized by Pennsylvania Governor Edward Rendell, California Governor Arnold Schwarzenegger, and New York City Mayor Michael Bloomberg**

Trends all point to a robust future for railroads – passenger and freight. America's railroad community can gain strength with increased investment and through partnership, working together and growing together to serve America in the years ahead.
William W. Millar, President, American Public Transportation Association

A copy of OneRail Principles agreed to by all founding organizations is attached. I commend it to the Subcommittee for your consideration.

Benefits of Rail

The energy and environmental benefits of rail are significant and well documented. Expanding passenger train options between and within U.S. urban centers would reduce highway and air congestion, fuel consumption and greenhouse gas emissions. Increasing intermodal freight shipments on rail also reduces greenhouse gas emissions: on average every ton mile of freight that moves by rail instead of long-haul truck reduces greenhouse gas emissions by at least two-thirds. A coordinated approach of rail and truck shipping is already showing substantial efficiencies and net reductions in carbon emissions.

These benefits have been highlighted by prior witnesses testifying before this Subcommittee, are well-documented in the literature, and will be further reinforced by my colleagues on the panel here. I would like therefore to convey my personal perspective, having served with the Massachusetts Bay Transportation Authority and the New Jersey Department of Transportation before becoming secretary of the Delaware Department of Transportation, and now at STPP, on the scope of these benefits and why our nation's surface transportation policies must emphasize and promote rail.

Enhancing our rail network would provide a framework for successful public-private partnerships. Because most rail infrastructure is privately operated and maintained, there can be significant public benefit in shifting a greater share of freight to rail through reduced costs for new highway capacity and ongoing maintenance, as well as the reduced energy use and GHG emissions.

<u>Delaware Insights</u>

When I was in charge of Delaware's state highway system, as well as all transit services in the state, I came to understand the limits on the investments that we could make to improve mobility, efficiency and performance of the transportation system. Particularly in older, developed areas of our nation, many of us have concluded that adding highway capacity, when even possible, provides only short term improvement in performance while adding long term costs to the public sector in terms of maintenance and operating expenses. It was troubling that our state could only use the federal funds we received to improve rail services along our stretch of the Northeast Corridor if dedicated to commuter rail – intercity service improvements for either freight or passenger are not an eligible expense in current law. Fortunately, we were able to use our federal funds because we were adding commuter rail service. Many other states do not have this option. Federal funds flowing to the state DOTs should be eligible for intercity freight and passenger improvements.

More than a decade ago, through the I-95 Corridor coalition, Delaware helped launch a joint study to determine what rail improvements were needed along the I-95 corridor from Washington to New York to improve both freight and passenger rail service in this heavily travelled corridor. The result was the Mid-Atlantic Rail Operations Study (MAROPS) which identified $6.2 billion in improvements, including the rebuilding of the CSX Howard Street Tunnel in Baltimore, MD, a critical link in this corridor. The study was supported by five state DOTs and three railroads (Amtrak, CSX, and NS).

Despite the compelling findings of the MAROPS study, the bulk of the rail improvements identified, all desperately needed, remain unfunded.

Even without the funding required, my state found ways to emphasize investments in rail. When the CEOs of NS and CSX asked then-Governor Carper for his support in the division of Conrail, the governor made it clear that Delaware's endorsement was predicated on achieving a measurable shift in freight from highway to rail.

STPP Perspective

STPP has historically focused on passenger and public transportation issues including sustainable development. But with study after study indicating that we can expect a significant increase in freight volumes, the need for including freight in the discussion soon became obvious. Even if the freight estimates are high or are realized a few years later, we must prepare to handle the added demand in a very different environment. The national imperatives of achieving energy independence and dramatically reducing greenhouse gas emissions require that the transportation sector incorporate these goals into the core mission for transportation at all levels of government.

We believe it is time to advance the integration of our surface transportation networks by including rail as a critical element of the next authorization.

OneRail Recommendations for the Economic Recovery Legislation

My OneRail partners and I greatly appreciate the Committee's recommendation under the leadership of Chairman Oberstar of $5 billion for rail programs in the House economic recovery legislation. We are disappointed that this amount has been reduced to $1.1 billion in the pending House legislation. This level is not sufficient with respect either to the urgent infrastructure and job creation needs that rail investment can meet, or compared with the level of funding contemplated for highways and transit.

OneRail accordingly urges that the economic recovery legislation encompass the following:

- Full funding for the remainder of FY 09 and FY 10 of all authorized rail infrastructure programs in addition to the amounts proposed in the House economic recovery legislation. These include:

- Freight Rail Relocation – $350 million per year in FY 09 and FY 10 to fund both rail line relocation and improvement projects (including track work, signal system improvements and siding enhancements).

- Positive Train Control (PTC) – $50 million per year in FY 09 and FY 10 to expedite installation of a new generation of signaling technologies to keep trains safely apart.

- Capital Grants for Class II and Class III Railroads – $50 million per year in FY 09 and FY 10 to fund both rail capital projects on short line freight railroad per 49 U.S.C. 22301.

- Amtrak Capital Grants – $715 million in FY 09 and $945 million in FY 10 to fully fund Amtrak's authorized capital investment needs, in addition to the amounts proposed in the House economic recovery legislation.

- Intercity Rail Corridor Capital Assistance – $300 million for intercity rail passenger service corridor assistance as included in the pending House economic recovery legislation.

- Intercity Congestion Grants – $50 million in FY 10 for facilities, infrastructure and equipment for high priority rail corridor projects necessary to reduce congestion or facilitate intercity passenger ridership growth.

- High-Speed Rail Corridor Program – $150 million in FY 09 and $300 million in FY 10 for high-speed rail corridor development.

Fully funding these rail investment programs at the authorized levels or greater would have an enormous, immediate stimulative effect, *and* provide a solid foundation for long-term growth and mobility.

- Flexibility to enable investment in rail of formula funding distributed to states and localities for surface transportation improvements. In addition to fully funding all authorized rail investment programs, we believe that Congress should let states and localities decide how to invest economic recovery funds targeted for surface transportation. Because these stimulus funds will be ***general funds***, broad eligibility should apply. Even if the stimulus funds are allocated pursuant to Title 23 formulas and criteria, because the stimulus funding does not originate from the Highway Trust Fund, recipients should be able to invest in projects with the highest payback in terms of job creation and environmental benefit – whether they be highway improvements, transit enhancements, or rail investments.

Priorities for Surface Authorization

OneRail has just organized, and we are actively considering unified proposals for the upcoming surface authorization. In the interim, I would like to offer my preliminary thoughts on behalf of STPP.

STPP believes the new law must incorporate all forms of surface transportation including rail. We have one transportation system made up of several modes. They should work together as an integrated system. Each form of transport plays a key role in the effective movement of both people and goods. But we have not really put this together into a systematic and integrated network. We must do so.

Working separately on intercity passenger or freight makes no more sense than looking independently at highway corridors. As we identify critical corridors, we must create the institutional capability for all interests to work in concert to identify the optimal investment across modes.

There is wide recognition that the next authorization for the federal surface transportation programs needs to embrace a significant new approach. There must be a clear national purpose.

We must reshape our transportation systems to meet the goals of energy independence and a dramatic reduction in the level of greenhouse gas emissions, while assuring that we are positioned to meet passenger and freight travel in a safe, economically effective and efficient way. These are not separable goals – we must meet them all. It is essential to update the nation's transportation policies, programs, and processes to address these overarching issues.

The long range planning processes at both the state and metropolitan levels in current law should be revised to include scenario planning for intercity, intrastate and intra-regional corridors that include rail as well as roadway with the explicit goal of demonstrating the appropriate investments that will advance our nation's energy and climate goals. To ensure greater accountability for results, current program structures must be redesigned.

In summary, states and localities must have the flexibility to make the best investments over the long term that improve our economic competitiveness, reduce long term public costs, decrease our energy dependence, and stop harmful GHG emissions. Establishing a clear national purpose, a strong, accountable planning regime, and a new program structure that enables investment in all forms of transportation, including rail, would heighten our ability to address our national goals.

Thank you for this opportunity to testify. I would be pleased to answer any questions you may have.

ONERAIL COALITION
STATEMENT OF PRINCIPLES

Railroads are a critical element of our national transportation system. Public policy must expand passenger train options, critical freight rail network capacity, and intermodal connectivity in our national transportation system. A **OneRail policy supporting both freight and passenger rail objectives is needed to maximize transportation options** that enhance mobility, achieve energy efficiency, address climate change, boost economic growth and improve quality of life for all Americans.

The 2008 National Surface Transportation Policy and Revenue Study Commission report found that our nation must **increase railroad infrastructure investment** to ensure our continued mobility, economic competitiveness, and job creation in the United States to meet the energy and climate challenges of the 21st century. In addition, the American Association of State Highway and Transportation Officials (AASHTO), through a series of studies, has shown that private investment alone will fall short of the levels necessary to invest in freight and passenger rail network capacity to meet needed public policy goals.

A **OneRail policy** recognizes and recommends the following:

The **nation's passenger train network must be strengthened and expanded**. Expanding intercity and commuter passenger train options for travel between and into the nation's urban centers would substantially reduce vehicle miles traveled, aviation and highway congestion, fuel consumption and related greenhouse gas emissions.

A **sound and balanced transportation policy should encourage the development of passenger train options for the public**, addressing a critical missing link in our nation's surface transportation system. Investments must ensure safety, achieve reasonable service levels, provide enough capacity to protect the operations and future growth of both rail freight and passenger service, and address liability concerns. Going forward, capacity will be a critical factor shaping the freight rail–passenger rail interface. Access to freight infrastructure and rights of way for new passenger service should be achieved on a cooperative, voluntary basis, without infringing on Amtrak's existing rights. To ensure that both freight and passenger service is maximized in high-density corridors, public policy should also envision separate rights of way for freight and passenger operations where separation is warranted.

OneRail **supports state efforts to seek an ongoing, dedicated funding source for intercity passenger rail expansion**, including a federal-state partnership and cost sharing agreements similar to the partnerships that built the nation's federal-aid highways and transit systems. Rail freight capacity must expand to meet projected economic demand and increase the railroad industry's current traffic share. Private investment in the nation's freight rail network has been, and will remain, the primary means of maintaining and expanding freight rail infrastructure.

To ensure that freight rail capacity meets growing demand, **Congress should enact policies and programs that expand public and private investment in rail freight mobility** and assure continued growth in private investment in rail freight capacity.

The **OneRail coalition supports additional investment in the nation's rail infrastructure to create American jobs**, de-congest chokepoints, put more freight and passengers on fuel-efficient trains, and reduce our nation's greenhouse gas emissions.

Testimony of the Brotherhood of Maintenance of Way Employes Division/International Brotherhood of Teamsters

Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials
January 28, 2009

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Testimony of the Brotherhood of Maintenance of Way Employes Division/

International Brotherhood of Teamsters

Committee on Transportation and Infrastructure

Subcommittee on Railroads, Pipelines, and Hazardous Materials

January 28, 2009

The Brotherhood of Maintenance of Way Employes Division/International Brotherhood of Teamsters (BMWED) respectfully submits the following written testimony to the Subcommittee on Railroads, Pipelines, and Hazardous Materials pertinent to the January 28, 2009 hearing regarding "Freight and Passenger Rail: Present and Future Roles, Performance, Benefit and Needs." The BMWED is an autonomous Division within the International Brotherhood of Teamsters representing over 35,000 men and women who perform the infrastructure work on the nation's Class I railroads and many regional and short line carriers as well. The BMWED is a member of the Teamsters Rail Conference which includes the Brotherhood of Locomotive Engineers and Trainmen. The Rail Conference speaks for the interests of over 40% of the nation's railroad employees.

The Subcommittee requested our comments on the following topics: (1) the role of freight and/or passenger rail in the U.S. economy; (2) the impact of the current economic crisis on the railroad industry and its workers; and (3) the benefits and importance of investing in freight and/or passenger rail. We will address those topics in turn.

(1) THE ROLE OF FREIGHT AND/OR PASSENGER RAIL IN THE U.S. ECONOMY

One cannot dispute that the railroads played a major role in the development of the U.S. economy since the Baltimore & Ohio Railroad began operations in 1830. On a more somber note, the boiler explosion on "Best Friend of Charleston" in 1831 led to the establishment of railroad operating rules and specific training and job assignments for railroad employees. However, simply because railroading is a venerable industry, some may consider it "obsolete" or nothing more than a glorified operating museum. Such sentiments are wrong. The BMWED will leave to others to demonstrate in detail that which is obvious upon reasonably diligent research: railroads are among the most energy efficient means of moving goods and people that exist today. However, a very quick glance at some statistics demonstrate how important rail transportation remains to the U.S. economy.

In 2005, even though railroads carried more ton-miles of freight than trucks, fuel usage by rail was dwarfed by rubber tired transportation. The Class I railroads used 4,098 million gallons of fuel compared to a whopping 24,411 million gallons for combination trucks.[1] Employee productivity in the railroad industry increased by 42% between 1997 and 2006, while it only increased 12% in trucking over the same period. This is not to say that trucking is an "inefficient" mode of transportation. The transport of goods by truck is an integral part of any balanced transportation system. But those figures do show that rail transportation is energy efficient and provided by a highly productive workforce. It is that workforce, and what it brings to the U.S. economy that we will next address.

The recent problems in the U.S. auto industry focused unwarranted attention on the wages and benefits obtained by unionized workers in that industry. Some misguided commentators alleged that those "union wages" were the root of the industry's problems and for some, the solution was simple – slash wages and benefits and all will be well in time. What those purveyors of industrial misery do not understand is that no nation's economy is strong if those who toil within its industries do not receive wages and benefits sufficient for them and their families to thrive, and not merely subsist. Reasonable wages and benefits permit workers to have the security to accept new financial burdens – ownership of a home, higher education for their children and purchases of durable goods because they know they will have the income security both in work and retirement to take such risks. The railroad industry today provides such solid middle class jobs, but they are at risk from "market forces" interested in short term gain at the expense of social stability and growth.

Railroad labor relations are governed by the Railway Labor Act, this nation's oldest labor law. A cornerstone of that Act is expressed in one of its general purposes: "to forbid any limitation upon freedom of association among employees or any denial as a condition of employment or otherwise, of the right of employees to join a labor organization." In other words, the national labor policy, first enunciated in 1926, favored collective bargaining in this vital industry. Indeed, Congress directed that "all disputes" should be considered and, if possible, decided expeditiously by duly designated representatives of the

1 Bureau of Transportation Statistics, *National Transportation Statistics*, Table 4-5.

railroads and their employees. Clearly, Congress believed that collective bargaining was the preferred mode in the rail industry because through collective bargaining disputes could be resolved "with expedition" and rates of pay, rules and working conditions would be established through collectively bargained agreements.

The results of collective bargaining as of 2007 resulted in a $11.6 billion payroll for the 167,000 overwhelmingly unionized employees of the nation's Class I railroads.[2] Additionally, collective bargaining created a medical social insurance system with the Class I carriers called the "National Railroad Employees Health & Welfare Plan" which has existed since 1954. That Plan provides health insurance to railroad employees, their spouses and dependents through a nationally administered Plan providing access to managed care to almost all railroad employees. In 2008, that Plan will pay out about $1.7 billion in benefits on behalf of those employees and their families and will be paid from premiums collected from the railroads and partly reimbursed by the employees. While the cost of medical care for railroad employees is substantial, this collectively bargained benefit supports the U.S. economy because railroad workers and their families will not forego medical care because of a lack of insurance or because a particular medical procedure is too costly. As we have all learned by now, the lack of health insurance for some simply means economic misery and poor health for them and their families. Ultimately the absence of affordable health insurance places an increased burden on local and state governments which are often burdened with the cost of caring for the uninsured. Additional, the financial burdens of families struggling to provide insurance and medical care for loved ones ripples through the economy and manifests in home foreclosures, personal bankruptcies and demands on social services.

Additionally all railroad employees in the United States participate in the Railroad Retirement system which provides, in essence, a defined benefit retirement annuity. The Railroad Retirement and Survivors Improvement Act of 2001 (RRSIA) lowered the retirement age to 60, provided that the railroad employee had 30 years (360 months) of credited service in the industry. Given the great influx of employees to the rail industry during the 1970's, an entire generation or railroaders are nearing retirement age. Given the current state of the economy, the ability of those long service workers to retire with a secure

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2 2007 Statement No. B-300, Surface Transportation Board

pension will open up positions for younger workers and those workers who have become unemployed in other fields.

The Railroad Retirement system also is sound financially. The most recent annual report from the Board states that under any of the three assumptions used by its actuary, the Trust Fund is solvent through 2032.[3] Additionally, the RRSIA permitted the investment of part of the Trust Fund in the private equity markets. The most recent quarterly report from the National Railroad Retirement Investment Trust (NRRIT) shows that although the recent financial reverses suffered by others also have affected the assets managed by the NRRIT, the sound investment of Trust funds grew from $20.7 billion in 2002 to almost $26.8 billion on September 30, 2008 despite paying out $6.3 billion in benefits during that period.[4]

Railroad employees are the beneficiaries of a national labor policy that favors and expects collective bargaining in the industry. Collective bargaining, especially on the Class I railroads, has resulted in solid, middle class jobs for railroaders and a health insurance system that protects them and their families. The Railroad Retirement system provides for a defined benefit age-based annuity and because retirement can occur in the industry as early as age 60, the system provides the financial means to exit the industry so that new employees may be incorporated into it. The BMWED submits railroad workers presently have a wage and benefit structure that forms the backbone of the U.S. economy and will sustain it until other sectors of the economy rebound.

While we will discuss the effects of the current crisis on railroad employees, we must stress that another systemic attack is being made on the economic security of railroad employees completely unrelated to the current financial woes afflicting the country. There have been a number of new passenger rail operations that have been created as non-railroad operations, even in situations where the service is provided on rail lines that are owned by railroads, or were owned by railroads, and are still being used for interstate freight and passenger rail operations. Not only is this unfair to, and abusive of, the employees who have worked on those lines for decades, it is bad for safety and efficiency of operations and will lead to balkanization of the interstate rail system.

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3 Source - Railroad Retirement Board Annual Report, June 2008 at 3.
4 Source – NRRIT Quarterly Update for the Period Ending September 30, 2008 at 3.

BMWED submits that the laws governing railroads and any funding for expansion of passenger rail operations must ensure that railroad operations and railroad work on existing rail lines used in interstate commerce, and on new lines on existing railroad rights of way, must be subject to the federal laws that were created especially for railroads and railroad workers such as the Interstate Commerce Act, the Railway Labor Act, the Federal Employees Liability Act, Federal Railroad Safety Act, and the Railroad Retirement Act. Such laws have applied to all railroad operations and persons who perform railroad work for decades, but there have recently been developed a number of schemes to evade the railroad laws through sorts of chicanery and shenanigans that resemble the empty shell "investments" on Wall Street, Enron-like pseudo-transactions and Ponzi schemes that have so damaged our financial system. The result has been that persons performing railroad work are not covered by railroad laws, rates of pay and benefits for good railroad jobs are being undercut, railroad functions on individual lines and systems are being divided among multiple entities none of whom has overall responsibility for operations and safety, and whole lines of railroad integral to the interstate system have been taken out of the system by sleight of hand.

Under the Interstate Commerce Act, a rail carrier is defined as a person providing common carrier rail transportation for compensation, but not a street, suburban or interurban electric railway operated apart from the general interstate rail system (49 U.S.C.§10102(5)). The ICA gives the Surface Transportation Board jurisdiction over transportation between states and within states as part of the interstate rail network, and transportation by rail carriers and over routes, services and facilities of carriers (49 U.S.C.§10501(b)(1)). The ICA also provides that a person that is not already a carrier may not construct or acquire a line of railroad without STB approval only pursuant to 49 U.S.C. §10901, and a carrier may abandon a rail line or discontinue service on a line only pursuant to ICC/STB approval under 49 U.S.C. §10903. The RLA, FELA, FRSA, and RRRA all cover entities that are defined as carriers under the ICA. The ICA (as amended by the Interstate Commerce Commission Termination Act) now exempts provision of mass transportation service by local government authorities from STB regulation, but expressly states that the other railroad laws that use the ICA definitions still apply to local governments.

For decades it was clear that transfers of rail lines were subject to ICC/STB jurisdiction, that a non-carrier, including a state, required ICC/STB approval to acquire rail lines that are part of the interstate rail system, that acquisition or abandonment of rail lines that are part of the interstate rail system required ICC/STB approval, and that persons that are not carriers become carriers once they acquire rail lines that are part of the interstate rail system. And for many years through today, the major commuter rail systems (Long Island Railroad, Metro-North, New Jersey Transit, Massachusetts Bay Transportation Authority, Southeastern Pennsylvania Transportation Authority and others) have been carriers under the ICA, and the other railroad laws; and their employees have been covered by those laws. Moreover, the question of whether an intra-state, state agency-owned rail line used for intra-state commuter operations but also used for interstate train movements as part of the general national rail system was decided by the Court of Appeals for the Second Circuit which held that state agency was a rail carrier subject to ICC jurisdiction and the Federal railroad laws. Staten Island Rapid Transit Operating Authority v. I.C.C., 718 F.2d 533 (2d Cir. 1983).

However, in recent years, certain state entities and purported rail operators have employed a scheme to acquire rail lines still involved in the general interstate rail transportation system while avoiding carrier status and application of the railroad laws to the state agencies and their operators.

Under the new scheme, the freight railroad "sells" a line used in interstate commerce to a state agency which grants a so-called "operating easement" back to the freight railroad that allows the freight railroad, and only that railroad, to continue to serve shippers on the line and continue freight operations over the line; the freight railroad retains a so-called "residual common carrier obligation" for freight. As owner of the line, the state agency assumes responsibility for the maintenance of way, signal and dispatching work on the line that is still being used for interstate operations, but retains contractors to do that work; the state agency also retains contractors to operate the trains, perform work for inspection and maintenance of locomotives and rail cars and clerical work. The train operator may or may not be a carrier entity and the other contractors are usually not carrier entities; typically, there are multiple contractors responsible for operations, maintenance of way, signal, maintenance of equipment dispatching and railroad clerical work. While the sale of a carrier's rail line, or abandonment of a line by a carrier, are expressly subject to STB authorization, the new scheme evades that by the fiction that nothing really happens since the freight carrier retains an operating easement for freight and an inchoate common carrier duty for freight. In recent decisions the STB has held that it lacks jurisdiction over transactions structured in this manner. Not only is this at odds with the decisions in *Staten Island Transit,* it is also without basis in the statute, The ICA is a very detailed statute that was amended several times to expand and clarify its coverage; it addresses many varied forms of railroad transactions and transfers of ownership, control, and operating rights over rail lines. The statute never refers to or uses the term "operating easement" and it does not describe or refer to anything like that concept. The "operating easement"/retained common carrier obligation concept is merely an artificial construct designed to allow the supposed sale of rail lines with retained operating rights without application of the ICA and railroad statutes.

STB Decisions Enabling the New Scheme

Despite the language of the Statute and the Staten Island decision the STB has allowed an increasing number of these transactions of increasingly larger sizes. The line of cases runs back to *State of Maine, Department of Transportation,* 8 I.C.C.2d 835, 1991 WL 84430 (I.C.C.), where the State of Maine sought to obtain 15 miles of track from the Maine Central Railroad Company when the carrier was planning to discontinue service. Under the deal, the State would own the track and the real estate and would "explore the possibility of commuter service", but the freight carrier would have a permanent easement to continue its common carrier freight operations; the freight carrier would also continue to be responsible for maintenance of the track, right of way and signal system. The State filed a petition with the ICC requesting an exemption from approval under Section 10901, and then filed a motion to dismiss the petition claiming the ICC lacked jurisdiction because it was not actually acquiring a "railroad line" under Section 10901. The ICC found that it did indeed lack jurisdiction because no common carrier rights or obligations would be transferred with the sale since the carrier could continue to perform its common carrier obligations, including maintenance and renewal of the line. The ICC cautioned, that its decision was limited to the facts of the case; and that varied circumstances could result in a different determination. This decision was followed by *Utah Transit Authority,* 8 I.C.C.2d 835, 1991 WL 84430 (I.C.C.), where a state agency and Union Pacific entered an agreement under which UTA would operate a light rail through use of a right-of-way on UP's tracks while UP retained the exclusive right to perform freight operations on the tracks for five hours per day during the night. The ICC found that it lacked jurisdiction over the transaction because UP retained the common carrier obligation. In State of Wisconsin Department of Transportation, STB Finance Docket No. 34181, (July 30, 2002) the Wisconsin DOT sought a declaration that it would not be a carrier when it would acquire a rail line from a carrier and would contract for provision of commuter service, but the carrier would retain the common carrier obligation through a perpetual easement for freight operations. The STB noted that the normal rule is that when a noncarrier, including a state, acquires a freight line that has not been abandoned, it must seek STB approval and the new owner would be presumed to succeed the previous owner in maintaining the common carrier obligation. But in this instance, where only the physical assets would be conveyed and the common carrier obligation remains with the previous owner, STB approval was not required. Recently, in *New Mexico Department of Transportation*, STB Finance Docket 34793 (February 3, 2006) New Mexico acquired 297 miles of rail line from BNSF. New Mexico would provide commuter rail service but BNSF would retain an exclusive operating easement for freight service, and Amtrak service over the line would continue as before. New Mexico would be responsible for track and signal maintenance and it would use contractors to perform those responsibilities. The STB concluded that it need not approve the transaction because the common carrier rights and obligations that attach to the lines would not be transferred, New Mexico would not hold itself out as a common carrier for freight service, and the State would acquire only physical assets.

Thus over a number of years a decision of allowing a State to acquire a 15 mile line that could have been abandoned, where the carrier would continue to be responsible for maintaining the track, right of way and signal system, and which was characterized as unique, has been expanded into a doctrine and been the basis for a transfer of almost 300 miles of line where there were ongoing significant freight and Amtrak operations and the carrier was not responsible for maintaining the track, right of way and signal system.

PROBLEMS WITH THE NEW SCHEME

WORKERS

When these new entities buy rail lines and set up new commuter rail operations, freight employees, particularly maintenance of way, signal and dispatcher employees are often displaced because the freight carrier has given up responsibility for the line; operating employees may also be affected because while freight movements continue, they may be reduced. Additionally, many of these new commuter operations are deliberately structured to be non-carrier/non-union operations in order to avoid industry standard wages and benefits. That is the main point of invoking the line of cases that circumvent the ICA and the federal railroad laws. Those who promote these schemes routinely promote the possibility of at least 20% savings in costs by running as a non-carrier operation. Indeed, Rail labor has documentation from a number of cases where there was an express plan to avoid using railroad workers who belong to unions. Moreover, even if railroad workers are willing to stay on the conveyed lines and take lower paying jobs with lesser benefits, they do not do so. They are compelled to decline these jobs because use of non-carrier contractors means that they would be working for non-carrier entities and would not be railroad workers, thereby severing their connection with the industry which means substantial reductions in their vested Railroad Retirement benefits, in addition to the wage and benefit cuts they would endure.

Additionally, the use of this device undercuts standard national railroad worker pay and benefits replacing good, middle class jobs with lower paying jobs with lesser benefits. Furthermore, railroad entities that might want to bid on these contracts are placed at a great competitive disadvantage in doing so because the lower paying/lower benefits/non-union bidders can submit substantially lower bids. And in the long run, creation of a cadre of non-railroad railroad workers paid at substantially below standard salaries and benefits will place downward pressure on the pay and benefits of railroad, railroad workers.

SAFETY

Proliferation of this new scheme will have significant safety ramifications. Because qualified and certified professional railroad workers will not take these jobs, they will be filled by less qualified workers. It is perverse that employees who will be involved in the movement of things will be more qualified and expert than employees involved in the movement of people. Another safety problem arises from the splintering of responsibility of rail operations. When there is a single carrier operator that is responsible for train movements; maintenance of the track, right of way and signal system, and maintenance of the locomotives and rail carriers, it has a powerful incentive to maintain safe, efficient and quality operations because all responsibility ultimately runs to that carrier. But under the model where there is one contractor for train movements, another for maintenance of way, one for signal work, another for maintenance of locomotives and cars, one for railroad clerical work, and another for dispatching, there are incentives for each to minimize its responsibility and leave concerns to the other contractors. And in the event of an accident the operator whose engineer was driving the train might blame the signal contractor, or the maintenance of equipment operator who inspected the air brakes; or one or more of them might blame the maintenance of way contractor for poor maintenance of the track, or all of them might blame each other. Instead of determining what went wrong to prevent a recurrence, there will be a blame-game and years of litigation. This is no way to run a railroad.

BALKANIZATION OF THE NATIONAL RAIL SYSTEM

The ICA was amended and the ICC was given more powers after World War I because it became apparent that we had a patchwork rail system; that patterns of ownership, connections and responsibility were not conducive to an effective national rail system and that the system could be hurt by failures of disconnected parts over which there was no meaningful oversight and service standards. The current new scheme, which developed at the same time as the new and unregulated financial instruments developed, threatens our rail system with the sort of problems that occurred with our rail system prior to the 1930s and that currently plague our financial system. When entities that own right of way and trackage in the middle of our interstate rail system are not carriers, when the STB has no authority over the entities that own track used in heavy interstate freight and intercity passenger movements, when a state agency that owns a line of railroad could walk away from the line with the STB powerless to act, there is danger to our rail system. While we are beginning to take steps to develop a top flight passenger rail system, our freight system has been the envy of the world and our established commuter rail systems have been quite effective. We are ill-served by a system where rail lines cease to owned by responsible carriers and subject to STB oversight and regulation, and where passenger rail operations are a mere hodge-podge of disconnected entities who do not see the operation as a unified whole.

(2) THE IMPACT OF THE CURRENT ECONOMIC CRISIS ON THE RAILROAD INDUSTRY AND ITS WORKERS

The U.S. economy has been in a recession since December 2007 according to most economists. No one can dispute that the financial and housing sectors of our economy are in dire economic shape with bad news coming almost daily from those sectors. The nation's automobile manufacturers, both domestic companies and "transplants" face declining sales and economic difficulties.

There also can be no disputing that railroads are part of our national economy; however, their financial performance in 2008 was a bright spot.

Three of the four largest railroads recently issued their financial reports for the fourth quarter of 2008.[5] These results glittered in comparison with other financial news received recently:

CSX – operating income up 22% over the full year in 2007[6];
UP – operating income up 21% over the full year in 2007[7];
BNSF – operating income up 14% over the full year in 2007[8]

These results were achieved despite falling unit volumes. Simply put, the major Class I railroads remain in strong financial shape and performed well throughout 2008 despite the U.S. economy slipping into a recession. As late as November 2008, total employment for all Class I railroads was slightly below that of November 2007.[9] However, that month did show drops in train and engine crew employment of between 3 and 4 per cent over the previous year. We also note that all of the Class I railroads report that carloadings for January 2009 are below those for the previous year. Clearly, the slowing down of the U.S. economy is being felt by the railroads, at least as that slowdown is reflected in lower carloadings.

We will defer to our brothers and sisters in the UTU to describe the impact of this drop in carloadings on their membership. For those of us in the BMWED, the drop in carloadings does not year appear to have had an impact on employment. The primary reason is seasonal. Most railroads engage in reductions of forces around Thanksgiving as weather conditions preclude the operation of production gangs in many areas of the country. Therefore, a rise in layoffs during the months of November and December is a "normal" phenomenon. The real test will begin in late March and April when the railroads traditionally increase their forces to accommodate the need for extra employees to staff production gangs that had been idle during the winter. As of today, we have received no direct information from any railroad that it intends

5 Norfolk Southern will announce its fourth quarter results on January 27, 2009, after this testimony has been submitted to the Subcommittee.

6 CSX Quarterly Financial Report, Fourth Quarter 2008

7 UP News Release "Union Pacific Reports Fourth Quarter Earnings Growth Driven by Productivity and Lower Energy Costs"

8 BNSF Form 8-K, January 21, 2009

9 Statement M-350, Surface Transportation Board – November 2008

to make substantial cuts in its capital maintenance budget for 2009 that will impact on force levels in the maintenance of way department.

One must remember that railroad production maintenance gangs and trains compete for the use of the rails. Production gangs can have upwards of 100 employees working on them, so they cannot "hop" on and off the tracks to work around train traffic. Once such a large gang begins work on the tracks, it needs a reasonable block of uninterrupted time to perform work. In times of high traffic, those track "windows" are necessarily smaller. When traffic drops, as it has recently, those same gangs can gain additional time to work on the tracks. Therefore, it is in the railroads' interests to continue to work these gangs during a downturn in business because they become more "productive." Indeed, since the railroads were complaining that at some points on their systems they were "capacity constrained" before the economic slowdown, the current recession will give them the opportunity to improve capacity for the inevitable rebound of the economy from this recession. Indeed, the railroads' need for capacity improvements brings us to the last topic suggested by the Subcommittee.

(3) *THE BENEFITS AND IMPORTANCE OF INVESTING IN FREIGHT AND/OR PASSENGER RAIL*

Passenger Rail

Investment in passenger rail is a necessary part of any coherent national energy and transportation policy. None of us will forget that in the immediate aftermath of the September 11, 2001 attacks, Amtrak continued to provide intercity passenger service while the nation's airlines were grounded. Rail passenger operations are the only intercity transportation mode that delivers passengers directly to the heart of cities, both large and small. Unfortunately, to the detriment of our nation's transportation network, Amtrak has been unfairly targeted by some ideologues as undeserving of public assistance. The BMWED commends the hard work performed by this Subcommittee in the last Congress that resulted in passage of the Passenger Rail Investment and Improvement Act of 2008 which provides a generous multi-year authorization for capital improvements at Amtrak. Finally, we have a coherent plan for the development and growth of Amtrak, a policy which will ease transportation congestion in the Northeast Corridor and create new, good paying railroad jobs for those involved in Amtrak's expansion.

While BMWED supports investment for the expansion of passenger rail, Congress should insure that it is not done on the cheap with unqualified workers, with contractors who lack experience and do not have overall responsibility for all rail operations, and with rail line owners who are not carriers and subject to the federal railroad laws. The long-established major commuter rail operations in the United States operate safely and efficiently and they are rail carriers that employ railroad workers for all railroad functions. That is the model for expansion of commuter rail. Congress should act to insure that owners of rail lines are rail carriers, that the STB has jurisdiction over entities that own rail lines in the interstate rail system, and that the persons who perform rail work (especially work involved with the movement of people) are professional, qualified railroad workers. And any program of grants for expansion of passenger rail should be conditioned on requirements that mandate that those involved will be rail carriers and railroad employees.

Freight Rail

Historically, freight railroads have been responsible for the investment in their infrastructure. Indeed, as we discussed earlier, the three of the four major Class I railroad reported financial performance for 2008 that exceeded that of 2007. However, we are in uncharted economic and financial waters. The Rail Safety Improvement Act of 2008 mandates the implementation of positive train control on many of the lines operated by the Class I railroads (and some regional and short line railroads as well). Additionally, the entire U.S. economy faces a credit squeeze that prevents even credit-worthy companies from obtaining bank credit at any terms at all. We do note that BNSF announced its proposed capital expenditures for 2009 at $2.7 billion, a figure about $150 million less than that for 2008. Similarly, the two Canada based Class I carriers, Canadian National and Canadian Pacific, have announced cuts in capital expenditures, although the exact affect on U.S. expenditures is unknown. Certainly there appears to be a perceptible slowing of private investment in infrastructure by the major railroads.

Presently, the BMWED continues to study the various proposals and suggestions for ways freight railroads can invest in improving and expanding their infrastructure. We can offer no specific proposal at this time, but we intend to continue to study the matter and hope this Subcommittee will hold additional hearings on this significant issue.

We thank you again for the opportunity to express our views to the Subcommitte.

TESTIMONY

of

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on

FREIGHT AND PASSENGER RAIL: PRESENT AND FUTURE ROLES, PERFORMANCE, BENEFITS, AND NEEDS

before

THE SUBCOMMITTEE ON RAILROADS, PIPELINES, AND HAZARDOUS MATERIALS
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES

Wednesday, January 28, 2008

Introduction

Madam Chairwoman, Mr. Shuster, distinguished committee members:

My name is Lance Grenzeback. I am a senior vice president with Cambridge Systematics.

We provide transportation policy, planning, and management consulting services to federal, state, and local transportation agencies and to private-sector transportation and investment companies. We authored the *Freight-Rail Bottom Line Report* for AASHTO, and more recently, the *National Rail Freight Infrastructure Capacity and Investment Study* for the Association of American Railroads and National Surface Transportation Policy and Revenue Study Commission. We also work directly with state departments of transportation (DOTs) and railroads to develop freight and passenger rail policies and programs.

My testimony this morning will focus on:

- Role of freight rail in the economy;
- Impact of the economic crisis on freight rail; and
- Freight and passenger rail needs.

Role of Freight Rail in the Economy

Freight rail is a critical part of the freight transportation spectrum (see Figure 1. Freight Transportation "Service Spectrum"). It provides cost-effective transportation for long-distance shipments and movement of heavy bulk commodities:

- Intermodal rail competes with trucking to move international and domestic containers, truck trailers, and finished automobiles.
- Rail carload service carries thousands of products—machine parts, building materials, lumber, and chemicals—in boxcars, tank cars, and other specialized rail equipment; and
- Unit trains haul enormous quantities of bulk commodities, including 30 percent of the nation's grain harvest and 65 percent of coal used to generate electricity.

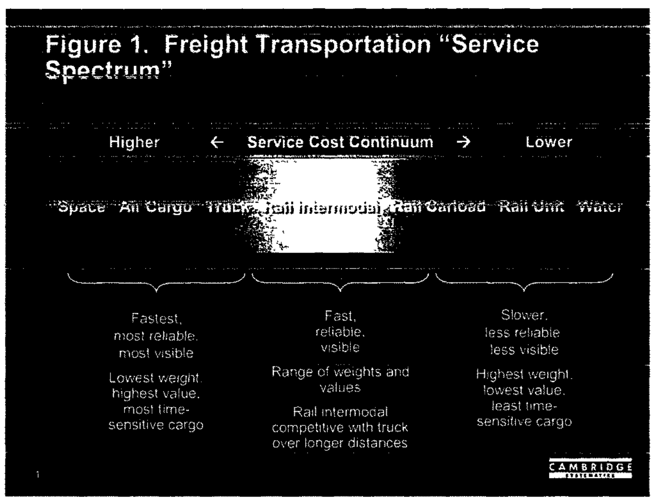
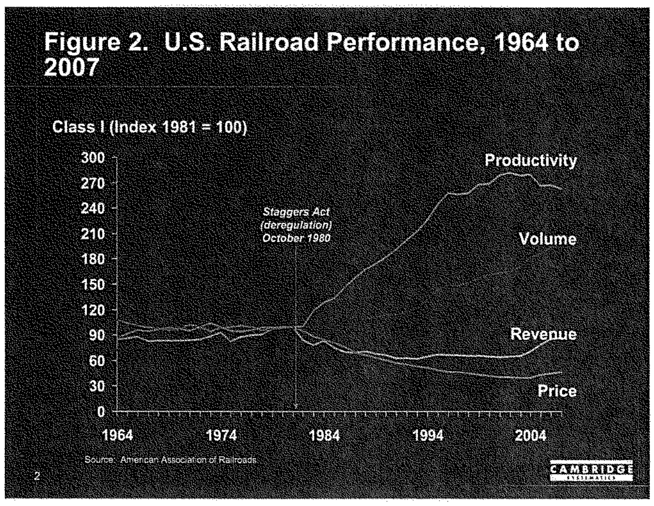


Figure 1. Freight Transportation "Service Spectrum"

The productivity and cost-effectiveness of the freight rail system has improved significantly (see Figure 2. U.S. Railroad Performance, 1964 to 2007). Inflation-adjusted rail rates are about half today what they were in 1980, and freight tonnage has doubled. Rail presently accounts for about 30 percent of all ton-miles of freight movement in the United States and over 40 percent of long-distance, intercity freight movement. Rail reduces the cost of production and distribution, contributing to greater industry productivity and competitiveness in U.S. and global markets.



Rail also relieves truck pressure on our congested highways and the cost to state DOTs of maintaining highways and bridges. The freight carried by rail keeps the equivalent of 100 million trucks and 1.5 trillion ton-miles of truck travel off our highways.

And rail is energy efficient. Locomotive fuel efficiency has increased by more than 80 percent since 1980. On a ton-mile basis, rail is about twice as energy efficient as trucking. Moreover, in a world worried about climate change, rail accounts for less than 2½ percent of all U.S. transportation petroleum use and GHG emissions.

Impact of the Economic Crisis on Freight Rail

However, rail traffic has not grown significantly since 2005. We believe this is the result of tightening capacity in the freight rail system and the resulting deterioration in rail reliability.

The recession will bring unwanted short-term "relief" to rail system congestion because rail traffic is dropping (see Figure 3. Weekly U.S. Railroad Traffic, 2007 and 2008). Rail traffic in 2008 was the fourth-highest in history, but traffic dropped sharply in the fourth quarter of 2008. By December, carload traffic was down 14.2 percent and intermodal traffic was down 13.7 percent compared to 2007. Shipments of agricultural products and chemicals dropped by about 20 percent; forest products by 30 percent; motor vehicles by over 40 percent; and metals by nearly 45 percent. The decline has continued through the first weeks of January 2009, and all indications are that rail traffic volumes will drop further over the next year.

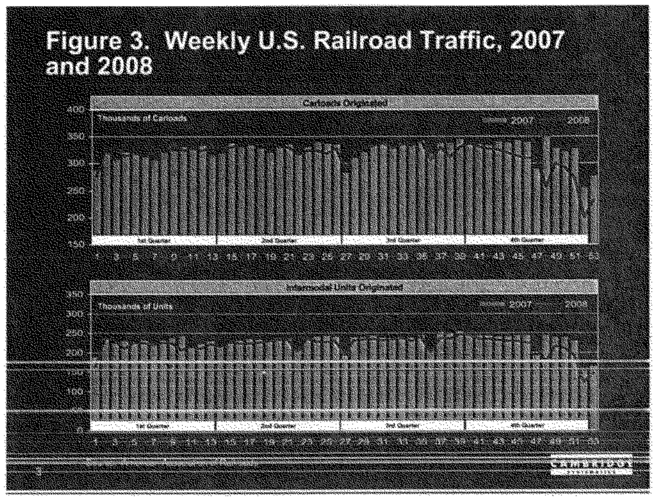


Figure 3. Weekly U.S. Railroad Traffic, 2007 and 2008

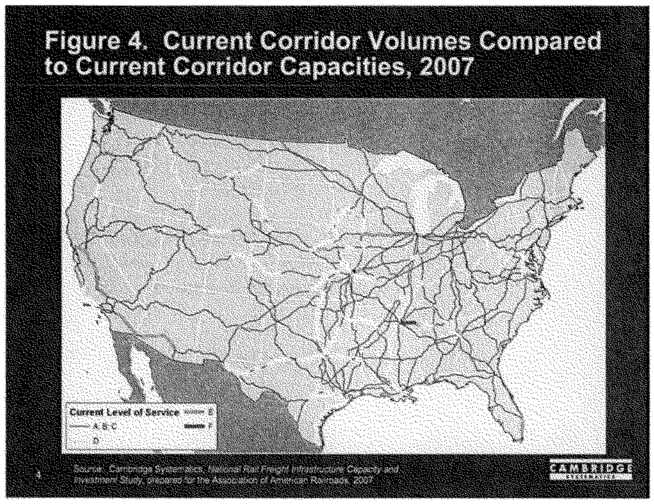
In the AASHTO and AAR studies, we reported that the economy would grow at about 2.8 percent per year, resulting in a 70 percent increase in the demand for rail freight transportation between 2005 and 2035. With the economy now estimated to grow at 2.5 percent or less over the period, we expect that forecast to be delayed three to five years. We may not see the 2035 volumes until 2040.

Freight and Passenger Rail Needs

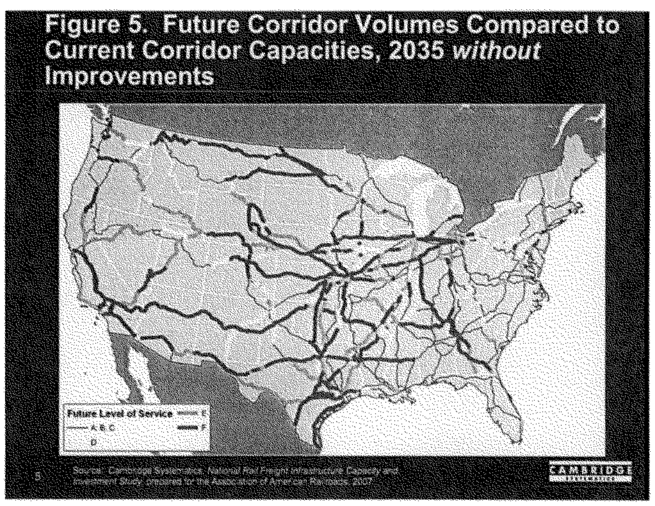
The recession will also reduce revenue available for investment in new capacity. Railroad investment in new capacity had been increasing—from about $1.1 billion per year in 2005 to almost $1.9 billion per year in 2007. 2008 was a profitable year for the railroads and there was continued investment in new capacity, but this performance will not be repeated in 2009 and 2010. Investment in ongoing maintenance and replacement will be cut back because of lower revenues, and investment in new capacity expansion projects will largely cease. We will not see new investment to untangle congestion at major rail hubs such as Chicago, to add track and clear lines for doublestack intermodal trains, or to rebuild rail yards and terminals.

As a result, when the recession eases and the demand for freight transportation picks up, we will likely find ourselves with less capacity than we have today and well behind what we need for tomorrow.

In 2007, we estimated that 12 percent of primary rail corridor miles were operating at or near capacity, with about 1 percent—shown in red—operating above capacity (see Figure 4. Current Corridor Volumes Compared to Current Corridor Capacity, 2007).



We projected that <u>without</u> capacity expansion improvements totaling nearly $150 billion over the next 28 years, 30 percent of primary corridor mileage would be operating above capacity by 2035 (see Figure 5. Future Corridor Volumes Compared to Current Corridor Capacity, 2035 Without Improvements).

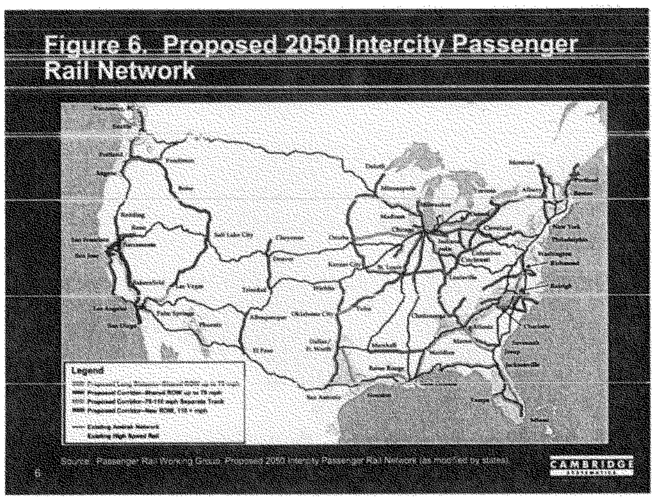


If we delay improvements to the freight rail system, we may find ourselves closer to this hypothetical 2035 situation than we anticipated, especially if oil prices increase over the next years and if we decide to expand intercity and passenger rail services.

When oil prices shot up in 2008, we saw long-haul truck traffic shift to rail. If oil prices increase again with an economic recovery—even if they stabilize at rates below $100 per barrel—we can expect to see a substantial and long-term increase in the demand for rail freight service. This will quickly absorb any remaining capacity in the rail system.

And if we follow through on our promises to make much needed improvements to our intercity passenger and commuter rail services, we will need to add capacity and improve signal systems on many already congested freight rail lines (see Figure 6. Proposed 2050 Intercity Passenger Rail Network).

Five years from now we could be pressing hard against the capacity of the rail system and struggling to catch up.



Policy Recommendations

We have an opportunity to take advantage of the lull in rail traffic growth to prepare for the recovery and position the rail industry to absorb future growth. This will be critically important if we are looking to the freight rail system to help reduce future highway congestion, cut back on the nation's fuel use and greenhouse gas emissions, and make space for passenger rail service.

To reposition the rail system, we should –

- Establish a national rail policy and outline the future of the national rail freight system. We do not need a detailed blueprint for the rail system, but we do need a broad consensus on where we must make improvements to keep pace with economic growth and meet freight and passenger demand.
- Increase public and private investment in freight and passenger rail systems and agree on how we will share the benefits, costs, and risks equitably.
- Create a mechanism such as a national infrastructure investment bank to finance improvements in economically important freight and passenger rail corridors where the costs are too high for a single railroad or state to undertake, but the improvements benefit many states and industries.
- Expand state and local rail programs to coordinate freight, short line, intercity passenger, and commuter rail services; to separate busy rail lines and highways at crossings; to improve intermodal connectors for trucking; and to mitigate the community impacts of more and more frequent freight and passenger rail trains.

The capacity of our rail system has not been keeping pace with economic growth. The rail capacity problem is not limited to a few chokepoints, hubs, and heavily traffic corridors. It is nationwide, affecting almost all the nation's critically important trade gateways, rail hubs, and intercity freight corridors. We must look past the immediate recession and put in place policies and programs that ensure we will have adequate capacity and efficient freight and passenger rail services tomorrow.

I thank you for the opportunity to appear before you today. I would be happy to answer your questions.

Testimony on the

Benefits of Intercity Passenger Rail

before the

Subcommittee on Railroads, Pipelines

and

Hazardous Materials

of the

House Committee on Transportation and Infrastructure

By

Will Kempton

Director, California Department of Transportation

Wednesday, January 28, 2009

STATEMENT OF WILL KEMPTON
DIRECTOR,
CALIFORNIA DEPARTMENT OF TRANSPORTATION
(DEPARTMENT)
BEFORE THE
HOUSE TRANSPORTATION AND INFRASTRUCTURE
COMMITTEE, SUBCOMMITTEE ON RAILROADS, PIPELINES
AND HAZARDOUS MATERIALS

JANUARY 28, 2009

CHAIRMAN BROWN, RANKING MEMBER SHUSTER AND DISTINGUISHED MEMBERS OF THE COMMITTEE;

MY NAME IS WILL KEMPTON AND I AM THE DIRECTOR OF THE CALIFORNIA DEPARTMENT OF TRANSPORTATION, ALSO KNOWN AS CALTRANS. THANK YOU FOR THE OPPORTUNITY TO TESTIFY BEFORE YOU TODAY ON THE BENEFITS OF INTERCITY PASSENGER AND FREIGHT RAIL.

BEFORE GOING INTO MY PREPARED REMARKS, I WOULD LIKE TO TAKE A MINUTE TO EXPRESS MY APPRECIATION TO THIS SUBCOMMITTEE AND TO THE COMMITTEE AS A

WHOLE FOR YOUR EFFORTS AND SUPPORT IN THE PASSAGE OF THE "PASSENGER RAIL IMPROVEMENT AND INVESTMENT ACT" (PRII) CONTAINED IN LAST SESSION'S HR. 2095. TWO MAJOR COMPONENTS OF THAT LEGISLATION WILL AID IN THE FURTHER DEVELOPMENT OF A NATIONWIDE INTERCITY PASSENGER RAIL PROGRAM. FIRST, THE FINANCIAL STABILIZATION OF AMTRAK WILL MAKE IT EASIER FOR STATES TO PLAN FOR THE FUTURE. FROM A STATE PERSPECTIVE, THAT EFFORT WAS OFTEN HINDERED BY THE UNCERTAINTY OF WHETHER OR NOT YOUR NATIONAL PARTNER WOULD CONTINUE TO BE IN EXISTENCE. THE SECOND IS THE CAPITAL MATCHING GRANT PROGRAM CONTAINED IN THE LEGISLATION THAT ESTABLISHES THE SAME FEDERAL/STATE PARTNERSHIP THAT ALREADY EXISTS FOR HIGHWAYS AND AVIATION. THAT SAME PARTNERSHIP CAN NOW BE USED TO GROW AND DEVELOP INTERCITY RAIL. THE CHALLENGE AHEAD WILL BE TO SECURE THE FUNDING FOR THE PROGRAMS AUTHORIZED IN THE ACT.

I WOULD ALSO LIKE TO APPLAUD THIS COMMITTEE'S EFFORTS TO CRAFT, IN CONJUNCTION WITH THE APPROPRIATIONS COMMITTEE, THE TRANSPORTATION COMPONENT OF THE ECONOMIC STIMULUS LEGISLATION. COMING FROM A STATE WITH A ROBUST RAIL CAPITAL IMPROVEMENT PROGRAM, A STATE THAT BY ITSELF HAS $340 MILLION OF "SHOVEL READY" PROJECTS, WE BELIEVE THAT A GREATER AMOUNT COULD GO TO PASSENGER RAIL PROJECTS. I KNOW THE STATES FOR PASSENGER RAIL COALITION IDENTIFIED ANOTHER $1.2 BILLION WORTH OF PROJECTS IN OTHER STATES THAT COULD BE OBLIGATED WITHIN 90 TO 180 DAYS. HOWEVER, I APPRECIATE THE CHALLENGES THAT THE APPROPRIATIONS COMMITTEE FACED IN THIS EFFORT. I WANT TO ASSURE YOU THAT WE ARE WORKING WITH OUR LOCAL PARTNERS TO ENSURE THAT WHEN ECONOMIC STIMULUS FUNDS BECOME AVAILABLE, CALIFORNIA WILL BE IN A POSITION TO USE THEM QUICKLY AND EFFICIENTLY.

AS THE DIRECTOR OF CALTRANS, I OVERSEE A DEPARTMENT WITH MORE THAN 23,000 EMPLOYEES, A $13.8 BILLION DOLLAR BUDGET, AND A STATE HIGHWAY SYSTEM OF MORE THAN 50,000 LANE MILES. WE ALSO CONTRACT WITH AMTRAK FOR INTERCITY PASSENGER RAIL SERVICES AND ARE HOME TO THE 2ND, 3RD AND 6TH BUSIEST INTERCITY PASSENGER RAIL CORRIDORS IN THE COUNTRY.

EVERY DAY I SEE THE POTENTIAL OF INTERCITY PASSENGER RAIL TO HELP ADDRESS, NOT ONLY CALIFORNIA'S, BUT THE NATION'S, MOBILITY, ENVIRONMENTAL, AND ECONOMIC CHALLENGES. I AM A REGULAR USER OF THE CAPITOL CORRIDOR SERVICE TO TRAVEL BETWEEN SACRAMENTO AND THE BAY AREA. I FREQUENTLY TRAVEL THROUGHOUT THE STATE AND, WHENEVER POSSIBLE, I USE CALIFORNIA'S OTHER STATE-SUPPORTED INTERCITY RAIL SERVICES. TO ENCOURAGE MY OWN STAFF, AND OTHER STATE EMPLOYEES IN NEARBY BUILDINGS, TO USE INTERCITY TRAINS, I HAVE HAD AN AMTRAK "QUIK-TRAK" TICKET MACHINE INSTALLED ON THE FIRST FLOOR OF OUR

HEADQUARTERS BUILDING IN SACRAMENTO. I BELIEVE THIS IS THE ONLY AMTRAK TICKET MACHINE WEST OF THE MISSISSIPPI THAT IS NOT HOUSED IN AN AMTRAK STATION.

CALIFORNIA IS OFTEN CITED AS BEING "ON THE CUTTING EDGE." I DON'T THINK IT WOULD BE INACCURATE TO SAY, "THE CHALLENGES WE ARE FACING TODAY ARE ONES THAT MANY STATES WILL FACE IN THE NOT TOO DISTANT FUTURE."

LIKE MANY PARTS OF THE COUNTRY, CALIFORNIA ONCE HAD A ROBUST PASSENGER RAIL NETWORK RUN BY THE PRIVATE RAILROADS. THESE RAILROADS CARRIED BOTH FREIGHT AND PASSENGERS AND WERE FASTER, MORE RELIABLE, SAFER, AND LESS EXPENSIVE THAN OTHER MODES OF TRANSPORTATION.

FOLLOWING THE SECOND WORLD WAR, HOWEVER, THE ECONOMICS OF RAIL TRANSPORTATION BEGAN TO SHIFT. THE RAPID ECONOMIC GROWTH THAT OCCURRED FOLLOWING THE SECOND WORLD WAR

PRODUCED UNPRECEDENTED WEALTH FOR OUR CITIZENS. THAT WEALTH MADE THE PRIVATE AUTOMOBILE AFFORDABLE TO A MAJORITY OF FAMILIES. THE AVAILABILITY OF INEXPENSIVE LAND, THE EXPLOSION IN AUTOMOBILE USE, AND CHEAP ENERGY RESULTED IN A MIGRATION OUT OF THE CITIES TO LESS DENSELY POPULATED SUBURBS. THAT GROWTH PATTERN WAS STRENGTHENED BY A FEDERAL TRANSPORTATION FUNDING STRUCTURE THAT ENCOURAGED FUEL CONSUMPTION AND A LAND USE PLANNING THAT ENCOURAGED SUBURBAN SPRAWL.

DURING THAT SAME PERIOD, WE SAW OUR FREIGHT AND PASSENGER RAIL INFRASTRUCTURE SHRINK UNDER THE PRESSURES OF COMMUNITY DEVELOPMENT, HIGHWAY AND AVIATION SYSTEM EXPANSION, AND FEDERAL FUNDING POLICIES. THE RAILROAD'S RETURN ON INVESTMENT DWINDLED TO LESS THAN THE COST OF MAINTAINING THEIR TRACK. OFTEN THIS RESULTED IN TRACK BEING REMOVED AND THE RIGHT-OF-WAY SOLD. AS A RESULT, IN MANY AREAS OF THE COUNTRY

PEOPLE HAVE BEEN LEFT WITH NO MOBILITY OPTIONS OTHER THAN DRIVING.

OVER THE PAST SEVERAL YEARS IN CALIFORNIA, HOWEVER, WE HAVE SEEN A RESURGENCE OF INTEREST IN AND USE OF INTERCITY PASSENGER RAIL. FOR THE STATE FISCAL YEAR, ENDING LAST JULY, MORE THAN 5.3 MILLION PASSENGERS RODE CALIFORNIA'S THREE INTERCITY PASSENGER RAIL CORRIDORS—A JUMP OF 13 PERCENT OVER THE PRIOR YEAR. CALIFORNIA IS SECOND ONLY TO NEW YORK IN TOTAL AMTRAK RIDERSHIP. TWENTY PERCENT OF ALL AMTRAK RIDERS COME FROM CALIFORNIA. OUR STATE SUPPORTED CORRIDORS INCLUDE:

- THE <u>PACIFIC SURFLINER</u> CORRIDOR PARALLELING CALIFORNIA'S COAST FROM SAN DIEGO THROUGH LOS ANGELES AND NORTH TO SANTA BARBARA AND SAN LUIS OBISPO IS THE NATION'S SECOND BUSIEST INTERCITY RAIL CORRIDOR SERVING 2.8 MILLION PASSENGERS ANNUALLY. ONLY THE NORTHEAST CORRIDOR IS BUSIER AND, AT TIMES LAST SUMMER,

RIDERSHIP ON THE CORRIDOR EXCEEDED THE RIDERSHIP ON THE ACELA IN THE NORTHEAST CORRIDOR.

- THE CAPITOL CORRIDOR CONNECTS THE CITY OF AUBURN THROUGH SACRAMENTO AND OAKLAND TO SAN JOSE. AT 1.6 MILLION RIDERS, THIS ROUTE IS AMTRAK'S THIRD BUSIEST AND ITS FASTEST GROWING. WITH 16 ROUND TRIPS BETWEEN SACRAMENTO AND OAKLAND, THE CAPITOL CORRIDOR HAS THE SAME LEVEL OF FREQUENCY AS THE NEW YORK-BOSTON SEGMENT OF THE NORTHEAST CORRIDOR.

- THE SAN JOAQUIN CORRIDOR CONNECTS THE BAY AREA AND SACRAMENTO WITH THE CITIES OF CALIFORNIA'S CENTRAL VALLEY. IT IS AMTRAK'S SIXTH BUSIEST CORRIDOR, SERVING JUST UNDER 900,000 PASSENGERS ANNUALLY. THE SAN JOAQUIN ROUTE IS UNIQUE BECAUSE ITS EXTENSIVE FEEDER BUS NETWORK CONNECTS THE TRAIN WITH ALL

PARTS OF CALIFORNIA, AS WELL AS THE STATES OF OREGON AND NEVADA.

THE FOLLOWING GIVES A PERSPECTIVE TO THE POTENTIAL I THINK INTERCITY RAIL HAS TO MEET OUR MOBILITY NEEDS. BETWEEN JULY 2001 AND JULY 2008, CALIFORNIA'S POPULATION GREW JUST OVER 9.7 PERCENT. DURING THAT SAME PERIOD, THE NUMBER OF VEHICLE MILES TRAVELED GREW APPROXIMATELY 6.6 PERCENT. INTERCITY RAIL RIDERSHIP, ON THE OTHER HAND, GREW BY MORE THAN 56 PERCENT DURING THAT PERIOD AND THE TOTAL NUMBER OF PASSENGER MILES GREW BY JUST OVER 40 PERCENT. ALTHOUGH THE ORDER OF MAGNITUDES ARE CLEARLY DIFFERENT—HUNDREDS OF MILLIONS OF PASSENGER MILES VERSUS BILLIONS OF VEHICLE MILES OF TRAVEL, IT CLEARLY DEMONSTRATES THE POTENTIAL OF INTERCITY RAIL TO HANDLE A SIGNIFICANT SHARE OF OUR TRAVEL MARKET.

THIS GROWTH SHOULD NOT BE DISMISSED AS SOLELY THE OUTCOME OF THE RECENT INCREASES IN THE

PRICE OF GASOLINE AND THE COST OF AIR TRAVEL. THE PERFORMANCE OF THE SAN JOAQUIN CORRIDOR OVER THIS PAST YEAR, I BELIEVE TRULY REFLECTS THE UNDERLYING POTENTIAL OF INTERCITY PASSENGER RAIL TO MEET OUR MOBILITY NEEDS. FOR THOSE UNFAMILIAR WITH CALIFORNIA'S SAN JOAQUIN VALLEY, IT STRETCHES SEVERAL HUNDRED MILES THROUGH THE CENTER OF OUR STATE ROUGHLY FROM STOCKTON TO BAKERSFIELD. ITS PRIMARY INDUSTRY IS AGRICULTURE, IT IS ETHNICALLY DIVERSE, IT HAS THE STATES LOWEST PER CAPITA INCOME AND AN UNEMPLOYMENT RATE FOR THE LAST QUARTER THAT AVERAGED IN EXCESS OF 12 PERCENT. IN MANY WAYS IT IS "GROUND ZERO" OF THE MORTGAGE CRISIS IN CALIFORNIA. THIS LAST YEAR, BETWEEN JULY 2007 AND JULY 2008, RIDERSHIP ON THE SAN JOAQUIN SERVICE GREW 13 PERCENT. THE RIDERSHIP GROWTH WAS NOT SURPRISING WHEN GAS PRICES WERE OVER $4 PER GALLON. WHAT WAS SURPRISING WAS THAT THE GROWTH WOULD CONTINUE EVEN AFTER GAS PRICES DROPPED TO BELOW $2 A GALLON. WE SAW RIDERSHIP INCREASES IN NOVEMBER AND DECEMBER

NEARLY TEN PERCENT ABOVE THE SAME MONTHS OF THE PRIOR YEAR. CLEARLY, IF YOU PROVIDE A RELIABLE, CONVENIENT, AND REASONABLY PRICED INTERCITY PASSENGER RAIL TRANSPORTATION OPTION, PEOPLE WILL CHOOSE TO USE IT.

IN ADDITION TO PROVIDING A TRANSPORTATION ALTERNATIVE, INTERCITY PASSENGER RAIL PROVIDES A NUMBER OF OTHER BENEFITS. WHEN THE PRICE OF GASOLINE TOPPED $4 PER GALLON THIS LAST SUMMER AND FALL, WE SAW THE ECONOMIC IMPLICATIONS OF OUR EARLIER LAND USE AND TRANSPORTATION DECISIONS. WE WERE ALL REMINDED THAT OUR SUPPLY OF OIL IS FINITE, THAT WORLDWIDE DEMAND IS GROWING, AND, EXCEPT FOR LIMITED DOMESTIC PRODUCTION, OUR NATION'S ENERGY SUPPLY IS LARGELY CONTROLLED BY OTHERS. INTERCITY PASSENGER RAIL IS ESTIMATED TO USE AT LEAST 15 PERCENT LESS ENERGY ON A PER PASSENGER MILE BASIS THAN THE AIRLINES AND 21 PERCENT LESS THAN THE AUTOMOBILE.

INTERCITY RAIL ALSO PROVIDES SIGNIFICANT ENVIRONMENTAL BENEFITS, PARTICULARLY AS IT RELATES TO THE ROLE CARBON DIOXIDE PLAYS IN GLOBAL WARMING. THE AVERAGE INTERCITY TRAIN PRODUCES 60 PERCENT FEWER $CO2$ EMISSIONS ON A PER PASSENGER MILE BASIS THAN THE AVERAGE AUTO AND ABOUT HALF THE GREEN HOUSE GAS EMISSIONS OF AN AIRPLANE. IN 2008, WE ESTIMATE CALIFORNIA'S INTERCITY RAIL SYSTEMS HELPED ELIMINATE 82,000 TONS OF CARBON DIOXIDE EMISSIONS. EFFORTS TO CONTROL GREENHOUSE GAS EMISSIONS MUST RECOGNIZE THE ROLE OF THE TRANSPORTATION SECTOR AND ENCOURAGE CHANGES BOTH IN TRAVEL AND IN LAND USE PATTERNS THAT FOSTER THE USE OF RAIL AND PUBLIC TRANSIT.

EVEN WITH A STATE AND FEDERAL FOCUS ON REDUCING CONGESTION ON OUR HIGHWAY SYSTEMS, BOTTLENECKS ARE STILL OCCURRING. AS OUR POPULATION GROWS, SO TOO WILL CONGESTION IN URBAN AREAS. BUILDING ADDITIONAL HIGHWAY CAPACITY IS OFTEN PROHIBITIVELY EXPENSIVE AND

DIFFICULT TO ACCOMPLISH. INTERCITY AND COMMUTER RAIL PROVIDE TRANSPORTATION PLANNERS WITH ANOTHER OPTION TO MEETING MOBILITY NEEDS. PROBABLY ONE OF THE BEST EXAMPLES IS IN SOUTHERN CALIFORNIA BETWEEN IRVINE IN ORANGE COUNTY AND DOWNTOWN LOS ANGELES. THE PACIFIC SURFLINER CORRIDOR ROUGHLY PARALLELS INTERSTATE 5 BETWEEN THESE CITIES. THE STATE SUPPORTED PACIFIC SURFLINER SERVICE, IN PARTNERSHIP WITH METROLINK COMMUTER SERVICE, CARRY THE EQUIVALENT OF ONE FULL LANE OF TRAFFIC DURING COMMUTE PERIODS. EFFECTIVELY, THIS IS A LANE OF URBAN FREEWAY THAT DOES NOT NEED TO BE CONSTRUCTED AT A COST OF HUNDREDS OF MILLIONS OF DOLLARS. PUT ANOTHER WAY, THE RAIL SERVICE RELIEVES CONGESTION IN THIS IMPORTANT CORRIDOR. THERE ARE ALSO TANGIBLE AIR QUALITY AND CONGESTION MANAGEMENT BENEFITS THAT ACCRUE TO THE PUBLIC FROM THE EXISTENCE OF THE RAIL SERVICES AND TO HIGHWAY USERS IN THE FORM OF IMPROVED TRAFFIC FLOW ON THE EXISTING ROADWAY SYSTEM.

FINALLY, OVER THE PAST 30 YEARS THAT THE STATE OF CALIFORNIA HAS HAD AN INTERCITY RAIL PROGRAM, WE HAVE INVESTED NEARLY $2 BILLION IN PUBLIC FUNDS IN THE INFRASTRUCTURE NECESSARY TO PROVIDE A VIABLE INTERCITY RAIL SERVICE FOR THE STATE. MORE THAN HALF THAT AMOUNT HAS BEEN DIRECT INVESTMENTS IN TRACK AND SIGNALS OWNED BY THE FREIGHT RAILROADS. ALTHOUGH THESE INVESTMENTS WERE PRIMARILY FOR PASSENGER RAIL, MANY HAVE ALSO BENEFITED THE CLASS ONE FREIGHT RAILROADS OPERATING IN CALIFORNIA. FREIGHT RAIL IS VITAL TO BOTH THE STATE'S AND THE NATION'S ECONOMY AND WHEN WE NEGOTIATE WITH THE FREIGHT RAILROADS FOR PASSENGER RAIL IMPROVEMENTS, WE WORK WITH THEM TO ENSURE WE ACCOMMODATE THEIR FUTURE GROWTH POTENTIAL. THIS HAS HELPED US DEVELOP STRONG WORKING RELATIONSHIPS WITH OUR FREIGHT RAILROAD PARTNERS. AT THE SAME TIME, IT HAS ALLOWED THEM TO IMPROVE THE EFFICIENCY AND INCREASE THE CAPACITY OF THEIR INFRASTRUCTURE, AND ENHANCED

THEIR ABILITY TO MOVE GOODS TO MARKET. THESE STATE INVESTMENTS IN RAIL HAVE ALSO HELPED REDUCE CONGESTION AND IMPROVE AIR QUALITY BY REMOVING TRUCKS FROM THE HIGHWAYS AND LOCAL ROADWAYS AROUND PORTS AS WELL AS THROUGH CONGESTED URBAN COMMUNITIES.

ALTHOUGH NOT DIRECTLY RELATED TO PASSENGER RAIL, WE ALSO WORK WITH OUR CLASS ONE FREIGHT RAIL PARTNERS TO ENHANCE GOODS MOVEMENT IN CALIFORNIA. AMONG THE COMPONENTS OF THE "HIGHWAY SAFETY, TRAFFIC REDUCTION, AIR QUALITY, AND PORT SECURITY BOND ACT" ENACTED IN 2006, WAS $2 BILLION FOR IMPROVEMENTS TO THE TRANSPORTATION INFRASTRUCTURE TO IMPROVE THE FLOW OF GOODS THROUGH OUR MAJOR TRADE CORRIDORS. AMONG THE PROJECTS ELIGIBLE FOR FUNDING WERE FREIGHT RAIL IMPROVEMENTS. THIS THE MARKED THE FIRST TIME PUBLIC FUNDS WERE MADE AVAILABLE TO FREIGHT RAIL PROJECTS IN CALIFORNIA.

INTERCITY PASSENGER RAIL HAS CLEARLY DEMONSTRATED ITS CAPABILITY TO BE A VIABLE, COST-EFFECTIVE WAY TO PROVIDE AN INTER- AND INTRA REGIONAL MOBILITY OPTION. THIS HAS BEEN WELL DOCUMENTED BY THE SUCCESSES OF SERVICES NOT ONLY IN CALIFORNIA, BUT ALSO IN STATES LIKE WASHINGTON, WISCONSIN, ILLINOIS, NORTH CAROLINA, FLORIDA, AND THE STATES OF THE NORTHEAST CORRIDOR.

HOWEVER, IF WE ARE ALSO GOING TO BE SERIOUS ABOUT REDUCING OUR DEPENDENCE ON FOREIGN OIL, ENHANCING OUR ENVIRONMENT BY REDUCING GREENHOUSE GAS EMISSIONS, DEVELOPING SUSTAINABLE AND LIVABLE COMMUNITIES, AND FOSTERING ECONOMIC DEVELOPMENT, WE NEED TO MAKE INTERCITY PASSENGER RAIL A FULL PARTNER IN OUR TRANSPORTATION SYSTEM. WE CAN NO LONGER AFFORD, AS A POLICY, TO CHOOSE TO NOT INVEST IN INTERCITY PASSENGER RAIL. ALTHOUGH LAST SESSION'S PASSENGER RAIL INVESTMENT AND IMPROVEMENT ACT MARKED A POSITIVE START WITH

$1.9 BILLION OVER FIVE YEARS FOR STATE MATCHING GRANTS FOR CONVENTIONAL RAIL AND $1.5 BILLION FOR HIGH-SPEED RAIL, IT SHOULD ONLY BE VIEWED AS A DOWN PAYMENT.

AMONG THE MYRIAD OF THE CHALLENGES BEFORE THIS CONGRESS WILL BE THE AUTHORIZATION OF A NEW SURFACE TRANSPORTATION BILL. INTERCITY PASSENGER RAIL SHOULD BE AN ELEMENT OF THAT LEGISLATION. THE SURFACE TRANSPORTATION POLICY AND REVENUE COMMISSION, IN ITS FINAL REPORT ISSUED LAST JANUARY, SUGGESTED A FEDERAL INVESTMENT OF BETWEEN $5 AND $6 BILLION PER YEAR. THE AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS, OR "AASHTO" ALSO BELIEVES INTERCITY PASSENGER RAIL MUST BE A STRONGER COMPONENT IN OUR TRANSPORTATION SYSTEM. IN ITS ADOPTED SURFACE TRANSPORTATION AUTHORIZATION POLICY, AASHTO IS RECOMMENDING NEARLY $35 BILLION FOR INTERCITY RAIL INVESTMENT OVER FIVE YEARS. WE BELIEVE THESE FUNDING LEVELS WARRANT SERIOUS

CONSIDERATION DURING DELIBERATIONS ON THE NEW SURFACE TRANSPORTATION BILL.

IN CLOSING, I WOULD LIKE TO COMPARE OUR INVESTMENTS IN INTERCITY RAIL WITH ANOTHER GLOBAL ECONOMIC COMPETITOR. THE NEW YORK TIMES, IN A JANUARY 23RD ARTICLE, CITES A WORLD BANK REPORT THAT IN 2008, THE PEOPLE'S REPUBLIC OF CHINA WILL BE INVESTING $88 BILLION IN ITS INTERCITY RAIL PROGRAM AFTER SPENDING $44 BILLION LAST YEAR ALONE. THIS IS ON TOP OF MASSIVE INVESTMENTS IN HIGHWAYS AND PORTS OVER THE PAST SEVERAL YEARS.

IN ADDITION, THE EUROPEAN UNION CONTINUES TO INVEST HEAVILY IN ALTERNATIVE FORMS OF TRANSPORTATION, NOTABLY PASSENGER RAIL. SPAIN, WHICH IS SIMILAR IN POPULATION AND GROSS DOMESTIC PRODUCT TO HAS SPENT NEARLY $30 BILLION OVER THE LAST FOUR YEARS TO UPGRADE ITS RAIL SYSTEM. THAT NATION INTENDS TO DEVELOP A 6,200 MILE HIGH SPEED RAIL NETWORK BY 2020 AT AN

ESTIMATED COST OF APPROXIMATELY $150 BILLION. THAT DOESN'T INCLUDE AN ADDITIONAL $13 BILLION FOR CONVENTIONAL AND COMMUTER RAIL.

IF WE ARE TO BE TRULY COMPETITIVE IN THE GLOBAL MARKETPLACE, WE HAVE TO ADDRESS OUR INFRASTRUCTURE NEEDS. IMPROVED MOBILITY AND THE DEVELOPMENT OF ALTERNATIVE SYSTEMS OF TRANSPORTATION ARE VITAL—MAKE THAT ESSENTIAL—TO OUR NATIONAL ECONOMY, OUR QUALITY OF LIFE, AND OUR STANDING IN THE WORLD COMMUNITY.

THAT CONCLUDES MY PREPARED REMARKS, I'LL BE HAPPY TO ANSWER ANY QUESTIONS.

STATEMENT FOR THE RECORD

PHILLIP LONGMAN
SENIOR FELLOW
NEW AMERICA FOUNDATION

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES
TRANSPORTATION INFRASTRUCTURE COMMITTEE
SUBCOMMITTEE ON RAILROADS, PIPELINES,
AND HAZARDOUS MATERIALS

HEARING ON
"FREIGHT AND PASSENGER RAIL: PRESENT AND FUTURE ROLES, PERFORMANCE, BENEFITS, AND NEEDS"

JANUARY 28, 2009

New America Foundation
1630 Connecticut Avenue, N.W.
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NEW AMERICA
FOUNDATION

Testimony of Phillip Longman

New America Foundation

Steel Wheel Interstates

Madam Chairman and members of the Subcommittee, good morning. My name is Phil Longman.

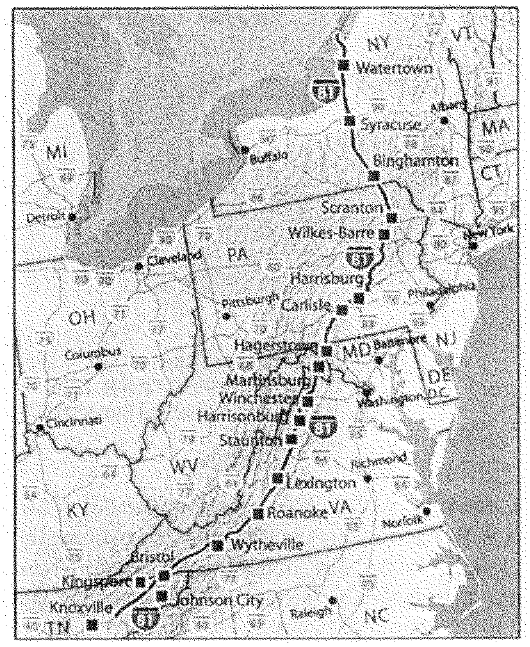
I am a senior fellow of the New America Foundation, a non-partisan public policy institute headquartered here in Washington. I am also the author of a cover story in the current issue of the *Washington Monthly* ("Back on Tracks") that addresses what is for many a novel idea

It is a proposal that offers stunning improvement in highway safety, maintenance and congestion costs, energy use, green house gas emissions, public health, shipping costs and plenty of short-term economic stimulus as well. If fully implemented, it could get as many as 83 percent of all long-haul trucks off our nation's highways by 2030, reduce carbon emissions by 39 percent and oil consumption by 15 percent compared to business as usual. I call it the "Back on Tracks" project.

The best way to explain this proposal is to begin with a concrete example. Six days before Thanksgiving, a truck driver heading south on Interstate 81 through Shenandoah County, Virginia ploughed his tractor-trailer into a knot of cars that had slowed on the rain-slicked highway. The collision killed eighty-year-old Cordula Elma Leara, her 4-year-old grandson, Ivan Ryman, and her one-year-old granddaughter, Maggie.

It was a tragedy, but not an unusual one. Semis account for roughly one out of every four vehicles that travel through Virginia on I-81's four lanes, the highest percentage of any interstate. They are there for a reason: I-81 traces a mostly rural route from the Canadian border to Tennessee, and the cities in its path—Syracuse, Scranton, Harrisburg, Hagerstown, and Roanoke among them—are mid-sized and slow-growing. This makes the highway a tempting alternative to I-95, the interstate that connects the eastern seaboard's major metropolises, which is so beset with tolls and congestion that truckers will drive hundreds of extra miles to avoid it.

This is bad news for just about everyone. Even truckers have to deal with an increasingly overcrowded, dangerous I-81, and for motorists it's a white-knuckle terror. Because much of the road is hilly, they find themselves repeatedly having to pass slow-moving trucks going uphill, only to see them looming large in the rear view mirror on the down grade. For years, state transportation officials have watched I-81 get pounded to pieces by tractor-trailers—which are responsible for almost all non-weather-related highway wear and tear. Making matters worse are projections that traffic will rise by 67 percent in just ten years.[1]



The conventional response to this problem would be simply to build more lanes. It is what highway departments do. But at a cost of $11 billion, or $32 million per mile, Virginia cannot afford to do that without installing tolls, which might have to be set as high as 17 cents per mile for automobiles. When Virginia's Department of Transportation proposed doing this early last year, truckers and ordinary Virginian's alike set off a firestorm of protest. At the same time, just making I-81 wider without adding tolls would make its truck traffic problems worse as still more trucks would divert from I-95 and other routes.

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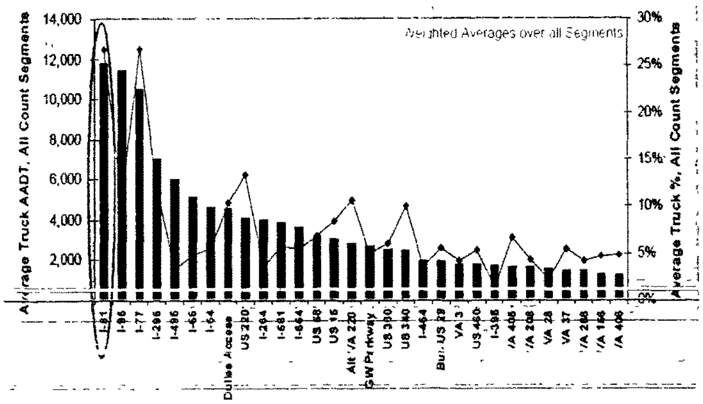
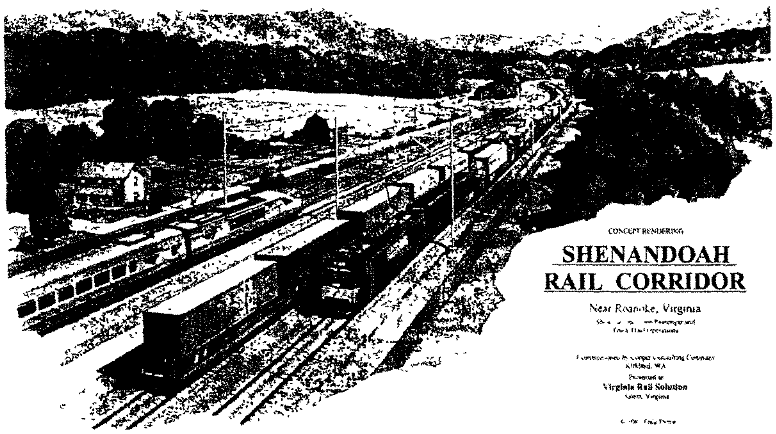
[1] Alan Meyers, Cambridge Systematics, Inc., Update on Opportunities for Truck to Rail Diversion in Virginia's I-81 Corridor, Presented to the Commonwealth Transportation Board September 17, 2008, http://www.drpt.virginia.gov/special/files/I-81%20Freight%20Rail%20Study%20Update.pdf, p. 6., retrievied January 25, 2009.

Volume of Truck Traffic on U.S. Interstates



Source: Virginia Department of
Transportation Traffic Counts (2005)
Alan Meyers, Cambridge Systematics
(2008)

There is, however, another way. As it happens, running parallel to I-81 through the Shenandoah Valley and across the Piedmont are two mostly single-track rail lines belonging to the Norfolk Southern Railroad. These lines, like America's freight railroads generally, have seen a resurgence of trains carrying containers, just like most of the trucks on I-81 do. Due to driver shortages, energy costs and highway congestion, more and more shippers want to use rail these days, and many more would do so if trains moved faster. The problem is insufficient rail capacity to accommodate all the freight that would go by train. Without upgrading track and removing various choke points, the Norfolk Southern cannot run trains fast enough to be time-competitive with most of the trucks hurtling down I-81. Even before the recent financial meltdown, the railroad could not generate enough interest from Wall Street investors to improve the line sufficiently.



An alternative to widening Interstate 81 or making it a toll road, as envisioned by the advocacy group, Virginia Rail Solutions.

Here's where the "Back on Tracks" proposal comes in. *Instead of using public money to endlessly widen I-81 and other Interstates to accommodate more and more trucks, use it to improve parallel freight rail infrastructure.* A study sponsored by the Virginia DOT finds that a cumulative investment over 10 to 12 years of less than $8 billion would divert 30 percent of the growing truck traffic on I-81 to rail.[2] That would be far more bang for the state's buck than the $11 billion it would take to add more lanes to the highway, especially since it would bring many other public benefits, from reduced highway accidents and lower repair costs to enormous improvements in fuel efficiency and pollution. *Today, a single train can move as many containers as 280 trucks using one-third as much energy, and that's before any improvements to rail infrastructure.*[3]

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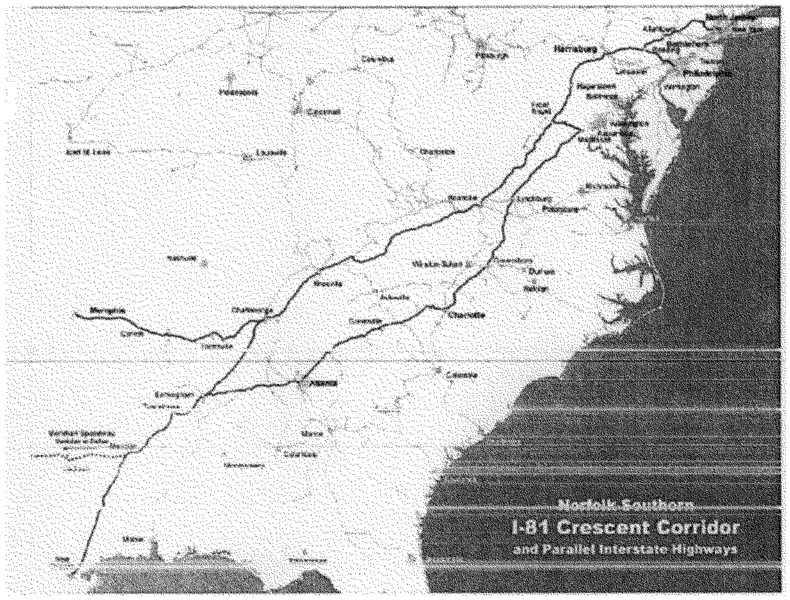
[2] *The Northeast – Southeast – Midwest Corridor Marketing Study: Examining The Potential To Divert Highway Traffic From Interstate 81 To Rail Intermodal Movement*, Executive Summary. Table 1. Virginia Department of Transportation, http://www.drpt.virginia.gov/studies/files/I-81-Executive-Summary-revised.pdf, retrieved January 25, 2009.

[3] Gil Carmichael, (former Federal Railway Administrator and now Senior chairman of the board of directors for the Intermodal Transportation Institute at the University of Denver), "The Case For Interstate II," *Traffic World*, July 10, 2006, p. 6. http://www.du.edu/transportation/documents/July10Commentary.pdf, retrieved January 25, 2009.



With modest public investment, existing private rail infrastructure parallel to I-81 could become the nation's first "steel wheel interstate," diverting million of trucks off roadways.

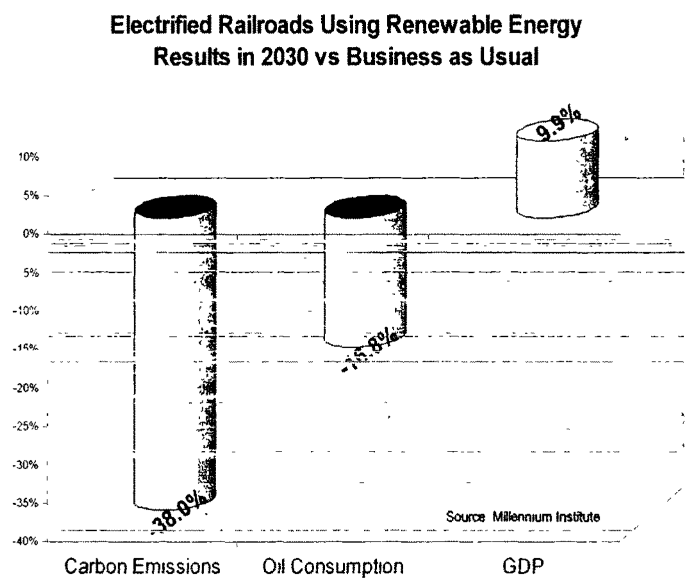
Virginia has made a modest investment in helping Norfolk Southern improve its infrastructure, but there is much more that could and *should* be done, both along the I-81 corridor and nationally. All over the country there are opportunities in which relatively modest amounts of capital could unclog rail traffic bottlenecks and divert large volumes of trucks off highways. A few such public/private projects have already been done successfully, but many more are sitting on planners' shelves awaiting funding.

Key Statistics: Energy and the Environment

Greenhouse gas emission from heavy-duty vehicles, according to the Environmental Protection Agency, grew by 57 percent between 1990 and 2003, the largest increase of any transportation source.

- Average fuel mileage for tractor-trailer trucks has fallen to just 5.3 miles per gallon and is now no better than in 1980, according to the National Commission on Energy.
- In 2007, according to the Association of American Railroads, U.S railroads were able to move one ton of freight 436 miles using just one gallon of fuel. Moreover, the railroads' energy efficiency keeps getting better, improving 3.1 percent between 2006 and 2007. Railroads can now move a ton of freight from coast to coast using just seven gallons of fuel.
- The Environmental Protection Agency calculates that for distances of more than 1,000 miles, a system in which trucks haul containers only as far as the nearest railhead and then transfer them to a train produces a 65 percent reduction in both fuel use and greenhouse gas emissions.

Looking to future, the potential of a 21st Century rail system to improve national life is truly astonishing—including a near zero-emission, zero-oil freight transportation system. In a peer-reviewed study recently presented to the Transportation Research Board, the Millennium Institute, a nonprofit known for its expertise in energy and environmental modeling, calculated the likely benefits of a $250 to $500 billion expenditure on improved rail infrastructure. It found that such an investment would get 83 percent of all long-haul trucks off the nation's highways by 2030, while also delivering ample capacity for high-speed passenger rail. If high-traffic rail lines were also electrified and powered in part by renewable energy sources, that investment would reduce nationwide carbon emissions by 38 percent and oil consumption by 17 percent. By moderating the growing cost of logistics, it would also leave the nation's economy 10 percent larger by 2030 than it would otherwise be.[4]



Yet despite this astounding short- and long-term potential, almost all the focus on infrastructure spending these days is on building more "shovel ready" road and highway bridge projects —and at scale not seen in more than a generation. Soon we'll be moving earth like it's 1959.

This could be an epic mistake. We need to be funding projects that are not just shovel ready, but shovel worthy—projects that provide short-term stimulus without deepening our dependence on foreign oil or worsening pollution. Just as the Interstate Highway System changed, for better and for

[4] A. Drake, A. M. Bassi and E. L. Tennyson, H. R. Herren, "Evaluating the Creation of a Parallel Non-Oil Transportation System in an Oil Constrained Future," Millennium Institute, January 2009; http://www.millenniuminstitute.net/resources/elibrary/papers/Transportation_MI09.pdf, retrieved January 25, 2009. Presentation by Alan Drake, National Academy of Engineering, Transportation Research Board, 87 Annual Meeting, January 12, 2009; Correspondence with Andrea Bassi, Millennium Institute, January 22, 2009.

worse, the economy and the landscape of America, so too will the infrastructure investment decisions members of Congress and the President are about to make. The choice of infrastructure projects is *de facto* industrial policy; it is also *de facto* energy, land use, housing and environmental policy, with implications for nearly every aspect of American life going far into the future.

On the doorstep of an era of infrastructure spending unparalleled in the past half-century, we need to conceive of a transportation future in which each mode of transport is put to its most sensible use, deployed collaboratively instead of competitively. To see what that future could look like, let's again look to a concrete example, this time from the past.

The Lost Vision

At the beginning of the 20th Century, a "Good Roads" movement emerged calling for more paved highways. It was led by farmers and bicyclists, but railroads were strong supporters; they reasoned, logically enough, that with more paved roads, more people and goods could travel from greater distances to reach their lines. Farmers wouldn't get stuck in the mud trying to move their crops to market, but could use newly available trucks traveling on all-weather macadam highways to reach railheads. The Pennsylvania, Southern and Illinois Central railroads, among others, ran "object lesson trains" to small towns along their routes, carrying the men and materials needed to pave a short stretch of local roadway so the locals could see the possibilities. U.S. Senator J.W. Daniel, on hand to welcome one such train's visit to Lynchburg, Virginia in 1901, described it enthusiastically as "an itinerant college on wheels."[5]

The vision of intermodal transport the railroads were seeking to promote made perfect sense. Rail transport lacks the flexibility of the rubber-wheel kind, but it has other advantages that make it far superior when the circumstances allow. The biggest is a unique quality of the technology itself. Steel wheels on steel rails meet with very little rolling resistance. They do not compress and absorb energy from the surface the way a tire does, and the rail itself is much smoother than any road, so trains have only about one-tenth the rolling resistance of trucks. And because of the way rails absorb and spread the weight of a vehicle over long distances, this advantage increases as freight is added. The more you load up a train, the more efficient it becomes compared to a fleet of trucks carrying the same cargo.

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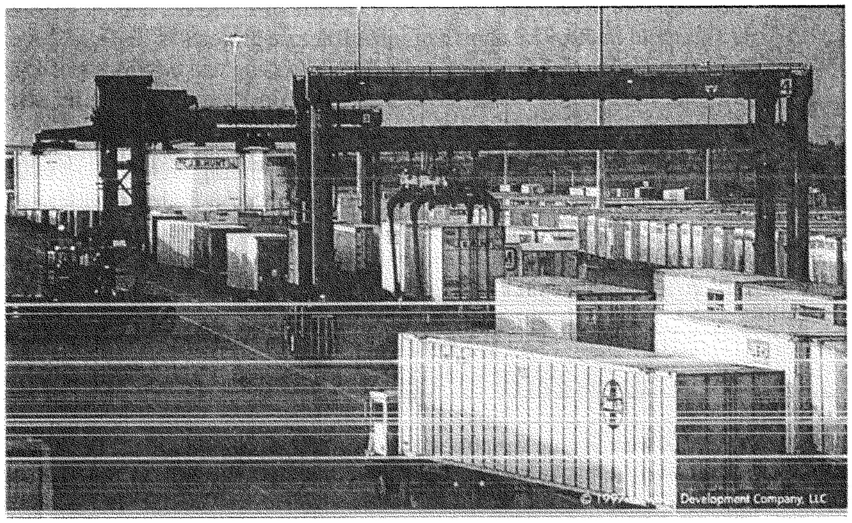
[5] Stephen B. Goddard, *Getting There: The Epic Struggle between Road and Rail in the American Century*, (Chicago: University of Chicago Press, 1994) 52-53.



For long distance freight, the optimal energy and environmental benefits come when trucks haul containers only as far as the nearest railhead. Yet the U.S. lacks sufficient rail capacity to take full advantage of this intermodal strategy.

The Environmental Protection Agency calculates that for distances of more than 1,000 miles, a system in which trucks haul containers only as far as the nearest railhead and then transfer them to a train produces a 65 percent reduction in both fuel use and greenhouse gas emissions.[6] As the volume of freight is expected to increase by 57 percent between 2000 and 2020, the potential economic and environmental benefits of such an inter-modal system will go higher and higher. Railroads are also potentially very labor efficient. Even in the days of the object lesson train, when brakes had to be set manually and firemen were needed to stoke steam engines, a five man crew could easily handle a fifty-car freight train, doing the work of ten times as many modern long-haul truckers.

In the first half of the last century, railroads used these and other advantages of steel wheel technology to provide services that in our own time seem

[6] "A Glance at Clean Freight Strategies: Intermodal Shipping," Smartway Transportation Partnership, U.S. Environment Protection Agency, http://epa.gov/smartway/transport/documents/carrier-strategy-docs/intermodal%20shipping.pdf, retreived January 25, 2009

futuristic. The rhythmically named Chicago Milwaukee, St. Paul, and Pacific (a.k.a Milwaukee Road) hauled hundred-car freight trains over the Rockies and Cascade Mountains using electric engines drawing on the region's abundant hydropower—a highly efficient, zero-emission freight transportation system that has no parallel in the United States today. The Railway Express Agency, which attached special cars to passenger trains, provided Americans with a level of express freight service that cannot be had for any price today, offering door-to-door delivery of everything from canoes to bowls of tropical fish to, in at least one instance, a giraffe. Into the 1950s, it was not uncommon for a family to ship its refrigerator to and from a lakeside cabin for the summer via the REA; thanks to the physics of steel-on-steel conveyance, appliance-sized items could be moved for not much more money than smaller goods. (Today, by contrast, many airline passengers must pay $50 to check a suitcase of dirty clothes on a domestic flight.)

High-speed Railway Post Office trains also offered efficient mail service to even the smallest towns that is not matched today. In his book *Train Time*, Harvard historian and rail expert John R. Stilgoe describes the Pennsylvania Railroad's Fast Mail No. 11, which, because of its speed and on-board crew of fast sorting mail clerks, ensured next-day delivery on a letter mailed with a standard two-cent stamp in New York to points as far west as Chicago.[7] Today, that same letter is likely to travel by air first to Fed Ex's Memphis hub, then be unloaded, sorted, and reloaded onto another plane, a process that demands far greater expenditures of money, carbon, fuel and in many instances even time than the one used 80 years ago.

The glory days of American railroads are now beyond the memory of most Americans. Rail service was already in decline during the Depression, and the gas rationing and logistical strains of World War II made train travel a standing-room-only horror. In large part because of that generational experience, most Americans came to believe the decline of railroads was an inevitable outcome of the march of progress. But the reality is close to the opposite. Especially for long-haul freight, steel wheel on steel rail is a far superior technology, and its eclipse by rubber wheels is mostly the result of special interest politics, ill-considered public policies, and other factors that have nothing to do with efficiency.

Manipulated by Wall Street and often badly managed, railroads were ultimately no match for the growing combination of interests—Standard Oil, General Motors, tire and asphalt makers—that grew into the auto-highway

[7] John R. Stilgoe, *Train Time: Railroads and the Imminent Reshaping of the United States Landscape* (Charlottesville: University of Virginia Press, 2007), 43–49, 72–73;

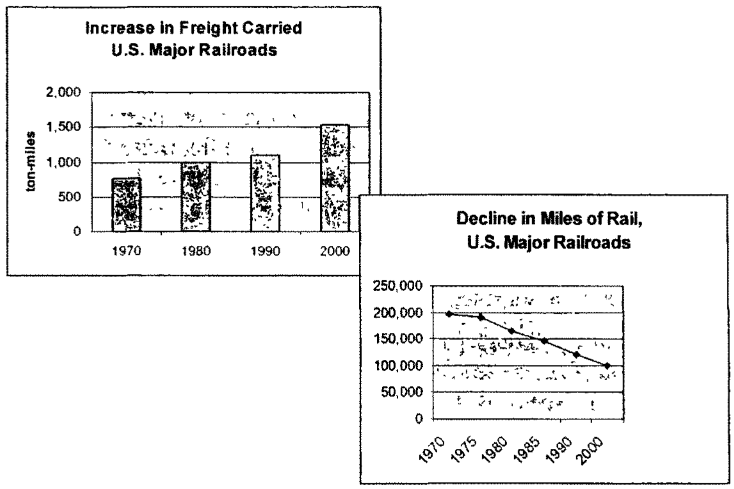
complex. For decades, railroads were also slowly crippled by state and federal laws that forced them to run money-losing passenger trains and to keep on featherbedding employees rendered obsolete by new technology. Rail companies, as private-sector entities, remained responsible for maintaining their own infrastructure and for paying increasingly high property taxes on it, even as public money poured into highway and airport construction. And when railroads improved their efficiency, as they did substantially after World War II, they were often prevented by the now defunct Interstate Commerce Commission from passing the savings on to shippers, which resulted in further loss of market share to trucks.

Many railroads died in the 1970s. At the beginning of the decade, the Erie-Lackawanna Railroad had moved very fast trains loaded with United Parcel Service vans on flat cars along its two-track, wide-clearance mainline stretching from Jersey City to Chicago—a model of intermodal transportation. But the railroad did not live to see the 1980s and now most of the line is abandoned. On the eve of the 1973 oil crisis, the proprietors of the Milwaukee Road ripped out its once state-of-the-art electrical wiring to raise cash. Much of the line is now a bike trail. By the start of 1980s, the federal government had eased some of the policy constraints on the railroads. Staggers Rail Act of 1980 for example, provided a substantial measure of price deregulation. But by then the damage was done. Thinking their industry was in terminal decline, many railroad managements continued to tear up tracks and use what little capital they had to diversify into new businesses, like theme parks, and in one instance, even mutual funds.

Starting in the late 1980s, however, something unexpected happened. As fuel and labor costs rose, and highway congestion worsened, more and more shippers started looking for an alternative to trucking. Once reduced to transporting mostly heavy, low-value commodities such as coal, railroads started gaining business in the transport of more time-sensitive, high value items—everything from Japanese computers to California wine—typically using containers double-stacked on flat cars. On routes where they still have adequate infrastructure, railroads have won back fantastic amounts of business from trucks, especially on long hauls such as Los Angeles to New York, where railroads now have a 72 percent market share in container traffic and could have more.

Railroads have gone from having too much track to having not enough. Today, the nation's rail network is just 94,942 miles, less than half of what it was in 1970, yet it is hauling 137 percent more freight, making for extreme congestion and lengthening shipping times.[8] Mostly because of time stuck in yards and sidings, the typical freight car in the United States has an average speed of only 2 to 7 mph.[9]

More and More Freight on Less and Less Track



The half-conscious decision by Washington, Wall Street and the last generation of rail management to abandon much of the rail system thus prevents railroads from getting more trucks off the road. For example, UPS desperately wants to use fast trains like the Erie Lackawanna once had to reduce the cost of moving parcels coast to coast in less than 4 days, a feat currently requiring a tag-team of truck drivers at enormous cost in fuel and labor. For a brief time in 2004, UPS did persuade two railroads to run a train fast enough to handle this business. But due to insufficient track to allow slower trains to get out of its way, the UPS bullet train caused massive congestion, freezing up the Union Pacific system for months until the railroad at last cancelled the service. Big trucking companies like J.B. Hunt,

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[8]: *System Mileage Within the United States*, Bureau of Transportation Statistics, Table 1-1 http://www.bts.gov/publications/national_transportation_statistics/html/table_01_01.html, retrieved January 25, 2009; American Association of Railroads, http://www.aar.org/PubCommon/Documents/AboutTheIndustry/Statistics.pdf, retrieved January 25, 2009.

[9] Roy Blanchard, "Does Speed Matter?" *Trains*, January 2009, p. 56.

meanwhile, have become the railroad's biggest intermodal customers, sending as many of their containers as they can by rail.

This raises the question, if so many shippers now want to use rail, why don't the railroads just build the new tracks, tunnels, switchyards, and other infrastructure they need to handle the business? In the wake of what we have learned in the last six months about how Wall Street works, the answer is clearer than it was before the financial breakdown. America's major railroad companies are publicly-traded companies answerable to global capital markets. While those markets were pouring the world's savings into underwriting credit cards and sub-prime mortgages on overvalued tract houses, America's railroads were pleading for the financing they needed to increase their capacity. And for the most part, the answer that came back from Wall Street was no, or worse. CSX, one of the nation's largest railroads, spent much of last year trying to fight off two hedge funds intent on gaining enough control of the company to cut its spending on new track and equipment in order to maximize short-term profits.[10]

So the industry, though gaining in market share and profitability after decades of decline, is starved for capital. While its return on investment improved to a respectable 8 percent by the beginning of this decade, its cost of capital outpaced it at around 10 percent—and that was before the credit crunch arrived. This is no small problem, since railroads are capital intensive, spending about five times more just to maintain remaining rail lines and equipment than the average U.S. manufacturing industry does on plant and equipment. Increased investment in railroad infrastructure would produce many public goods, including fewer fatalities from truck crashes, which kill some 5,000 Americans a year. Public goods, however, do not impress Wall Street. Nor does the long-term potential for increased earnings that improved rail infrastructure would bring, except in the eyes of Warren Buffet—who is bullish on railroads—and a few other smart, patient investors.

The alternative is for the public to help pay for rail infrastructure, or else pay in other ways. Unlike private investors, government must either invest in shoring up the railroads' overwhelmed infrastructure, or else see ever greater burdens placed on the public purse by increasing truck traffic. The American Association of State Highway and Transportation Officials (hardly a shill for the rail industry) estimates that, without public investment in rail capacity, 450 million tons of freight will shift to highways, costing shippers $162 billion and highway users $238 billion (in travel time, operating, and accident

[10] "Hedge Funds Propose CSX Directors, Starting Proxy Battle," *New York Times*, December 20, 2007.

costs), and adding $10 billion to highway costs over the next 20 years. "Inclusion of costs for bridges, interchanges, etc., could double this estimate," their report adds. The additional costs of such externalities as increased environmental damage, oil dependency and adverse consequences to public health would be still greater.[11]

Key Statistics: Health and Quality of Life

- In 2007, crashes involving large trucks killed 4,808 Americans and injured 83,908, according to the Federal Highway Administration.
- California's Environmental Protection Agency has found that in that state alone, pollution from heavy trucks kills 1,500 people a year.
- The Reason Foundation projects that by 2030 peak-hour traffic congestion delays will rise 89 percent in urban areas with populations between 1 and 3 million.
- Frequently-cited mass transit critic, Wendell Cox estimates that diverting 25 percent of truck traffic to rail by 2025 would save the average peak-hour auto commuter in urban areas 100 hours a year in time not stuck in traffic jams.

[11] *Freight-Rail Bottom Line Report*, American Association of State Highway and Transportation Officials, http://freight.transportation.org/doc/FreightRailReport.pdf, p. 2, retrieved January 25, 2009.

Choke Points

Begin with the small-scale projects that could bring short-term stimulus and long-term public gain. There are many examples around the country where a small amount of public investment in rail infrastructure would bring enormous social and economic returns. Why is I-95 so congested with truck traffic that drivers divert to I-81 and overwhelm that interstate as well? One big reason is that railroads can capture only 2 percent of the container traffic traveling up and down the eastern seaboard because of obscure choke points, such as the Howard Street tunnel in downtown Baltimore. It is too small to allow double-stack container trains through, and so antiquated it's been listed on the National Register of Historic Places since 1973. When the tunnel shut down in 2001 due to a fire, trains had to divert as far as Cincinnati to get around it. Owner CSX has big plans for capturing more truck traffic from I-95, and for creating room for more passenger trains as well, but cannot do so until it finds the financing to fix or bypass this tunnel and make other infrastructure improvements down the line. In 2007, it submitted a detailed plan to the U.S. Department of Transportation to build a steel wheel interstate from Washington to Miami, but no federal funding has been forthcoming.[12]

The Howard Tunnel is the worst of some 70 rail choke points in the Mid-Atlantic region alone. According to a study commissioned by the I-95 Corridor Coalition, a group of transportation officials along the highway's route, fixing these choke points would cost $6.2 billion and return twice that amount in benefits. The returns would include $2.9 billion in reduced freight transportation costs; $6.3 billion in direct savings due to reduced highway congestion for vehicles still on the road, and $3.7 billion in indirect economic benefits generated throughout the economy by these transportation savings.[13]

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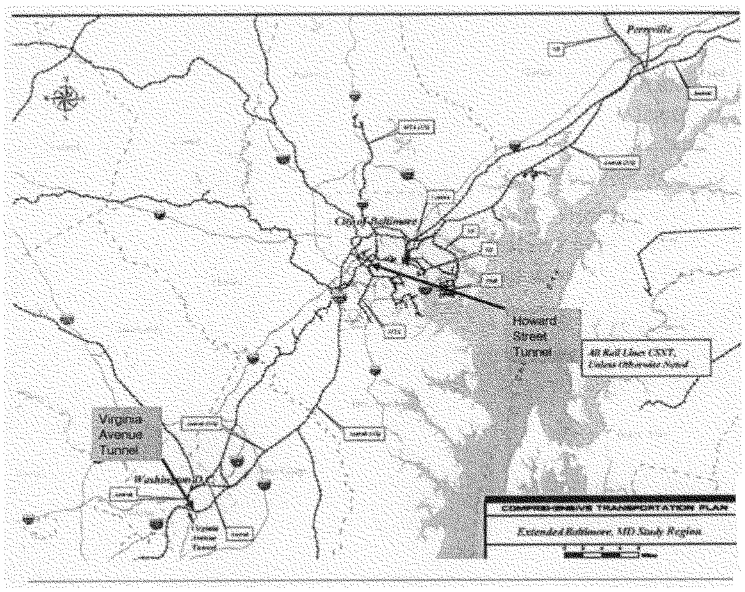
[12] *U.S. Department of Transportation Corridors of the Future Program Application, The Southeast I-95 Corridor*, CSX Corporation. May 25, 2007. http://www.vhsr.com/system/files/CSX+CFP+Submission.pdf., retrieved January 25, 2009.

[13] TESTIMONY OF NEIL J. PEDERSEN, Chair, I-95 Corridor Coalition, Administrator, Maryland State Highway Administration, Chair, AASHTO Policy Committee on Future Expansion of the Interstate System, On CONDITION AND NEEDS OF THE NATIONAL AND NORTHEAST TRANSPORTATION SYSTEM, before NATIONAL SURFACE TRANSPORTATION POLICY AND REVENUE STUDY COMMISSION, Field Hearing, New York City, Thursday, November 16, 2006.

Importantly, rail capacity can often be improved substantially by relatively low-cost measures such as adding signals, occasional switches and new, computerized train control devices, whereas with rubber wheel interstates the only way to add to capacity is to add lanes. This is another reason why the social rate of return on rail investment is much higher than on most highway projects.



The antiquated Howard Street rail tunnel in Baltimore, and the Virginia Avenue tunnel in Washington, are two choke points that prevent a major diversion of freight from trucks to rail along this corridor. From Maine to Florida, motorists travelling I-95 endure the effects, while manufacturers pay a price in lost competiveness as well.

Another notorious set of choke points is in Chicago, America's rail capitol, which is visited by some 1,200 trains a day. Built in the 19th century by non-cooperating private companies, lines coming from the East to this day have no or insufficient connections with those coming from the West. Consequently, thousands of containers on their way elsewhere must be unloaded each day, "rubber wheeled" across the city's crowded streets by truck, and reloaded onto other trains. It takes forty-eight hours for a container to travel five miles

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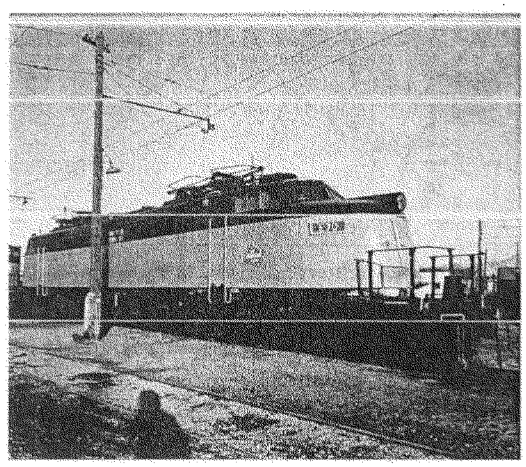
http://www.i95coalition.org/PDF/Pedersen_I95Coalition_Commission_2006_Nov%2016.pdf, retrieved January 25, 2009 across Chicago, longer than it does to get there from New York. This entire problem could be fixed for just $1.5 billion, with benefits including not just faster shipping times and attendant economic development, but drastically reduced road traffic, energy use, and pollution. [14]

The Greening of America's Freight Transportation System

Removing choke points is the most immediate priority, because such projects offer both short-term economic stimulus and high rates of economic and social return. As Congress moves to toward comprehensive legislation on surface transportation later this year, however, we need to broaden our horizons. The potential costs in lost opportunities are enormous.

Electrification of major U.S. rail mainlines offers so many diverse potential benefits it might be characterized as the Swiss Army knife of public policy proposals. Start with the first order effects.

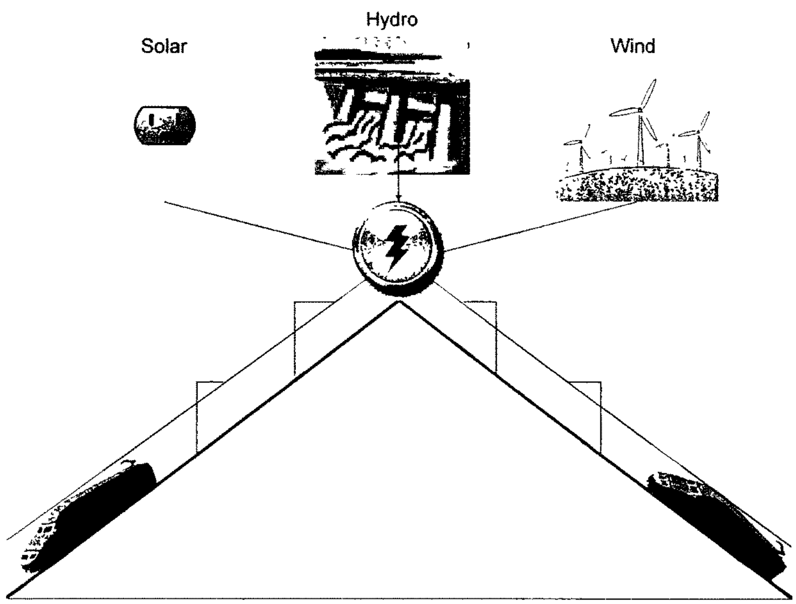


Drawing on electricity generated by hydropower, electric locomotives like this one once hauled 100 car trains over the Rockies and Cascade mountains, consuming no oil and producing no emissions. Electrifying America's mainline railroads using hydropower, solar, wind, and other renewable energy sources will provide "green jobs" and pay economic and environmental dividends far into the future.

[14] Chicago Region Environmental and Transportation Efficiency Program (CREATE), homepage: http://www.createprogram.org/, retrieved January 25, 2009.

Today, most other industrial countries make extensive use of electric locomotives, and for good reason. They are 2.5 to 3 times more efficient than diesels, more powerful, and cheaper to maintain. They also last longer, accelerate faster, and have much higher top speeds. Running highly energy efficient trains carrying containers at 100 mph is easily achievable. SBB (SwissRail) is planning a new class of freight service operating at 100 mph on the same tracks as 150 mph passenger trains.

Electric Railways Can Take Full Advantage of Clean Energy



Electric railroads may be powered from any source, including emission-free renewable energy, and in many areas with very little loss in transmission. Through "regenerative" breaking, an electric locomotive descending a grade also converts otherwise wasted kinetic energy into electricity that helps power other trains on the grid.

Powered by an overhead wire or third rail, electric locomotives don't have to lug the weight of their own fuel around with them. Another remarkable feature is called "regenerative breaking." Electric locomotives, when they brake, transfer their kinetic energy into electricity which is fed back into the grid and used to power other trains. An electric locomotive braking down one side of a mountain, for example, sends energy to trains struggling up the other side. With all these advantages, electric railroads are fully 20 times more fuel efficient than trucks.

Rail electrification also offers significant opportunities for zero-emission freight and passenger transportation. Just as the Milwaukee Road's electrified line once used hydro-power to haul freight over the Continental Divide, today's major freight railroad could use electricity derived from renewable energy sources, including wind and solar. In fact, there is probably no more practical use for wind than using it to power "wind trains" running across the heartland. Most wind farms are and will be concentrated near rail lines in any event, because the large size of windmills makes them difficult and expensive to move by truck. There is also no loss of energy in transmission when windmills power passing trains—a big problem in other applications. Some companies are already exploring the possibilities: BNSF Railway, which traverses many wind zones, is investigating a deal by which it would lease space for power lines along its right-of-ways to utilities in exchange for access to discounted wind power for its trains.[15]

Much of the electrification could start almost immediately. In the 1970s, the National Academies of Science and many others concerned about that decade's energy crisis did extensive work in mapping out the specific lines most suitable to electrification. In 1977, at one of the many technical conferences on the subject, Milton J. Shapp, then governor of Pennsylvania, spoke for many of the visionaries involved when he observed that "particularly in view of the energy crisis, it is essential to the well being of our nation that our major railroads electrify."[16] A temporary fall in oil prices and an abundance of short-term thinking killed almost every last project, but we still have benefit of all the studies sitting on shelves.

The work involved in constructing overhead wires, or centenary, requires unique skills, but one can imagine laid-off construction workers taking to it far better than, say, to nursing, and with less retraining. Current studies indicate that labor and construction costs would come to about $2 million dollars per mile; maybe less if steel prices continue to sink. Wiring the 36,000 miles of mainline track on the nation's high-density routes would thus come in

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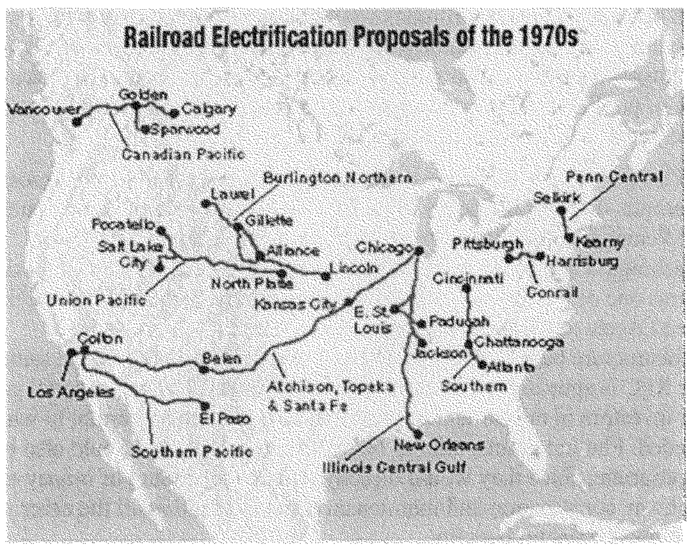
[15] William C. Vantuono, "Time to revisit electrification?" *Railway Age*, Sept, 2008. http://findarticles.com/p/articles/mi_m1215/is_/ai_n29476448, retrieved January 25, 2009.
[16] *Railroad Electrification : the Issues*, Washington: National Academy of Sciences, 1977.

at around $72 billion. Completing such a project could take as little as 6 years, according John Schumann P.E. of LTK Engineering.[17]



Additional funds would be needed, of course, for new locomotives and generating capacity. But building or retrofitting locomotives to operate under the new grid could put lots of laid-off auto workers back to work. General Motors, until it sold off its Electro-Motive Division in 2005 to private investors, was long the nation's dominate diesel-electric locomotive maker. The spinoff company is still headquartered in LaGrange, Illinois, though most production has shifted to London, Ontario. General Electric, which remains a world leader in locomotive building, with a big plant in hard-pressed Erie, Pennsylvania, could also use the business and would bring much expertise to it. The plant recently suffered a layoff.

Financing the "Back on Tracks" Project

To say the federal government should invest in railroads is not to say it should own them. It's true that countries with nationalized railroad systems

[17] Personal correspondence.

can take a broader view of the social value of railroad investment, which is why the Swiss, having voted to put all trucks crossing their country on to trains, are busy carving rail tunnels--one 35 miles long--through the Alps.[18] But nationalizing U.S. railroads would bring with it all the problems attendant to genuine socialism, and buying out current shareholders would cost taxpayers a bundle. What the government should do instead is make creative use of public/private partnerships to fund more rail infrastructure and better integration of trucks and trains.

There are many ways this could be done. During the Great Depression, for example, the Reconstruction Finance Corporation offered loan guarantees to the Pennsylvania Railroad to electrify its lines between New York, Washington and Harrisburg, which brought such efficiency to the railroad that it was one of the few to avoid bankruptcy during the 1930s. (Amtrak's high-speed Acela service runs under the same wire today.) A national infrastructure bank--which many have proposed--could play the same role as the RFC is spurring rail infrastructure investment. Reduced capital gains taxes for investors in rail infrastructure could also help direct capital to where it is needed. Flat out grants, akin to federal highway money, would also be appropriate, since they would directly reduce the amount of money needed for highway construction and maintenance, not to mention all the other economic and environmental benefits.

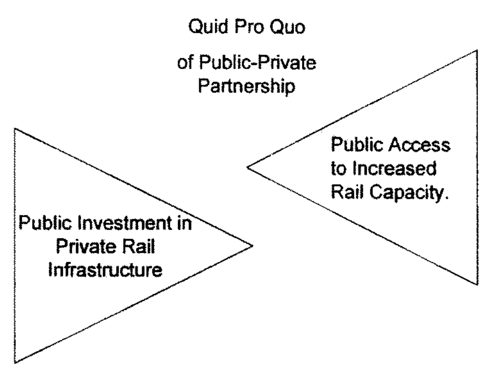
If the public helps railroads make these investments in electrification and other infrastructure improvements, it will of course earn important quid pro quos. Railroads, for example, could be required to apportion a certain amount of their increased capacity to public use, such as for commuter trains, which the railroads might or might not operate themselves (some show interest). It should also be possible to negotiate open access to publicly-financed rail infrastructure. This would allow outside companies to rent the rails and run their own freight, package express, fast mail, or passenger trains on them. It would also be a good check on any tendency toward monopoly pricing and provide for many other synergies as well.

In Great Britain, a subsidiary of Virgin Airlines called Virgin Trains operates passenger trains on publicly financed infrastructure, as do other private passenger and freight companies. Following this example would create something very much like the current interstate highway system: publicly financed transportation infrastructure maintained for the benefit of private operators. America's major railroads are wary of the full, open-access model

[18] "Swiss dig world's longest tunnel," BBC News, 20 March 2007, http://news.bbc.co.uk/2/hi/europe/6471241.stm , retrieved January 25, 2009.

and want to retain ownership of their track. With the promise of enough public capital, however, and the threat of re-regulation, deals can be struck that will bring profound benefits across the economy.

For example, there is no reason we cannot again have fast, efficient express freight service of the kind the Railway Express Agency once provided. For cities as far apart as New York and Chicago, trains can beat planes on next day mail service. As consulting engineer Alan Drake points out, when passengers and express freight or mail are borne by the same train, the economics of passenger rail improve dramatically, making possible far wider service.[19] We also have the chance to reduce drastically the cost and the huge carbon footprint caused by using trucks and planes almost exclusively to ship perishables across the country. Until the 1970s, railroads handled nearly all fresh food movement from California and Florida, and could again, making healthy winter fruits and vegetables cheaper, and less hard on the planet.



[19] Alan Drake, Edson Tennyson, *Semi-High Speed Railroad: A Novel Cost-Effective Approach for Passengers and Express Freight*, forthcoming. Alan_Drake@Juno.com; ESTennyson@Cox.net.

Ancillary Benefits of a "Steel Wheel Interstate" System

- Consumers save due to reduced auto commuting costs and reduced freight transportation costs.
- Express freight and parcel delivery becomes cheaper, particularly for heavy items, and more energy efficient. Mid-size American cities receive better logistical services.
- Transport of most perishables, such as fruit and vegetables from California or Florida, no longer requires heavy use of long-haul, heavy trucks.
- Facilitates the coming of true high-speed railroad passenger service and the expansion of conventional passenger, commuter, and auto trains.
- Facilitates the rebuilding of America's manufacturing base by reducing the cost of moving both commodities and finished goods.
- Lowers the amount of greenhouse gas reduction needed from other sectors of the economy to achieve overall emission targets.

Another potential use of steel wheel interstates would be auto trains. Today, Amtrak offers a service that allows motorists to drive their cars onto special auto racks that are attached to the back of a passenger train. The train runs daily between Northern Virginia and Central Florida, saving users 855 miles of driving down I-95. The service is particularly popular among northern "snowbirds" who spend the winter in Florida and want to have their cars with them. For now, this is a specialty market, and it is not cheap because of the energy required to haul the weight of the automobiles. But with the potential energy efficiency of an electrified steel wheel interstate system, auto trains could make sense in many markets, whether run by Amtrak or private firms.

Switzerland's "Rolling Highway." Drivers sleep in a coach attached to the train while traversing the Alps and taking their mandatory hours of rest.

A similar service might also appeal to remaining independent long-haul truckers (we'll still need some for transport of time-sensitive cargo to and from remote locations). In Europe, a company called HUPAC offers a service known as "the rolling highway." By attaching a coach to the end of its container trains, it allows drivers to rest as they and their rigs traverse the Alps. Truckers in this country, before exceeding their daily legal maximum of 11 hours behind the wheel, could load their rigs onto a rolling highway and get some nine hundred miles down the road while they took their mandatory 10 hours rest. [20]

Is all this politically feasible? Certainly more so than a year ago, before the consensus formed that we must invest massively in infrastructure of some kind. Importantly, too, we're not talking about bailing out a failing industry, but about helping an expanding, more energy efficient one to grow fast enough to meet pressing public needs. Nor would we be making big bets on unproven technology. Also, it is important to remember that big trucking companies, facing acute driver shortages and increasing highway congestion, are increasingly shifting their containers to rail and so have an interest in improved rail infrastructure. With trucking companies morphing into logistics companies, it's a new day in the special interest politics of freight.

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[20] HUPAC webpage, *Rolling Highway: Switzerland the Relaxing Way.* http://www.hupac.com/en/index.php?p=prod_autostrada&mt=2, retrieved January 25, 2009.

Finally, the proposal has an additional political advantage: it does not involve pricing or guilt tripping people out of their automobiles. Electrifying and otherwise improving rail infrastructure would indeed facilitate the coming of true high-speed rail passenger service to the United States, a goal President Obama committed to as a candidate. Its success, however, would not depend on persuading a single American to take the train instead of flying or driving. This is change we can believe in•

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STATEMENT BY

THOMAS D. SIMPSON
EXECUTIVE DIRECTOR
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BEFORE THE

HOUSE COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE

RAILROAD SUBCOMMITTEE

Wednesday, January 28, 2009

Good Morning, my name is Tom Simpson and I'm the Executive Director of the Railway Supply Institute (RSI), the international trade association of the railway and rail rapid transit supply industry. Our members provide goods and services to our nation's freight and passenger railroads and rail rapid transit systems. We celebrated our 100th year of service to railway suppliers and their customers in 2008.

There are approximately 750 railway supply companies in the United States. In a good year, their sales volume totals approximately $20-25 billion per year with one fourth of that volume coming from sales to Amtrak, transit authorities and commuter railroads. The vast majority of these companies are small with less than $10 million in annual sales.

RSI has approximately 250 member companies that exist primarily in the United States; we also have members from Canada, Australia, China and India. Our members build locomotives, new railroad freight cars and passenger cars, as well as, providing communications and signaling technology and modern maintenance-of-way techniques to our railroads. RSI member companies also own and provide for lease around 700,000 freight cars or almost 50% of the freight cars operating in North America. RSI member companies build virtually all the railroad tank cars operating today, in addition, they own and provide lease for around 70% of the approximately 300,000 railroad tank cars in service today.

A word about railroad tank cars, since the late 1970s, RSI and our partners at the Association of American Railroads have jointly funded the Railroad Tank Car Safety Research and Test Project. The Project has invested more than $20 million in research to make tank cars safer. Based on the conclusions from that research, tank car owners have invested more than $700 million in safety improvements to the tank car fleet. There is no safer way to move the hazardous commodities our nation uses than by railroad tank car.

Entering 2009, the economic record of the railway supply industry is decidedly mixed. As long as railroads continue to reinvest in their rights-of-way, then maintenance-of-way and communication & signaling companies find that business is relatively good, but our suppliers are concerned that railroads will not continue to invest due to the economic downturn in the industry. Locomotive manufacturers, who have enjoyed strong orders in recent years, have seen orders drop and prosperity disappear. The downturn in freight traffic being reported by our nation's freight railroads has had an adverse affect on freight car owners and new freight car builders. Railcar leasing companies are increasingly reporting that demand for freight cars is weakening. One freight car leasing company has reported that "miles of cars" have been idled because of the economic downturn.

There are six major railroad freight car manufacturers that belong to RSI. They manufacture over 95% of new railroad freight cars delivered each year. RSI reports quarterly new freight car orders, deliveries, and backlog of cars ordered but not yet delivered. Those of us who have been in the railway supply industry are painfully aware of the cyclical nature of the new freight car market. In the early 1980s, freight car orders had dwindled to fewer than 10,000. The last downturn in the industry was in 2000, but since 2001 this sector of the industry has enjoyed strong growth. In 2001, we reported orders of 20,000 new cars and, in 2002, we reported deliveries of just 18,000 new cars. In 2006, we reported near historic high orders of 91,000 and deliveries of 75,000. While 2008 statistics are not yet available, orders may be reduced from those historic 2006 levels by more than 50%.

Analysts are predicting fewer orders for freight cars in 2009, with some estimating orders dropping by 50% or more over 2008 levels. Freight car manufacturers are closing manufacturing facilities and furloughing employees. This has us all concerned as component suppliers such as wheel, brake, spring, axle and coupler manufacturers struggle to survive.

The passenger market is different. Suppliers to transit authorities and commuter railroads find that the dedicated funding for these railroads provided by SAFETEA-LU legislation allows those railroads to plan long term purchases and that market has been relatively steady. As Amtrak, our nation's intercity passenger railroad, has historically been under funded, the market for new intercity passenger cars has virtually disappeared.

Congress can help. I urge you to pass an infrastructure tax credit providing a 25% tax credit for certain freight rail capital expenditures to increase capacity. I also urge you to extend the short line tax credit, allowing those small railroads to take a tax credit for investment in their rights-of-way. Ask your colleagues on the Appropriations Committee to fund Amtrak at the levels contained in the legislation passed last year in Amtrak reauthorization legislation. Because of the uncertainty of the appropriations process, we must find an alternative funding source for intercity and high speed passenger rail. Taking these steps will create a stronger railroad industry in our country and create jobs in my industry.

Finally, RSI is a member of the OneRail coalition and endorse the statement of Anne Canby concerning reauthorization of SAFETEA-LU transportation legislation. As part of that legislation, I urge you to continue to fund the Section 130 grade crossing safety program and Operation Lifesaver, Inc., the nationwide volunteer education organization warning of the dangers at highway rail crossings.

House Transportation and Infrastructure Committee

Railroads Subcommittee

Testimony of
United Transportation Union

James Stem
National Legislative Director

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202-543-7714

January 28, 2009

Good Morning!

Chairperson Ms. Brown, Ranking Member Mr. Shuster, and Members of the Committee, on behalf of the men and women that are operating the trains moving on our nation's railroads today, I want to thank you for giving us the opportunity to testify on our priorities for rail freight and passenger services today and in the future.

My name is James Stem. I serve in the capacity of National Legislative Director for the United Transportation Union (UTU) with our office located here in Washington, DC. I also have the assignment of coordinating our participation with the Federal Railroad Safety Administration Rail Safety Advisory Committee (RSAC), at the direction of UTU International President Mike Futhey.

I am here today representing President Mike Futhey, and the values of our 70,000 plus active members of the UTU. We sincerely appreciate the opportunity to offer our input directly to the Rail Subcommittee.

I first would like to express our appreciation to this Committee for addressing many major safety issues in our rail industry during the last session. The Rail Safety Improvement Act of 2008 that originated in this Committee will provide a much higher level of safety in our industry. The process of implementing the requirements of that new law has just begun. We will keep the Committee posted on the application of the provisions in that law and will work with you on further improvements in safety. The new law addressed many significant safety issues and there remain other areas that need attention.

We would also like to take this opportunity to offer our encouragement and support for full funding for the Federal Railroad Safety Administration (FRSA). The FRSA has received many new mandates in the Rail Safety Bill of 2008 that will require additional resources. Our message this morning is focused on safety of the operations for rail and passenger railroads. The significant safety improvements contained in the Rail Safety Bill cannot be implemented fully without the needed resources, especially in the immediate future. We look forward to new opportunities to work with this Committee and the Appropriations Committee to make sure Rail Safety continues to be a top priority.

Roles of Freight and Passenger Rail

Freight and passenger rail services in the U. S. economy have played a central role in the development of our nation. From providing the spine for westward population settlement, and commercial and industrial development in the latter half of the 19th century, to transporting troops, arms, and supplies during World War II, the Korean War, the Vietnam War, and our latest deployments in the Persian Gulf region, the railroad industry formed the central core of the country's transportation system.

The last half of the 20th Century saw an industry in decline and in crisis, in part because it failed to change with the times, and in part because other competing modes – most notably aviation and highway – received substantial Federal assistance that enabled them to erode rail's share of freight and passenger traffic. Even after decades of erosion, however, the railroad industry entered the 21st Century as a key component of our nation's transportation infrastructure.

As we look forward, a balanced transportation policy serves our nation's needs. A national policy that demands the best use of our fuel resources while providing sustainable and environmentally friendly transportation must take priority over expediency. The environmental link to national transportation policies find that railroads provide the "greenest" options.

Historically, the railroad industry has provided hundreds of thousands of middle class jobs. The passenger and freight rail industry by its very definition, provided jobs in many rural areas all over our nation. As we discuss ways to both stimulate our economy and also to provide middle class jobs, including rail at the core of the infrastructure piece of the recovery plan is a sound investment.

The role of Amtrak and high speed rail services in the future transportation needs of our nation is integrally woven into our balanced and environmentally sound transportation policy. Amtrak is an essential component of our national transportation system and must be properly funded to allow the system to grow with the demand for service. Our nation needs redundancy and reliability in our transportation system. Never was the reliability issue greater than in the days after 9/11 when our airspace was shut down, our roads congested, yet Amtrak was able to bring families back together.

For many Americans who are unable to drive, and flying is not an option, Amtrak serves as a vital link for business, friends, and family. The demand for rail passenger service and ridership continue to grow every year. With the unpredictable price of fuel in the global market, rail passenger options must be part of our overall strategy. Moreover, Amtrak and our commuter rail authorities support many thousands of middle class jobs in numerous communities around the country.

Impact of Current Economic Crisis

While the current economic crisis has already taken a severe toll on railroad workers, particularly operating employees, the overall health of the industry is sound, especially among Class 1 railroads. The financial reports for the fourth quarter of 2008 indicate that our Class 1 railroads enjoyed significant growth both in their net profits and in a reduction of their operating ratios.

As of this writing, an average of 12% of our operating workforce is in furlough status, with more furloughs expected by the end of January. In addition, many other mechanical, clerical, and shop craft forces are facing furloughs. Also, many additional rail employees are now required to work in different locations and in different jobs. There are many safety concerns that follow this process, because many employees are now working in crafts that have different types of physical demands than their routine job assignment.

The unfortunate reality of a downturn in business in the rail industry is that the youngest employees are pushed out of the bottom of the seniority lists into furlough status. These usually are the families that are the most financially insecure.

Many of these furloughed employees will be needed by mid-summer in order to meet the requirements from changes to the hours of service law which were included in the new rail safety law. Moreover, there will be strong demand for highly-trained and highly skilled railroad workers when the economy begins to turn around and consumer demand is again on the rise.

As Congress continues the debate about an economic stimulus package, we encourage investments that will produce jobs in our country. We hope that the requirements of receiving any Federal funds will specify traditional job creation, and will not allow a "Race to the Bottom" on wages, or elimination of existing jobs.

At least one railroad is planning to pay for the implementation of their Positive Train Control (PTC) system required by Congress by attempting to operate their trains with only one employee on the train and using Federal funds to accomplish this goal.

Single Person Operation

The rail industry is demanding from their employees and the Federal Railroad Safety Administration the authority to operate trains with only one person on the locomotive. When this demand was first made during the current round of national negotiations, the industry provided assurances and indicated that the safety of the operation could be authorized with one person because of a pending development in PTC systems.

When research revealed that system wide implementation of any PTC system was many years and many billions of dollars away, the carriers continued with their demands. One railroad even attempted to receive back door approval for such controversial operations by filing a Product Safety Plan with FRSA that promoted single person operation with a waiver request for a second tier non-vital PTC overlay system.

Single person operation of freight trains involves a completely different analysis of the rail safety equation and a complete reassessment of the overall safety of operations that extends far beyond consideration of this specific issue. The responsibilities of the railroad to operate safely over public crossings, to inspect the moving train at every opportunity, to open public crossings quickly when stopped, and to interact with emergency responders are issues that are not addressed by any PTC system, and were not designed to do so.

A study of the data available on the FRSA website indicates there were a total of more than 17,500 grade crossing collisions between 2002 and 2007. Single person operation also ignores more than 5,000 trespasser incidents from the same period. Clearly, with more than 22,500 documented incidents occurring during these six years, an immediate response from the second operating crew member is essential to protect the safety of the public. Also, based on industry estimates more than 100 trespasser fatalities each year are ruled as suicides and are not reflected in the FRSA data.

Historically, each train has been considered as a self-contained operating unit that had the capability of moving safely in and out of terminals and sidings, and moving on main track utilizing a variety of train control systems and methodologies. Each train was able to set out defective cars en-route, to provide self inspection and repair for dragging equipment, shifted lading, hot journals, broken coupling devices, sticking brakes, and importantly, the ability to expeditiously open public grade crossings when necessary. Today, each operating crew is trained, equipped, and expected to make simple repairs and take other actions that ensure the safety of their train and the public. Each operating crew is also trained and equipped to interact with local emergency responders following a derailment, a grade crossing collision, a trespasser injury or fatality, and the myriad of operational events that occur daily in over-the-road railroad train operations.

The railroad carriers, who desire the authority to operate trains with a single individual, are ignoring their responsibility for the safety of their employees, the local communities that they travel through, the local emergency responders, and the general public. PTC systems are not designed to reduce the numbers of hot journals on freight trains. PTC has no effect on reducing the numbers of grade crossing collisions or the striking of trespassers. PTC has no effect on busted air hoses, broken coupling devices, or shifted lading. PTC systems were not designed to interact with emergency responders following a derailment or a collision, or to open a public grade crossing to allow emergency vehicles and the general public to cross.

The current method of operation today addresses these identified safety requirements by having a qualified, trained employee at hand to provide immediate response to critical safety needs. The new rail safety law mandates certification for conductors, so they would have the proper training and skills to respond to these daily events.

With single person operation, if one train sustains any operational failure (grade crossing collision, derailment, hot journal, broken coupling device, etc), then every other train on that route will be unable to open a grade crossing and will be able to make only limited reverse movements. The safety of the entire rail operation is compromised by the creation of this new concept of train movements that are not independent functioning units.

UTU, and other unions, have expressed our safety concerns about this attempt to compromise rail safety. We will keep you up to date on future developments with this controversial issue. We anticipate common sense coming to the rescue and this safety issue going away.

The use of Federal funds to install a PTC system, while attempting to experiment with single person operation, would disregard the safety of other railroad crews, the communities that are served, and the customers' well being. We encourage Congress to clearly specify how any Federal funds could be used by railroads.

Transportation Worker Identity Card and other Federal Licenses

Congress recently mandated the issuance of a Transportation Worker Identity Card (TWIC). Our rail employees are now involved in obtaining these required credentials. Many rail employees already are required to carry other Federal license credentials, such as an Engineer Certification license. In the coming months, there will be other Federal licenses and certification issued. Conductor certification is coming in the next few months, and the possibility of a credential showing a proper level of training for transporting hazardous materials is also a possibility.

UTU recommends that Congress help find a way to coordinate these processes and allow the issuance of one Federal credential, with the required endorsements. A certified engineer or conductor would have a TWIC, with all the other required credentials shown on that single card. This process would use less Federal resources and also simplify the process for railroads and their employees.

Investment in Freight and Passenger Rail

There has been a substantial public benefit from investment in freight and passenger rail for nearly all of the past 175 years. As America rebounds from the current severe economic crisis, we will need to rely upon safe and efficient rail freight and passenger transportation more than perhaps at any time in our lives. A sound recovery plan can bring stability both to employment in the industry and to the future of our retirement system.

China has recently dedicated new levels of funding to build new railroad lines and other transportation infrastructure projects. New passenger lines linking population centers with high speed rail and a significant expansion of the Chinese freight rail network was a significant part of their Stimulus package.

While we continue this debate about how best to stimulate our economy, we encourage a review of history. The percentage of stimulus funds that are dedicated to transportation infrastructure projects provide the best long term investment strategy. During the start of the 20^{th} century in our nation, the rapid growth of transportation systems around the country resulted in major economic growth. We support and encourage a much higher percentage of the stimulus package be focused on transportation projects.

The concept of public-private partnerships is not a new thought, just new to the rail industry. A few years ago, railroads did not want to discuss shared use of rights of way and shared expense of increases in capacity on that right of way. Today, a sound and balanced transportation policy embraces the concept of mutual benefit and mutual contributions for increases in freight and passenger rail capacities. The growth of commuter rail authorities, and the demand for local commuter rail services, represent a significant growth opportunity for rail employment, and a significant expansion of capacity for freight railroads. Operating freight trains on shared trackage during non peak commuter times works very well for both services in many communities today.

Some new commuter rail transactions have attempted to skirt the Railway Labor Act and create an entity that looks like a railroad, acts like a railroad, but declares they are not a railroad. This "Race to the Bottom" on wages and benefits for those employees working for the commuter authority undermines the safety of that operation. A commuter authority that operates trains needs the same expertise and stability in their employees that every other rail operation requires. We think it is logical for that issue to be settled in advance of the transfer of any Federal funds.

We hope that the use of Federal funds in support of both passenger and freight rail operations would continue to create job opportunities for our children --a job that is safe, a job that pays a living wage, and a job that provides good health care and a comfortable retirement. A job that we all hope our children and grandchildren can find, not a temporary job with low wages and no benefits. As you continue the discussion about rail funding, we encourage you to overlay the values of middle class jobs on your requirements.

Rail Accident Investigation

The National Transportation Safety Board (NTSB) is charged with the responsibility of investigating transportation accidents for many reasons. The safety input of every accident investigation is focused on determining all the causes of each accident, and then using that information to make recommendations for changes in systems, processes, equipment, and training values to prevent similar occurrences.

Recently the NTSB has ignored many rail employees' fatalities and not launched an investigation to determine the cause of the accident that created the fatality. We find that part of the problem with this lack of investigation of fatalities is that the Rail Division of NTSB has been combined with other Divisions which has obviously diluted their focus on Rail Safety.

We are aware that this Committee does not have authority to control the day to day operations of this Federal Safety agency. We are just sharing our frustrations and our determination to find a solution to this significant safety concern. The pressure coming from within the past administration to stop virtually all rail accident investigations is unacceptable to many different constituencies, and we are sharing our resolve to work with our New Administration to resolve this major issue quickly.

We appreciated the opportunity to speak today, and I will be glad to answer any questions or clarify my remarks.

STATEMENT OF

RICK WEBB, CHIEF EXECUTIVE OFFICER

WATCO COMPANIES

ON BEHALF OF THE

AMERICAN SHORT LINE AND REGIONAL RAILROAD ASSOCIATION

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON RAILROADS, PIPELINES, AND HAZARDOUS MATERIALS

REGARDING

FREIGHT AND PASSENGER RAIL: PRESENT AND FUTURE ROLES, PERFORMANCE, BENEFITS, AND NEEDS

JANUARY 28, 2009

Rick Webb
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Madam Chairwoman and Members of the Committee, I appreciate the opportunity to testify today on behalf of the U.S. short line railroad industry. I am the Chief Executive Officer of Watco Companies headquartered in Pittsburg, Kansas. Watco owns and operates 19 short lines which together have nearly 4,000 track miles in 16 states. Our first short line railroad operation was purchased in 1983 in DeRidder, Louisiana and it is still in operation today. Watco also operates railroad repair shops, transload facilities and property management services so we have exposure to virtually every aspect of the railroad industry.

The short line industry is not the largest segment of our national transportation system, indeed in market share and annual revenues we may be among the smallest. Our importance is not our size or our total market share but in who and where we serve. For large areas of the country and particularly for small town America short line rail service is the only connection to the national railroad network. For the small businesses and farmers in those areas, our ability to a take a 25-car train 75 miles to the nearest Class I interchange is just as important as the Class I's ability to attach that block of traffic to a 100-car train and move it across the country. My Kansas grain Customers cannot make the journey to export markets in the Gulf without Class I railroad service. But they can't start the journey without short line service.

While today's topic is about where we are and where we are going, it is worth noting where we came from, because the short line industry has undergone tremendous change in the last 30 years.

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

I think it can be fairly said that today's short line industry was launched by the federal government's decision in the 1980's that it was better to save light density branch lines than to abandon them. Short lines have grown from 8,000 miles of track in 1980 to nearly 50,000 miles today. There are over 500 short lines operating in 49 states. In five states short lines operate 100 percent of the state's rail network. In 10 states they operate more than 50 percent of the railroad network and in 30 states at least one quarter of the rail network. In the Chairman's home state of Minnesota short lines operate 30 percent of the state's total network. In Florida, the home of Railroad Subcommittee Chairwoman Brown and Ranking Member Mica, short lines operate 39 percent of the state's total railroad network.

Short lines are the "first mile-last mile" for over 14 million carloads of goods annually – nearly one out of every four carloads moving on the national rail network. This interchange with our partners, the Class I railroads earns for those Class I railroads 18 to 20 percent of their revenues.

The short line railroad industry has preserved and grown railroad service and jobs for a number of reasons and I think it is important that key decision-makers such as you understand those reasons.

First, as I mentioned beginning in the 1980's the federal government made changes to outdated laws and regulations that made it more economically sensible to save light density lines than to abandon them.

Second, and I say this at the risk of sounding boastful, the short line industry is blessed with a large number of entrepreneurs who took large financial risks to purchase and subsequently rehabilitate these light density lines. Most of us borrowed heavily from the bank and contributed substantial amounts of our own capital to make these new ventures go.

Third, short lines have worked very hard on building relationships with their Customers. In the beginning many of them were our partners in helping save the most marginal lines. They did so by helping finance rehabilitation through realistic rates and by agreeing to meaningful traffic volumes. We have continued to work closely and cooperatively with our Customers. As you all know the short industry undertook an aggressive campaign to secure a rehabilitation tax credit and I am pleased to say that our Customers played an active and perhaps decisive role in that effort. To date over 1,000 individual shippers have publicly supported the creation and extension of the credit and I have attached a newspaper ad they approved in that regard. In the course of organizing that effort we have collected many testimonials from our Customers and I have also attached a sampling of those so you can get some sense of the importance of short line service to railroad Customers.

Fourth, short lines reinvest on average nearly 30 percent of their annual gross revenues in repairing and upgrading their infrastructure. As a rail industry, we believe this is higher than almost any other industry in the country.

Fifth, that private investment has been supplemented by some very important help from the federal government, much of it developed by and moved through Congress by Members of this Committee. The short line rehabilitation tax credit which was enacted for a three year period in 2004 and subsequently extended through 2009 has allowed the short line industry to maximize investment in track rehabilitation. Just to give you some idea of the magnitude of this the National Railroad Tie Association estimates the tax credit has resulted in the purchase of an additional 750,000 ties annually by short line railroads. I might add, in the spirit of Economic Stimulus, that every one of those ties are produced in the United States. Short lines must spend $1 dollar for every 50 cents in credit up to a credit cap equivalent to $3,500/mile. Thus the tax credit is leveraging significant additional private investment.

The Railroad Rehabilitation and Improvement Financing or so-called RRIF loan program has provided another important tool in our effort to maximize rehabilitation spending. The Transportation and Infrastructure Committee developed this program in 1998, has improved it over the years and perhaps most important, has been steadfast in protecting the program from those in previous Administrations who would have killed it. I want to particularly call out Congressmen Oberstar, Corrine Brown, Bill Shuster and Jerry Moran who led the charge last year to put a stop to a set of Administration proposed rules that could have effectively killed the program through the back door.

Like the tax credit, the RRIF loan program leverages substantial private investment in short line infrastructure. These are loans that must be paid back in full. The relatively low interest rate and the 35 year amortization are terms short lines cannot secure in the private market and the program has allowed those who have taken advantage of it to undertake projects that could not have been done or that would have to have been stretched out over many years. I am proud to say in the ten years the RRIF loan program has been on the books, not a single short line railroad has missed a single quarterly payment on its debt. In today's world we might be one of the only groups that can say that.

One of my own short lines, the Stillwater Central in Oklahoma secured one of the very first RRIF loans in Feb. 2004. That loan was very important in acquiring and preserving that property. Since 2004 the Stillwater Central has increased carloads by 30 percent, improved its profitability by 40 percent and increased jobs by 20 percent. In addition to this, we have kept rates beneath the increases in inflation, while investing millions of dollars in our infrastructure.

Infrastructure funding is at the center of the current discussions over economic recovery. The government is looking to fund "shovel ready" projects that result in immediate job creation, that use materials made in the United States, that help leverage additional private investment and that provide long term benefits to our transportation network. It will come as no great shock to the Committee that we believe that increasing short line spending meets every one of those criteria. The Short Line Association has proposed a number of programs, including an extension of our existing tax credit and changes to the existing RRIF program and I have attached a paper describing that proposal to my written testimony. Time does not permit reviewing that proposal and, in any event, I suspect that I am preaching to the choir on most of these items.

The long term success of the short line industry is directly related to sustained economic growth, to heavy investment in infrastructure improvements and to our capacity to adapt quickly to changing conditions in the marketplace as our Class I partners seize new opportunities and implement new strategies and technologies. Change is always challenging, and it is particularly challenging in today's very difficult economic climate. But is our responsibility to understand and adapt to that change. Rail customers and the

Class I community need and expect short lines to meet this challenge by moving freight consistently, efficiently, safely and at competitive rates. This is particularly important if the national railroad system is to handle the large freight increases expected over the next 10-15 years.

We in the short line industry believe we have succeeded during some very tough times in the past. I won't say we began our new companies with just a wing and a prayer, but we did take on a big challenge in preserving rail infrastructure that most thought was lost. We got a lot of help from our Customers, our people and from good government policies. With the continued help of all three we are confident we can continue to grow and play an important role in the national transportation network.

American Short Line and Regional Railroad Association

The Voice of America's Independent Railroads

Why Include Short Line Railroad Infrastructure in a Stimulus Bill

America's 545 short line and regional railroads operate 50,000 miles of track or approximately one third of the national rail network. They operate in vast areas of the country no longer served by the seven large Class I railroads and keep tens of thousands of small businesses and communities connected to the national main line rail system.

Today's short lines were the abandonment candidates of a Class I railroad industry that could no longer make a profit operating these light density lines. As such, every new short line company began its existence with track that had received little investment under previous owners. Short lines invest nearly 30 percent of their gross revenues in infrastructure repairs and maintenance, a figure several times greater than the national average for business reinvestment. Eliminating deferred maintenance is a particular challenge because short lines serve smaller customers which do not ship the large volumes needed to generate the extra revenue needed for capital investment.

Using Existing Authorizations to Fund Short Line Capital Projects

- Appropriate $100 million over two years for capital grants for Class II and III railroads, as authorized by the Energy Independence and Security Act of 2007 (49 USC 22301; as amended by Pub.L. No. 110-140).
- Extend the short line rehabilitation tax credit (26 USC 45G) through 2015 and raise the credit cap from $3,500 per mile to $10,000 per mile (credit currently expires Dec. 31, 2009).
- Appropriate $500 million to reduce the interest rate to one percent on Railroad Rehabilitation and Improvement Financing for eligible projects. This subsidy would support over $1 billion in loans. The RRIF program is currently authorized at $35 billion (45 USC 822).
- Allow RRIF principal payments to be deferred for up to six years.

What is the Stimulus Impact?

- Most short line capital projects require no additional engineering or other lead time. Short lines are constantly installing new rail and ties, the amount limited only by funding availability.
- Most short line capital investment is made on existing company owned rights-of-way, requiring no regulatory or environmental delay.
- Most short lines do not have the in-house manpower to undertake these projects and must hire contractors and laborers to do the work. The Federal Railroad Administration estimates that nearly 50 percent of every railroad capital dollar goes to labor.
- Rail projects require the purchase of large quantities of materials such as timber and steel, almost all of which is manufactured in America, and are currently experiencing a downturn.
- The short line tax credit requires the railroad to spend two dollars for every one dollar in credit, thus leveraging substantial additional private infrastructure spending.
- RRIF is a loan program where the federal government will be repaid in full. In the program's 10-year history not a single short line RRIF recipient has missed a single quarterly payment.

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Short Line Railroad Customers Talk About Service and the Short Line Rehabilitation Tax Credit

R.A. Geurts, AVP & General Manager – Cargill, Inc., Wahpeton, North Dakota
A Customer of the Red River Valley & Western Railroad

Cargill's Wahpeton facility ships thousands of cars a year over the Red River Valley & Western (RRVW). It operates on a 24/7 basis and cannot afford any interruption in bringing in raw materials or shipping out finished product. Said Mr. Geurts, **"The RRVW was very involved in our site selection process for this facility and has provided exemplary service since the plant's inception. They understand the importance of flexible, customer-based service. They know we depend on daily high quality rail service to operate profitably. Our plant has 160 employees and I can assure you that our success as a business is important to each and every one of them."**

Steve Zika, CEO Hampton Lumber, Portland, Oregon
A Customer of the Portland & Western Railroad

"The short line tax credit helped us lower our transportation costs and sell more lumber to more customers. Hampton is one of the largest employers in rural Oregon and an efficient local railroad helps keep it that way," said Mr. Zika.

May-May Ng, Director – CK International, Ltd., Waukee, Iowa
A Customer of the Iowa Interstate Railroad

CK International, Ltd., exports Iowa agricultural products to Asia. Utilizing the Iowa Interstate Railroad allows them to ship heavier loads than can be accommodated by truck. **"The ability to load heavier freight cars reduces our freight costs by 2.5 cents per pound. In this very competitive market the ability to reduce costs by as little as 1/8 of a cent per pound can make the difference in getting the business."**

Warren Fisk, General Manager – Farmers' Cooperative Elevator, Manly, Iowa
A Customer of the Iowa Northern Railway

The Section 45G tax credit made it possible for the Iowa Northern Railway to complete a $1.5 million track rehabilitation between Manly and Nora Springs to better serve the Farmer's Coop Elevator at Manly, and Rock Falls Grain and Cartersville Elevator at Nora Springs. Without this upgrade, the railroad could not handle the increased volume required by the customers. **Warren Fisk of the Farmers' Coop said, "The Iowa Northern track rehabilitation project will help us increase volumes and lower transportation costs and that is good for every farmer that uses the elevator. To the extent the short line tax credit made that possible it is a real success story."**

Sonia Meehl, Owner/General Manager – Crete Grain, Crete, North Dakota
A Customer of the Red River Valley & Western Railroad

Crete Grain purchases grain from North Dakota farmers for resale to exporters and domestic end-users, mostly outside of the state. The majority of the grain is moved to the Pacific Northwest ports for export. In recent years Crete has shipped over 4,000 carloads of grain per year on the Red River Valley & Western which is the only link to the Class I railroad system. **"Truck transportation is simply not feasible for moving large volumes to the west coast ports. We collect our corn from over 200 family farmers and the railroad is what allows us to find markets for this corn. Without the short line railroad these farmers would be limited to what they could truck short distances within our state. For many it is what makes their farming operation viable," said Sonia Meehl, owner and general manager of Crete Grain."**

David Geers, President – Michigan Agricultural Commodities, Lansing, Michigan
A Customer of the Huron & Eastern Railroad

Michigan Agricultural Commodities owns 10 grain elevators in Michigan, two of which ship some 3,000 railcars a year over the Huron & Eastern Railroad. Most of these cars are bound for processors and feed mills in the southeastern U.S. **"We purchased these two facilities in 2001 and have experienced significant growth at both. Reliable short line service has contributed to that growth. In fact, nine of our 10 locations are served exclusively by short line railroads and they are part of what has helped us make Michigan agricultural products very competitive throughout the southeastern U.S.," said David Geers, president of Michigan Agricultural Commodities.**

Ronald Harlow, Dixie Business Director – Georgia Pacific, Naheola, Alabama
A Customer of the Meridian & Bigbee Railroad

The Meridian & Bigbee Railroad serves 22 customers in central Alabama and Mississippi. Those customers in turn employ over 3,900 high quality, industrial workers. The Section 45G credit allowed the railroad to undertake an aggressive $5.6 million improvement project. With the renovations, the railroad will be able to attract new industries and jobs to the region while continuing to provide high quality service to existing customers. **"The Georgia-Pacific mill at Naheola depends on the Meridian & Bigbee Railroad to provide critical rail service," said Ronald Harlow, director of Dixie Business for Georgia-Pacific Corporation, the largest single on-line customer.**

Gene Carrier, General Manager – East Texas Asphalt Company, Lufkin, Texas
A Customer of the Timber Rock Railroad

The Timber Rock Railroad provides a crucial connection to the BNSF and KCS Railroads, necessary to deliver needed aggregate into east Texas. The Timber Rock utilized the Section 45G tax credit to make needed bridge improvements to handle long heavy trains of rock cars and deliver them safely and economically to deep east Texas. **"We count on the Timber Rock to supply multiple grades of aggregate to meet the construction needs of our region, " said Gene Carrier, General Manager of East Texas Asphalt. "Their ability to make needed**

repairs to the railroad allows our communities to compete economically with the urban areas that have more transportation choices."

Gary Beachner, General Manager – Beachner Grain, St. Paul, Kansas
A Customer of the South Kansas & Oklahoma Railroad

The SKOL railroad installed more than 20,000 ties and relayed five miles of rail with a heavier, more secure type of steel to make the movement of trains safer and more reliable in Southeast Kansas. **Gary Beachner of Beachner Grain said, "Beachner Grain depends on the SKOL to move more than 6.5 million bushels of grain to market every year. It is critical for our business and for family farmers throughout the area that the SKOL be able to maintain an infrastructure adequate to keep Southeastern Kansas farmers competitive in the global marketplace."**

Brian Whipple, Transportation Manager – Amalgamated Sugar, McMillan, Idaho
A Customer of the Eastern Idaho Railroad

The Eastern Idaho Railroad utilized the section 45G tax credit to provide for a major reconstruction of the main line between Burley and Twin Falls, Idaho. At a press conference in the summer of 2006, **Brian ~~Whipple of Amalgamated Sugar said, "Without the Eastern Idaho Railroad, Amalgamated~~ Sugar would not be able to be in business in the Magic Valley. We depend on the EIRR for inbound and outbound products to keep Amalgamated Sugar operating."**

Mike Purdy, Owner – Delta Trading Company, Bakersfield, California
A Customer of the San Joaquin Valley Railroad

Delta Trading is a distribution facility located on the Sunset branch of the San Joaquin Valley Railroad in Bakersfield, CA. **Mike Purdy of Delta Trading said, "The track rehabilitation made possible by the tax credit is directly responsible for Delta Trading Company's decision to invest nearly $3 million in its facility and almost triple its number of employees. We now have a short line railroad partner that can provide the volume and level of service that allows us to significantly grow our business. This tax credit was a very smart decision by the federal government and I suspect it will more than pay for itself as our experience is repeated on short lines across the country."**

Ron Walters, President – Erie Plastics, Corry, Pennsylvania
A Customer of the Western New York & Pennsylvania Railroad

The Western New York & Pennsylvania Railroad has used funds freed up by the Section 45G credit to match a Pennsylvania grant program to undertake a $3.5 million project to provide stronger and higher speed railroad track that can provide more efficient and competitively priced transportation for Pennsylvania shippers. **Ron Walters, President of Erie Plastics, said, "This facility molds 30 million plastic parts a day and we bring 80 to 90 percent of our plastic resin into the plant by rail. Rail transportation is the most economical way to get our raw materials, and anything that helps make the railroad more efficient and more viable is critically important to our success."**

Short Line Railroad Customers Benefit from Section 45G Investments

Arthur Kroot, President – Kroot Corp., Columbus, Indiana
A Customer of the Louisville & Indiana Railway

Arthur Kroot and the 60 employees of Kroot Corp. are southern Indiana's principal scrap yard, working closely with the area's auto manufacturing plants and steel mills. For the past ten years, the Kroot Corp's business has heavily relied on continued investment in the Louisville & Indiana Railway, including a recent bridge replacement program made possible by Section 45G. According to Mr. Kroot, **"If we did not have this railroad, we would be out of business. The L&I has done an incredible job for us. The benefits are significant to not only industry, but the community. This is the lifeblood of our area and the auto manufacturing plants could not operate without the railroad."**

Bill Dozier, Division Logistics Rail Manager – Georgia-Pacific, Crossett, Arkansas
A Customer of the Arkansas, Louisiana & Mississippi Railroad

In Crossett, AR, the Arkansas, Louisiana, & Mississippi Railroad's aggressive tie replacement program funded by Section 45G will benefit a plywood plant, a lumber mill, a paper mill, and a chemical facility, in aggregate employing 3,000 workers. The plywood plant in Crossett is the largest softwood plant in the world and the paper mill is one of largest Georgia-Pacific plants producing tissue and other paper. **According to Bill Dozier, division logistics rail manager for Georgia-Pacific Corporation, "Our company depends on the railroad and it is important that the ALM continues to reinvest in their railroad infrastructure."**

Tony Johannesen, Manager – Dakota Prairie Ag, North Dakota
A Customer of the Red River Valley & Western Railroad

The rehabilitation of this line allows Dakota Prairie Ag, a wholesale grain, farm supplies and field bean merchant, to ship 110 pound shuttle trains to distant export and domestic markets. This marks the first time in history that the farmers in the region will have this opportunity. **"The ability to utilize these longer, heavier trains is going to reduce transportation costs by about 10 cents per bushel and that is going to make North Dakota grain more competitive in the marketplace," stated Tony Johannesen, Dakota Prairie Ag manager.**

Cliff Forrest, President – Rosebud Mining Company, Penfield, Pennsylvania
A Customer of the Buffalo & Pittsburgh Railroad

Due to the investment funds made available by the Section 45G tax credit, the Buffalo & Pittsburgh Railroad is upgrading its tracks from Dubois to Driftwood, Pennsylvania. This $2.2m investment will enable Rosebud Mining Company to expand its coal preparation and railcar loading facility in Penfield, Pennsylvania and expand its coal mining operations in the region. This project enables Rosebud Mining to open a new coal mine in the region with forecasted shipments of 8,000 railcars (800,000 tons of coal) annually. The upgrade provides a positive economic impact to the region by creating 45 new mining jobs, 5 new railroad jobs and 30 temporary construction jobs. **Cliff Forrest of Rosebud Mining Company said, "Having the Buffalo & Pittsburgh Railroad make this investment was essential in our decision to expand the coal load-out facility, which will now enable us to handle 800,000 tons by the opening of new coal mines."**

Butch Reed, Sales Manger – Columbus Brick, Columbus, Mississippi

A Customer of the Columbus & Greenville Railway

The Section 45G credit allowed the Columbus and Greenville Railway to undertake a $400,000, 2.5-mile track rehabilitation to benefit Columbus Brick. As a result of this improvement, Columbus brick has increased outbound rail from 100 cars per year in 2001 to over 550 cars per year today. For the 90 employees at the Columbus facility, it is critical to have the ability to ship via rail. **Butch Reed, sales manager of Columbus Brick noted that, "by allowing us to use 100 ton rail cars, this rehabilitation project has reduced our transportation costs and made this Mississippi company a stronger and more competitive player in our industry."**

Greg Wheelan, Plant Manager – National Gypsum, Medicine Lodge, Kansas

A Customer of the V&S Railway

The largest customer of V&S Railway is National Gypsum, a building products manufacturer and one of the leading gypsum wallboard producers in the world. Before the passage of Section 45G, track conditions limited train speed on the line to below 10 mph. Improvements made ~~because of Section 45G have increased train speed to 25 mph.~~ **~~This increase in train speed has~~ led to improved customer service. According to Greg Wheelan, local National Gypsum plant manager. "Before the improvements, several cars of our materials would bunch up, but now we are able to get to the mainline faster. The upgrades in the track and switches provided by the short line tax credit helped speed things up, lessening delays and improving reliability to the rail line."**

Greg Gould, Vice President – Rogers Group, Inc., Bloomington, Indiana

A Customer of the Indiana Rail Road

Rogers Group, Inc. of Bloomington, IN provides customers with crushed stone, sand and gravel, asphalt, and concrete masonry. Funds made available by Section 45G have allowed Indiana Rail Road to haul 3,000 tons of stone per week from the Rogers Group limestone quarry to a Hoosier Energy electrical power plant to reduce air pollution emissions. **"This simplified the transportation dynamic for our customer, who already had existing rail infrastructure. The movement of the products by rail replaced all the truck traffic, increasing safety and reducing energy consumption. The customer service provided to the power plant improved the delivery speed and reliability of our product," continued Gould.** The dependability and sustainability of the improvements also created job security for the fifty employees at the Rogers Group location. **"Stimulating the economy, economic development and creating new jobs through the short line tax credit are the things we need to continue doing," lauded Gould.**

David Roche, President & CEO – Minn-Dak Farmers Coop, Wahpeton, North Dakota

A Customer of the Red River Valley & Western Railroad

The timely and safe rail transportation provided by the Red River Valley & Western Railroad is essential to the business of the Minn-Dak Farmers Coop and its 250 employees. The Coop ships 95% of their outbound sugar and sugar products over the RRVW and they receive 100% of their inbound coal and limestone vie the short line. According to Mr. Roche, **"Short lines excel in meeting the individual needs of their customers. They are local companies that are in daily contact with us and the work overtime tailoring their service to our particular needs. They do so overt track which requires substantial capital investment both to make up for past neglect and to meet the ever increasing requirements for heavier cars and faster turn around times.**

Steve McLaurin, Live Production Manager/Operations Manager – Peco Foods, Bay Springs, Mississippi

A Customer of the Mississippi Southern Railroad

The Mississippi Southern Railroad (MSR) was able to utilize the Section 45G tax credit to insert thousands of cross ties into their main line between Newton and Bay Springs, Mississippi. Until that point, this line had been embargoed by the previous Class I railroad owner due to poor track conditions. The MSR was able to use the tax credits to install enough ties on the line to re-open the railroad and resume service to their customers. **According to Steve McLaurin of Peco Foods "Our company feeds tens of thousands of chickens every day, and we count on the Mississippi Southern Railroad to be able to deliver the necessary corn and soybean meal in an economical fashion. Without the MSR being in business, and without their ability to rehabilitate and upgrade their track, we would have had to close our doors, which would have meant a meaningful loss of jobs and a major direct economic hit to our community."**

Roger Simon, Vice President – Alma Iron and Metal, Alma, Michigan

A Customer of the Huron & Eastern Railroad

The City of Alma worked for some time to move the Alma Iron and Metal facility from its present downtown site along the Pine River mill pond so the city could redevelop the river front. That goal was recently accomplished when the company was able to justify relocation to an industrial park site formerly occupied by Total Petroleum. **"The availability of direct rail service at the site was a major factor in making the economics of the move work. When you consider that one railcar holds four truckloads, the economics become real clear. Ours is a very price competitive business and we cannot get to the markets we need to reach without good short line rail service," said Roger Simon, VP of Alma Iron and Metal.**

Cliff Vennix, President – Auburn Bean & Grain, Auburn, Michigan

A Customer of the Huron & Eastern Railroad

Auburn Bean and Grain is a major rail shipper based in Auburn, MI. AB&G, which also has locations in Oakley, Hemlock, and Saginaw, is in the business of seed cleaning and processing and has a combined storage of 13 million bushels. **""Auburn Bean and Grain depends on the Huron and Eastern Railroad to move some 2,200 cars a year to get its product to market. The short line operates in areas the large Class I railroads no longer serve and over track that received limited investment by previous owners. The rehabilitation tax credit has allowed the railroad to increase it annual track investment by approximately $300,000 per year. Those track improvements are critical to the success of agricultural shippers in Michigan. They improve service and help keep transportation cost down. It's a smart program that should be continued," said Cliff Vennix, president of Auburn Bean & Grain.**

Short Line Railroad Customers Benefit from Section 45G Investments

David Skjaerlund, President – Liberty Renewable Fuels, LLC, Owosso, Michigan
A Customer of the Great Lakes Central Railroad

"Short line railroads like Great Lakes Central provide service over track that was going to be abandoned by the large Class I railroads. For that reason most of this track received little or no investment for many years prior to the purchase by the short line. Catching up is very expensive and in rural areas such as ours small shippers do not generate enough volume to fully foot the bill. The tax credit has helped fill that gap. It allows the short line to catch up and lower operating expenses so that there is more revenue left to finish the necessary rehabilitation."

Jerry Moen, General Manager – Larson Grain Co., LaMoure, North Dakota
A Customer of the Red River Valley & Western Railroad

Larson Grain Co. collects grain from 150 family farmers in Southeastern North Dakota. **"It is not an exaggeration to say that if this railroad could not serve our facility we would have to close down. We ship approximately 10 million bushels a year and it is just not feasible to move that kind of volume by truck. Even if could, the damage that level of truck traffic would do to our local roads would be enormous."**

Brian Arnhalt, GM – Minn-Kota Ag Products, Breckenridge, Minnesota
A Customer of the Red River Valley & Western Railroad

Minn-Kota collects grain from Minnesota and North Dakota farmers and ships approximately 4,500 rail cars per year over the Red River Valley Railroad (RRVW). According to Mr. Arnhalt, **"the tax credit is more than just the credit itself. My company recently helped RRVW finance the rehabilitation of two yard tracks that were needed to load heavier, longer trains. The tax credit helped make this upgrade economically feasible for the railroad and their willingness to proceed is what convinced us to participate. It seems to me this is a very positive outcome that the government should continue to encourage in the future."**

OVER A THOUSAND REASONS TO SAVE SHORT LINE RAILROADS.

WOLFE RESEARCH

January 28, 2009

Thank you Chairwoman Brown, Chairman Oberstar and Ranking Member Mica, as well as your staffs for the invitation to present today on the state of the railroad industry.

My name is Ed Wolfe; I am the Managing Member of Wolfe Research, the leading boutique research firm on Wall Street focused on freight transportation and the macro economy. My team has been fortunate enough to be voted by investors as the top analysts on Wall Street for each of the past six years and eight of the past nine years.

I will make some comments for the record and submit the slides I hope to present to the subcommittee today.

In my thirteen years on Wall Street, as well as several years prior as an attorney, I have never before seen the U.S. or global financial markets and economy deteriorate in such a broad-based manner or at such a rapid pace. These truly are unprecedented times. The following slides show how quickly U.S. freight transportation demand has fallen off by mode and more specifically for the railroads by end user segment. I have also added some slides on rail and truck pricing, rail capital spending, returns and recent stock performance as well as our estimates for rail volumes, yields, revenue and EPS for the rails in 2009 relative to 2008.

Slide 1 lists several of the key reasons why rail infrastructure is critical and becoming more so for our nation's transportation needs. Railroads only comprise about 7% of total freight transportation spend in the U.S. but have become an increasingly critical line-haul component of moving bulk commodities and consumer goods to businesses and ultimately consumers throughout the U.S. and between Canada and Mexico. This has been accelerated over the past decade with the rise of global trade and offshore Asian imports into the U.S., which lend themselves to large, less expensive, non-time sensitive, long-haul moves on railroads rather than other modes of transportation. We estimate that rails are more than 3x more fuel efficient than trucks and with increasing highway congestion, the rails are one of the few alternatives for truck freight with meaningful potential capacity to help decongest highways and make America more productive, safe, and more environmentally responsible.

Slide 2 lists some of the major multi-year U.S. capacity expansion projects currently underway by each of the major railroads.

I will now turn to some thoughts on the freight macro economy generally and Chairwoman Brown's request for an update on how railroads are faring in the current economic crisis.

Our sense is that the recent further freight downturn since Thanksgiving reflects a material inventory drawdown and extended production shutdowns around, and since, the holidays, as freight has seemingly ground to a halt. Based on our channel checks, we expect these very weak freight trends to continue well into the first quarter of 2009, hence our expectation for -5% GDP during both fourth quarter 2008 and first quarter 2009.

Beyond extended shutdowns from the Big 3 automakers, we have seen announced production curtailments from a broad array of companies and industries including Peabody Energy, Toshiba, U.S. Steel, Caterpillar, Dow Chemical and Potash Corp among many others. We expect these shutdowns to further negatively impact already weakened freight volumes, as we have seen in December and January.

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Slide 3 summarizes the 13 freight data series that we track each month, the rough date during the month the data series is released and the source of the data. As shown in the column on the right, only one of these 13 series improved sequentially in the most recent month of available data from November or December versus the prior month. The one positive trend of truck bankruptcies showing relative improvement likely reflects the recent plunge in oil prices keeping small truckers in the game a bit longer than normal given how weak demand is.

Slide 4 shows the Cass Freight Index, which has plummeted recently, including a 23% year-over-year drop in December, the sharpest decline in the 18-year history of the index, which is now at its lowest absolute level since January 2004. For the full year, the Shipment Index declined by an average of nearly 12%. The separate Cass Freight Shipper Spending Index is distorted, because it includes fuel surcharges. This index declined 16% year-over-year in December, its steepest decline since January 2002. Cass Information Systems is a financial company which processes over $14 billion in annual freight payables. Its freight index is a compilation of truck, rail and airfreight volumes and pricing.

Slide 5 shows monthly year-over-year changes in freight volumes for the past three years for Domestic Truck, Airfreight and Rail volumes as well as West Coast ocean import and export volumes. Each of these modes of transportation fell materially in November from recent trends, with reported truck tonnage holding up the best to date and down only 2%. Meanwhile, rail and combined import/export ocean volumes declined 9% and 15%, respectively in November. Rail volumes were down also 16% year-over-year in December and are down 18% thus far in January, 2009.

Rail and West Coast port volumes, the only modes that we have December data for, were materially worse in December compared to November, likely a bad sign for the other modes of freight when December volumes are reported. Export ocean volumes were up 20% on average for the first eight months of 2008 but were down almost 20% year-over-year in November and down over 27% during December.

Slide 6 breaks out the eight major rail product segments, showing annual year-over-year growth for the past six years on the left side of the slide, and data for the past eight quarters on the right side. Fourth quarter 2008 and full-year 2008 total rail volumes were down 9% and 4%, respectively. This marks the worst quarter since at least 1990 and the worst full year since 1985.

Note that in the fourth quarter, as was the case for full-year 2008, seven of eight segments were negative year over year, with only coal volumes positive. In the fourth quarter, automotive, metals and paper and lumber volumes were the worst performing volume segments for the rails, down 30%, 25% and 16%, respectively. While coal volumes, up 3%, remained the only positive segment during the fourth quarter, coal turned negative in December and remains weak thus far in January amidst the shutdown of several mines and weaker demand generally.

Slides 7 and 8 show the 62% correlation between U.S. GDP and rail carload volumes and then the even higher 68% historical correlation between Industrial Production and Rail volumes.

Slide 9 tracks Rail and Truck pricing over the past 32 years. Since Rail deregulation in 1980 the spread between Truck and Rail pricing has widened, in part driven by trucks being less fuel efficient and requiring higher fuel surcharges as oil prices have risen.

Slide 10 highlights Rail Capital Spending as a percentage of total rail revenue for each of the Class I railroads since 1995 compared to the average capital expenditures as a percentage of revenue for the Dow Jones 30 Industrials. On average, over the past five and ten years as reflected in the bottom table, Railroads have spent an average of 16.5% and 16.8% of their total revenue on capital spending. This is almost three times higher than the spend by the average of the DJ 30 during those periods. Also note that during 2009, the rails, on average, still expect to spend about 17% of their revenue on capex. Capital spending guidance thus far indicates that capex for the rails will be down about 10% overall and down about 5%-10% for the U.S. rails only. This compares to some industrials, such as Alcoa, which have recently announced 50% capex reductions.

Slide 11 looks at each Rail's Return on Capital relative to the rail industry's Cost of Capital as published each year by the STB. While the Rails' returns have, on average, improved from a low of about 6% in 2000 to 10.7% in 2007, they remained below the industry's cost of capital of 11.3% during 2007. Norfolk Southern was the only U.S. railroad to return its cost of capital in 2007. While rail returns were likely higher in 2008, they will be materially lower in 2009.

Slide 12 lists our current forecasted volume, yield, revenue and EPS declines for the Rails for 2009. Our numbers have been coming down quickly over the past six months, and while we think we are getting closer to a bottom at least for 2009, we are not yet confident that our estimates have bottomed. In our current assumptions, we are assuming about a 6% decline in volumes, on average, for the four major U.S. rails next year, despite easy comparisons of -4% and -3%, on average, in the previous two years. In the prior three years from 2004-06, the four U.S. rails averaged volume growth of nearly 4%. These significant volume declines, along with slower real pricing gains and materially lower fuel surcharge revenue, should translate to about a 14% revenue decline on average in 2009. This is down from 10% revenue growth, on average, in the previous five years through 2008. Combined with negative operating leverage for the high fixed cost rail networks, we anticipate about a 16% drop in rail earnings per share next year, down from 27% earnings growth, on average, over the previous five years.

Finally, Slide 13 reflects recent annual and quarterly stock performance of the Rails relative to Truck and Airfreight & Logistics stocks as well as the S&P 500. On average, the rail stocks returned 11.5% annually from 2000-2008, above the other freight sectors which returned about 7% and well above the S&P 500, which, because of poor returns in the early 2000's and 2008, produced an average 5.3% annual decline over that period. Note that while the Rails outperformed the other transports and the market over most of the past eight years and 2008, during the past fourth quarter and thus far in January, the rail stocks have underperformed as prospects have become less positive, reflected by our expectations on slide 12.

In conclusion, the rails are vital to the North American transportation network and will be increasingly important to infrastructure in order to alleviate highway congestion and promote a more efficient and environmentally conscious transport grid. While the group has seen strong earnings and stock performance in recent years, this is the most capital intensive industry of which we are aware. 2009 looks to be very challenging for volumes, yields and profitability, yet the group intends to minimally reduce their strong spending initiatives. Given low financial returns, if the downturn lasts beyond 2009, we would expect that shareholders would demand more substantial capital plan reductions.

I thank you for your time and welcome your questions. Also, for any interested congressional or administrative staff members who wish to receive our award winning daily transportation research, you can sign up free of charge on our website at www.WolfeResarch.com

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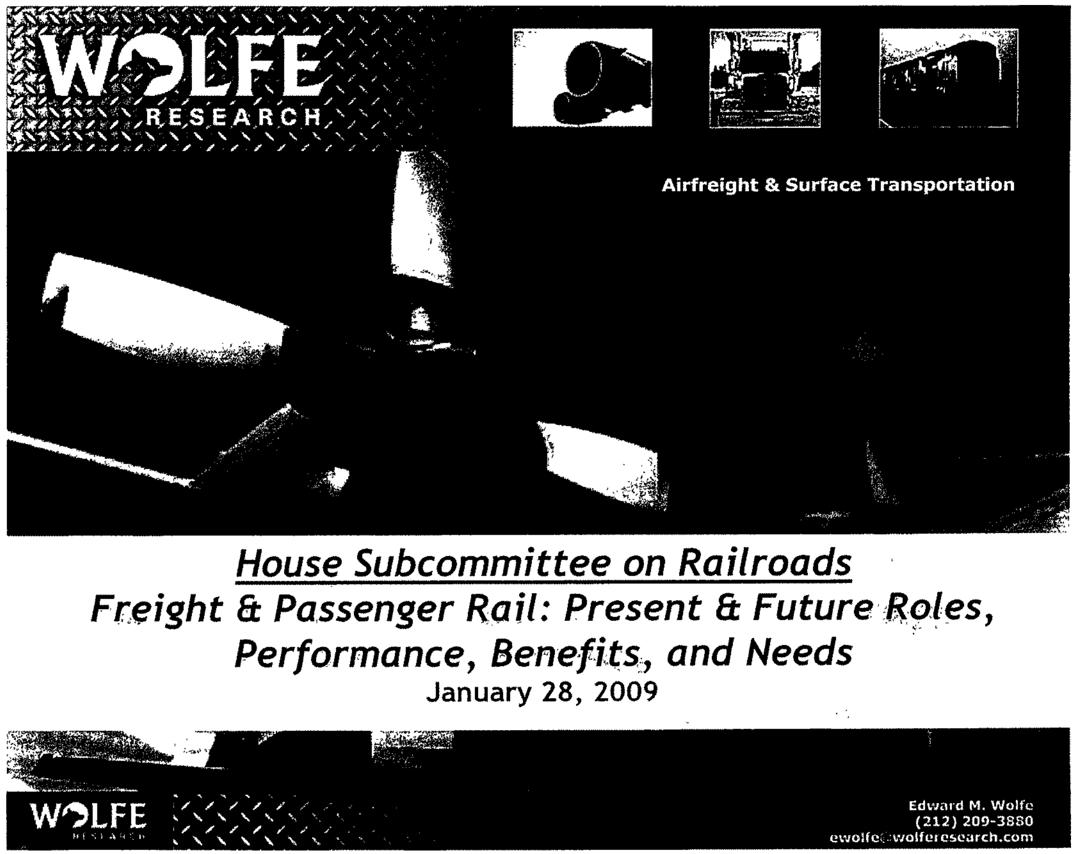
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Airfreight & Surface Transportation
House Subcommittee on Railroads
Freight & Passenger Rail: Present & Future Roles,
Performance, Benefits, and Needs
January 28, 2009
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Investment In Rail Infrastructure Is Critical

- Rails are a fuel efficient way to move bulk commodities such as coal, grain, steel, etc.
  - Rails can move 1 ton of freight 400-450 miles per gallon of fuel – about 3x more fuel efficient than trucks
- Our channel checks reveal that Railroad rates are about 20% cheaper than comparable lane-by-lane Truck rates
- Rails can help relieve highway congestion – 1 double-stack Intermodal train can take up to 280 trucks off the nation's congested highways
- Rails are a pipeline for offshore goods to move within the U.S.
  - Large shipments of consumer freight that are produced well in advance in Asia and transported by ocean to U.S. ports lend themselves to longer-haul, Rail shipments throughout the nation
- Safety – Railroads provide a safe way to move hazardous materials, mitigating the risk of an accident with civilians.
  - The Rails continue to improve their safety levels

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Major Capacity Expansion Projects by Railroad

- The Rails Spent 15%-20% of Total Capital Spending in 2008 on Capacity Expansion.
- BNSF: Southern Transcon line; PRB track expansion and upgrade; L.A./Long Beach rail and terminal expansion.
- CSX: National Gateway – public-private partnership to create link between Mid-Atlantic ports and the Midwest; Southeast Corridor – adding extra tracks on Chicago to Florida route.
- Norfolk Southern: Heartland Corridor – clear route between Norfolk, VA and Chicago, IL to raise the height of 28 tunnels for double-stack container trains; Crescent Corridor – seeking public funding to extend tracks between New York and New Orleans to handle more freight and avoid expensive highway widening.
- Union Pacific: Sunset Corridor – adding terminals and double-tracking line between L.A. and El Paso, TX, to be completed 2013-2014.
- Canadian Pacific – Possible build-out into the Powder River Basin coal mines.
- Canadian National – Recent EJ&E Rail acquisition provides long term solution to Chicago congestion problems.
- Kansas City Southern: Meridian Speedway (NSC and KSU) – shortcut between Meridian, MS and Shreveport, LA; Victoria-Rosenberg build out – creates more efficient route near Houston, TX.

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Summary of Freight Data & Expected Release Dates

Data Series	Date Released	Source	Recent Trend
General Freight Data:			
Cass Freight Index Tracking Expenditures and Shipments	End of Month (3 to 4-week lag)	Cass Information Systems, Inc.	- (December)
Railroad Data:			
Weekly Rail Volumes	Thursday Morning (<1-week lag)	Association of American Railroads	- (January)
Trucking Data:			
Truck Tonnage Index	End of Month (3 to 4-week lag)	American Trucking Associations (ATA)	- (November)
Wolfe Research Truck Bankruptcy Index	Mid-Month (6-week lag)	Federal Bankruptcy Filings	+ (November)
Monthly Class 8 Tractor Builds and Net Orders	Mid-Month (2 to 3-week lag)	A.C.T. Research	- (December)
Truckload Rate Trends by Equipment Type	Mid-Month (2 to 3-week lag)	truckloadrate.com	- (December)
Ocean Data:			
West Coast Port Volumes	Mid-Month (2 to 3-week lag)	Ports of LA, Long Beach and Oakland	- (December)
East Coast Port Volumes [1]	Mid-Month (2 to 3-week lag)	Ports of NY/NJ, Savannah, Norfolk and Charleston	- (November)
Ocean Containership Pricing	1st Week of Month (1-week lag)	Clarkson Research Services	- (December)
Airfreight Data:			
U.S. Domestic and International Air Cargo RTMs	After the 30th (4-week lag)	Air Transport Association (ATA)	- (November)
International (Cross Border) Air Cargo FTKs and ATKs [2]	End of Month (4-week lag)	International Air Transport Association (IATA)	- (November)
European and Asian Air Cargo FTKs	End of Month (8-week lag)	Association of European Airlines (AEA)	- (November)
		Association of Asian Pacific Airlines (AAPA)	- (December)

Note: Recent trend compares most recent monthly data point (shown in parenthesis) with prior month; '+' represents sequential increase/improvement in y/y metric versus prior month. (1) Port of New York and New Jersey data reported on a roughly six week lagged basis. Currently reported through October. (2) Freight-Tonne-Kilometer (FTK) and Available-Tonne-Kilometer (ATK). Source: Wolfe Research, LLC.

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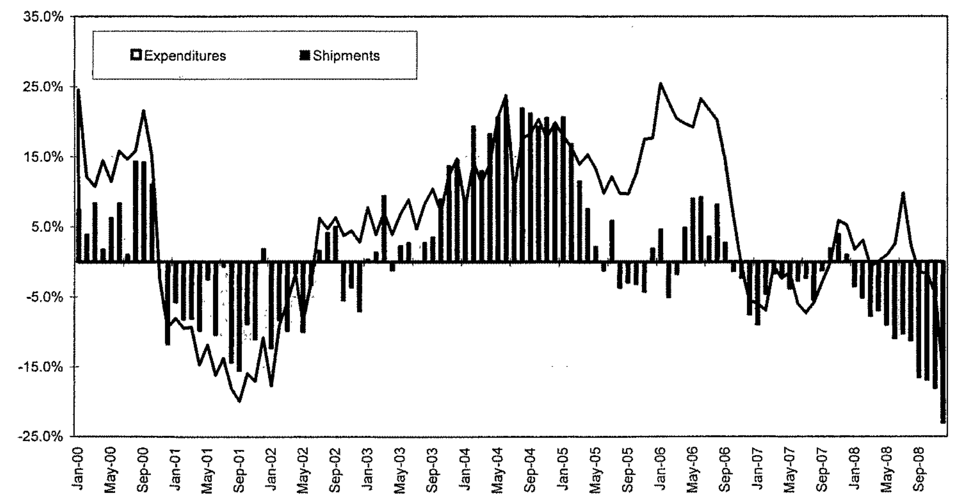
Cass Freight Index Tracking Expenditures (Including Fuel) and Shipments (Year-over-Year Growth)



Source: Cass Information Systems, Inc.; Wolfe Research, LLC.

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An Overview of the Freight Recession Across Modes

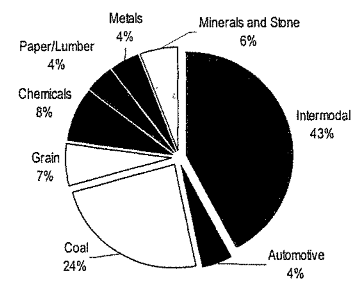
	ATA Truck Tonnage	Domestic Air Cargo Ton Miles	US Class I Rail Volumes [1]	West Coast Port Volumes Imports	West Coast Port Volumes Exports	West Coast Port Volumes Combined
Nov-05	.7%	3.5%	1.8%	0.3%	4.9%	1.6%
Dec-05	3%	-1.1%	6.1%	7.8%	9.0%	8.2%
Jan-06	-1.0%	-0.5%	5.7%	11.7%	14.0%	12.3%
Feb-06	-0.9%	-0.5%	-0.8%	-7.0%	11.7%	-1.5%
Mar-06	-1.1%	2.1%	2.6%	32.9%	12.9%	25.9%
Apr-06	-0.7%	2.7%	2.7%	14.5%	2.0%	10.8%
May-06	0.4%	7.5%	5.4%	13.6%	8.8%	12.2%
Jun-06	0.6%	4.5%	5.6%	11.4%	8.3%	10.6%
Jul-06	0.1%	1.3%	4.3%	9.9%	5.5%	8.7%
Aug-06	-1.7%	9.1%	3.9%	14.9%	7.8%	12.9%
Sep-06	-0.9%	0.7%	2.6%	11.0%	10.8%	11.0%
Oct-06	-2.3%	-0.4%	1.3%	10.7%	15.9%	12.1%
Nov-06	-5.9%	0.3%	-1.0%	11.3%	8.7%	11.0%
Dec-06	-2.2%	-5.2%	1.5%	7.2%	11.3%	8.4%
Jan-07	-4.5%	2.0%	-4.5%	6.5%	15.5%	9.0%
Feb-07	-1.8%	-0.6%	-2.2%	25.7%	4.4%	18.6%
Mar-07	.2%	-3.3%	-1.5%	-8.4%	2.2%	-5.0%
Apr-07	-2.5%	-3.9%	-3.0%	-2.7%	9.4%	0.7%
May-07	-3.1%	3.2%	-3.0%	-1.7%	10.3%	1.8%
Jun-07	-3.5%	-2.3%	-2.2%	2.8%	23.1%	8.2%
Jul-07	-3.3%	2.1%	-2.6%	1.1%	17.8%	5.6%
Aug-07	0.6%	0.5%	-2.7%	-6.6%	20.4%	0.5%
Sep-07	-2.2%	-1.3%	-1.9%	-1.1%	19.5%	4.3%
Oct-07	-1.3%	1.1%	-1.7%	-4.9%	19.1%	1.8%
Nov-07	2.6%	1.6%	1.6%	-3.2%	22.5%	3.9%
Dec-07	0.7%	0.1%	-3.0%	-2.9%	18.4%	3.6%
Jan-08	5.3%	3.1%	-2.1%	-8.4%	12.3%	-2.3%
Feb-08	3.4%	3.8%	0.6%	-8.2%	31.9%	3.5%
Mar-08	1.5%	-5.5%	-3.8%	-8.6%	21.0%	1.4%
Apr-08	2.2%	5.6%	-1.2%	-8.3%	21.1%	1.0%
May-08	1.2%	-3.5%	-1.6%	-5.3%	13.9%	1.8%
Jun-08	5.3%	-8.6%	-4.7%	-12.8%	11.7%	-5.3%
Jul-08	3.8%	0.0%	-1.2%	-10.0%	13.5%	-1.4%
Aug-08	2.5%	-11.8%	-1.8%	-3.3%	13.1%	1.9%
Sep-08	0.9%	-9.6%	-5.1%	-11.5%	1.6%	-7.6%
Oct-08	-1.8%	-6.0%	-3.7%	-6.5%	-9.6%	-7.5%
Nov-08	-1.9%	-18.7%	-9.1%	-12.2%	-19.5%	-14.6%
Dec-08	NA	NA	-16.1%	-18.8%	-27.4%	-21.8%
Jan-09			-17.8%			

(1) January Rail volumes shown through week ending January 17.
Source: American Trucking Associations; Air Transport Association; Association of American Railroads; Port of Los Angeles, Port of Long Beach; Port of Oakland; Wolfe Research, LLC.

Annual & Quarterly Rail Volume Growth By Segment

	2003	2004	2005	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
Intermodal	6.3%	8.3%	5.4%	4.4%	-2.8%	-4.9%	-0.5%	-3.0%	-3.8%	-3.6%	-4.4%	-3.2%	-3.1%	-8.4%
Automotive	-3.1%	-1.7%	-2.9%	-3.8%	-3.1%	-21.9%	-9.9%	-3.8%	3.3%	-0.3%	-12.0%	-20.8%	-24.3%	-30.3%
Coal	-1.3%	2.7%	2.2%	4.1%	-1.3%	3.1%	-1.9%	-2.6%	-0.7%	-0.1%	4.0%	2.1%	3.9%	3.0%
Grain	2.3%	2.1%	0.1%	4.7%	-0.9%	-2.3%	-4.9%	-3.9%	1.4%	3.9%	6.3%	5.5%	-6.1%	-11.8%
Chemicals	1.5%	5.0%	-1.5%	-0.8%	5.2%	-3.9%	5.6%	6.6%	3.2%	5.5%	2.1%	0.0%	-2.1%	-14.2%
Paper/Lumber	0.5%	5.8%	-1.3%	-7.7%	-13.6%	-13.7%	-16.0%	-12.3%	-12.7%	-13.1%	-15.7%	-12.5%	-10.4%	-15.5%
Metals	3.8%	7.7%	-1.8%	4.6%	-3.0%	-3.8%	-5.0%	-2.6%	-6.0%	2.1%	2.3%	3.8%	5.0%	-24.9%
Minerals/Stone	2.8%	4.9%	1.7%	-2.0%	-5.5%	-6.7%	-9.5%	-6.4%	-5.2%	-0.6%	-4.9%	-3.6%	-4.8%	-12.5%
Total	**2.7%**	**5.2%**	**3.1%**	**2.8%**	**-2.3%**	**-4.1%**	**-2.8%**	**-2.8%**	**-2.4%**	**-1.0%**	**-1.7%**	**-2.4%**	**-2.6%**	**-8.8%**
Real GDP	**2.5%**	**3.6%**	**2.9%**	**2.8%**	**2.0%**	**-0.5%**	**0.1%**	**4.8%**	**4.8%**	**-0.2%**	**0.9%**	**2.8%**	**-0.5%**	**-5.0%**
Industrial Production (y/y)	**1.5%**	**3.1%**	**4.2%**	**2.8%**	**1.8%**	**-2.4%**	**0.9%**	**1.7%**	**2.2%**	**2.5%**	**2.0%**	**-0.2%**	**-3.5%**	**-7.7%**

2008 Volume Breakout by Commodity



Note: 4Q:08 GDP based on Wolfe Research estimate. Source: Association of American Railroads; Bureau of Economic Analysis; Federal Reserve; Wolfe Research, LLC estimates.

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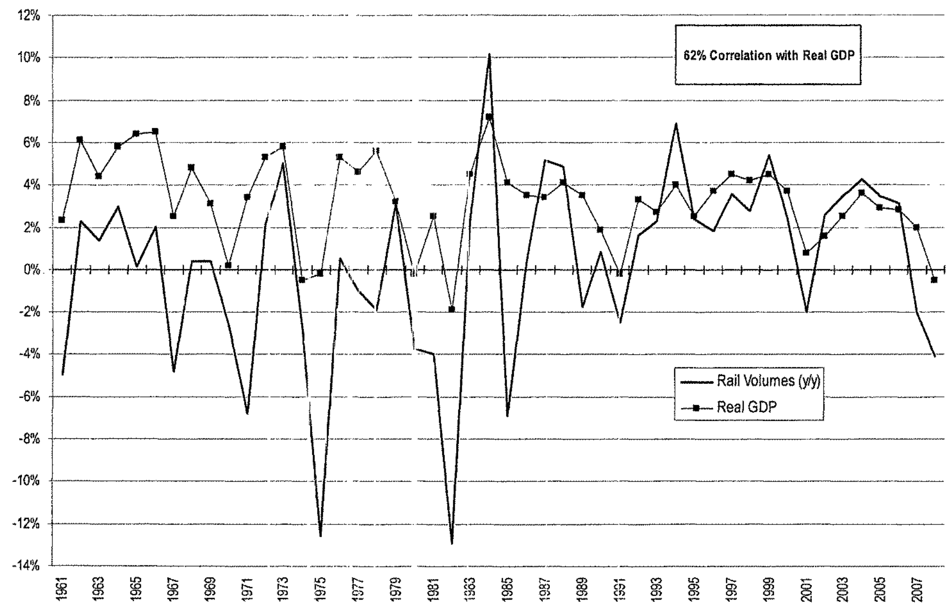
Total Annual Rail Volumes Versus GDP



Source: Association of American Railroads; Bureau of Economic Analysis; Wolfe Research, L.C.

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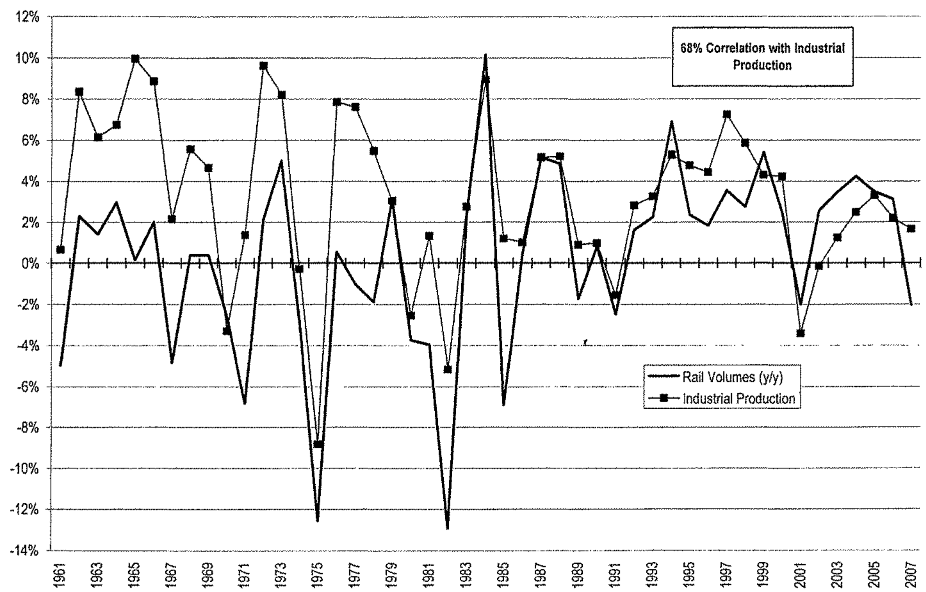
Total Annual Rail Volumes Versus Industrial Production



Source: Association of American Railroads; Federal Reserve; Wolfe Research, LLC.

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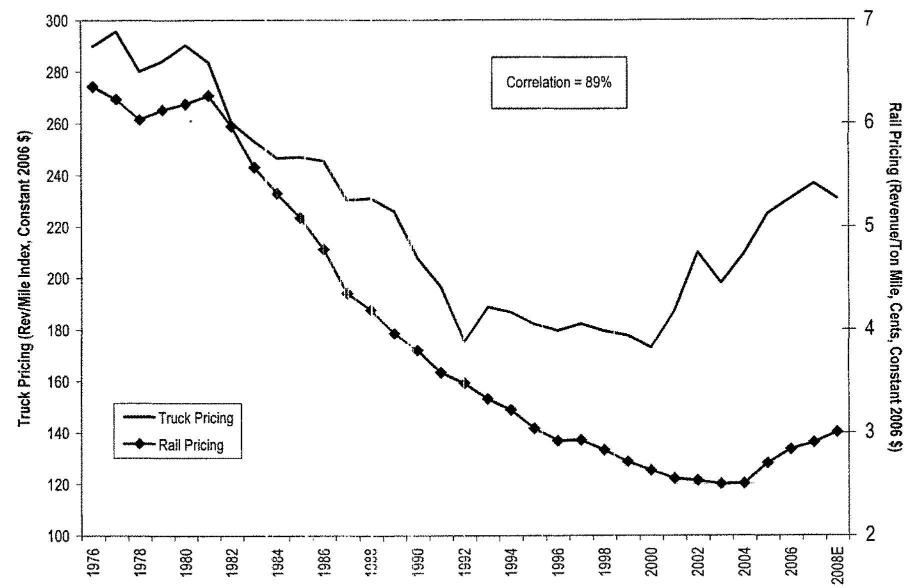
Truck Versus Rail Pricing



Source: Association of American Railroads; American Trucking Associations; Company reports Wolfe Research, LLC estimates.

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Rail Capital Spending Well Above Broader Market

Total Capital Spending ($ in Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	5-Yr. Avg.	10-Yr. Avg.
BNI	$1,935	$2,714	$2,598	$2,767	$2,526	$1,762	$1,608	$1,505	$1,726	$1,990	$2,179	$2,071	$2,598	$2,850	$2,700	$2,338	$2,082
CNI (US$)	410	398	663	724	738	743	684	598	749	825	975	1,141	1,296	1,347	1,138	$1,117	$910
CP (US$)	519	393	620	738	567	385	359	357	493	519	731	698	834	853	671	$727	$580
CSX	972	1,220	943	1,115	1,256	859	879	1,036	1,059	1,030	1,136	1,639	1,773	1,740	1,600	$1,464	$1,241
NSC	939	957	960	956	912	731	746	695	720	1,041	1,025	1,178	1,341	1,505	1,400	$1,218	$989
UNP	1,903	2,076	2,101	2,110	2,158	2,315	2,196	2,359	2,071	2,402	2,863	2,729	3,096	3,100	2,800	$2,838	$2,529
Total (US$)	**$6,678**	**$7,759**	**$7,885**	**$8,410**	**$8,157**	**$6,795**	**$6,472**	**$6,550**	**$6,818**	**$7,807**	**$8,908**	**$9,456**	**$10,938**	**$11,396**	**$10,308**	**$9,701**	**$8,330**
Canadian Rails	929	792	1,283	1,462	1,305	1,128	1,043	955	1,242	1,344	1,705	1,839	2,130	2,201	1,809	1,844	1,489
US Rails	5,749	6,967	6,602	6,948	6,852	5,667	5,429	5,595	5,576	6,463	7,203	7,617	8,808	9,195	8,500	7,857	6,841

% Change (Y-o-Y)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	5-Yr. Avg.	10-Yr. Avg.
BNI	-	40.3%	-4.3%	6.5%	-8.7%	-30.2%	-8.7%	-6.4%	14.7%	15.3%	9.5%	-5.0%	25.4%	9.7%	-5.3%	11.0%	1.6%
CNI	-	-2.9%	66.5%	9.2%	1.9%	0.7%	-8.0%	-12.6%	25.2%	10.2%	18.1%	17.1%	13.5%	4.0%	-15.6%	12.6%	7.0%
CP	-	-24.2%	57.6%	19.1%	-23.2%	-32.2%	-6.7%	-0.7%	38.4%	5.1%	40.9%	-4.5%	19.6%	2.2%	-21.4%	12.7%	3.9%
CSX	9.3%	25.4%	-22.7%	18.2%	12.6%	-31.6%	2.3%	17.9%	2.2%	-2.7%	10.3%	44.3%	8.2%	-1.9%	-8.0%	11.6%	6.2%
NSC	-6.9%	2.0%	0.3%	-0.4%	-4.6%	-19.8%	2.1%	-6.8%	3.6%	44.6%	-1.5%	14.9%	13.8%	12.2%	-7.0%	16.8%	5.8%
UNP	29.0%	9.1%	1.2%	0.4%	2.3%	7.3%	-5.1%	7.4%	-12.2%	16.0%	19.2%	-4.7%	13.4%	0.1%	-9.7%	8.8%	4.4%
Total (US$)	**13.1%**	**16.2%**	**1.6%**	**6.7%**	**-3.0%**	**-16.7%**	**-4.8%**	**1.2%**	**4.1%**	**14.5%**	**14.1%**	**6.1%**	**15.7%**	**4.2%**	**-9.5%**	**10.9%**	**3.5%**

% of Revenue

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	5-Yr. Avg.	10-Yr. Avg.
BNI	23.7%	33.1%	30.9%	30.9%	27.5%	19.1%	17.5%	16.8%	18.3%	18.2%	16.8%	13.8%	16.4%	15.8%	18.0%	16.2%	18.0%
CNI	10.7%	10.5%	17.5%	20.9%	20.9%	20.3%	18.7%	15.4%	17.7%	15.9%	15.8%	16.4%	17.6%	16.8%	17.0%	16.5%	17.5%
CP	18.7%	14.5%	24.5%	31.5%	24.1%	15.6%	15.0%	15.3%	18.8%	17.3%	20.1%	17.3%	19.0%	18.5%	17.3%	18.4%	18.1%
CSX	13.7%	17.1%	12.4%	15.6%	19.1%	11.9%	12.2%	14.4%	14.2%	12.8%	13.2%	17.1%	17.7%	15.5%	16.7%	15.3%	14.8%
NSC	15.2%	15.3%	15.1%	15.4%	14.7%	11.9%	12.1%	11.1%	11.1%	14.2%	12.1%	12.5%	14.3%	14.0%	14.8%	13.4%	12.8%
UNP	20.1%	20.5%	21.0%	22.3%	21.2%	21.4%	20.3%	21.1%	17.9%	19.7%	21.1%	17.5%	19.0%	17.3%	18.2%	18.9%	19.7%
Total Class I's	**17.0%**	**18.5%**	**20.2%**	**22.8%**	**21.2%**	**16.7%**	**16.0%**	**15.7%**	**16.4%**	**16.3%**	**16.5%**	**15.8%**	**17.3%**	**16.3%**	**17.0%**	**16.5%**	**16.8%**
DJ 30 Industrial Avg.	**8.4%**	**8.1%**	**8.3%**	**8.4%**	**7.7%**	**7.9%**	**8.4%**	**6.6%**	**5.7%**	**5.6%**	**5.9%**	**6.1%**	**6.1%**			**5.9%**	**6.7%**

Note: 5-year average includes period from 2004-2008E; 10-year average includes period from 1999-2008; Includes off-balance sheet leases; Excludes JPM from DJIA.
Source: FactSet Research Systems Inc; Company reports; Wolfe Research, LLC estimates.

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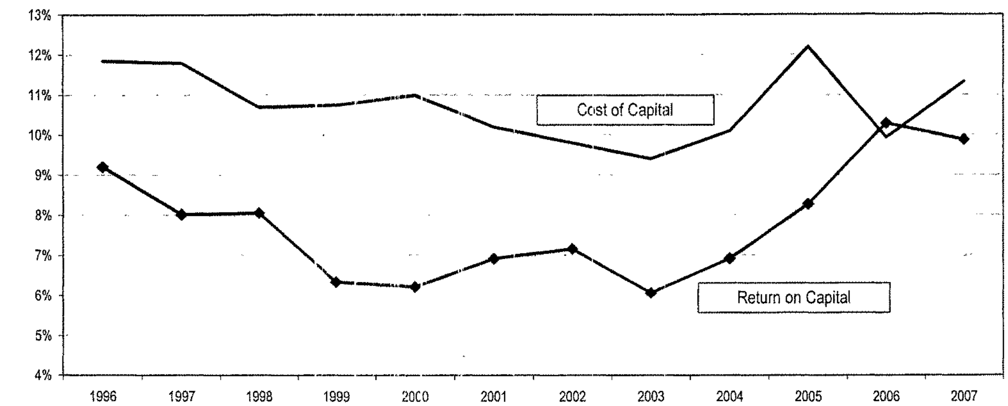
Railroad Returns Versus Industry Cost of Capital



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
BNI	8.6%	8.4%	9.7%	9.5%	8.8%	7.1%	6.4%	6.2%	5.8%	9.8%	**11.4%**	10.0%
CSX	8.9%	9.8%	8.1%	3.8%	3.6%	4.6%	5.2%	4.0%	4.4%	6.2%	8.2%	7.6%
KSU	7.2%	3.6%	9.1%	6.4%	6.3%	7.0%	6.5%	3.7%	8.3%	5.9%	9.3%	9.4%
NSC	**13.0%**	**13.1%**	10.5%	5.2%	5.5%	8.3%	9.1%	9.1%	**11.6%**	**13.2%**	**14.4%**	**13.6%**
UNP	8.3%	5.2%	2.9%	6.8%	6.9%	7.6%	8.6%	7.3%	4.5%	6.3%	8.2%	8.9%
Average Rail ROTC	**9.2%**	**8.0%**	**8.1%**	**6.3%**	**6.2%**	**6.9%**	**7.2%**	**6.1%**	**6.9%**	**8.3%**	**10.3%**	**9.9%**
STB Cost of Capital	**11.9%**	**11.8%**	**10.7%**	**10.8%**	**11.0%**	**10.2%**	**9.8%**	**9.4%**	**10.1%**	**12.2%**	**9.9%**	**11.3%**

Note: Shown as average of BNI, CSX, NSC, KSU and UNP. Source: Surface Transportation Board; Wolfe Research, LLC.

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Wolfe Research C09 Estimates

- **Our Estimates Today Versus Six Months Ago and Compared with Prior 5-Year Average**

	Wolfe Research 2009 Forecasts		
	Today	Six Months Ago	Prior 5-year Average
Total Volumes (y/y)	-6%	2%	1%
Total Revenue Per Carload, Gross of fuel (y/y)	-9%	5%	10%
Total Revenue Per Carload, Net of fuel (y/y)	4%	6%	5%
Total Revenue Growth (y/y)	-14%	7%	10%
Continuing EPS Growth (y/y)	-16%	20%	27%

Note: Based on averages of four major U.S. railroads – BNI, CSX, NSC and UNP. Prior 5-year average based on 2004-2008 period. Source: Company reports; Wolfe Research estimates.

Historical Annual Transportation Sector Performance

	C03	C04	C05	C06	C07	C08	00-08 CAGR [1]
Airfreight & Logistics Average	62.7%	60.2%	20.8%	8.5%	-3.3%	-21.0%	7.1%
Trucking Average	35.3%	41.9%	-1.5%	-4.8%	-19.1%	-12.9%	7.2%
Railroad Average	34.1%	26.4%	29.6%	15.3%	7.6%	-20.3%	11.5%
All Our Transport Universe	**43.1%**	**42.7%**	**14.1%**	**5.3%**	**-6.3%**	**-17.6%**	**8.4%**
S&P 500	**26.4%**	**9.0%**	**3.0%**	**13.6%**	**3.5%**	**-38.5%**	**-5.3%**

Recent Transportation Sector Performance

	1H06	2H06	1H07	2H07	1H08	2H08
Airfreight & Logistics Average	23.1%	-9.8%	7.8%	-10.3%	3.7%	-23.4%
Trucking Average	19.5%	-19.8%	11.8%	-28.6%	12.0%	-23.4%
Railroad Average	21.8%	-4.9%	16.3%	-8.8%	25.4%	-36.2%
All Our Transport Universe	**21.3%**	**-12.3%**	**11.8%**	**-16.9%**	**13.2%**	**-27.1%**
S&P 500	**1.8%**	**11.7%**	**6.0%**	**-2.3%**	**-12.8%**	**-29.4%**

	1Q08	2Q08	3Q08	4Q08	1Q09 [2]
Airfreight & Logistics Average	6.5%	-3.0%	-6.9%	-16.9%	-15.7%
Trucking Average	12.1%	-0.9%	-1.1%	-23.6%	-11.6%
Railroad Average	13.3%	10.9%	-5.8%	-32.6%	-14.0%
All Our Transport Universe	**10.6%**	**1.8%**	**-4.3%**	**-24.0%**	**-13.6%**
S&P 500	**-9.9%**	**-3.2%**	**-8.9%**	**-22.6%**	**-8.4%**

Note: Airfreight & Logistics avg includes FDX, TNT, UPS, CHRW, EXPD, FWRD, HUBG, LSTR, UACL, UTIW; Truck avg includes CLDN, CVTI, HTLD, JBHT, KNX, WERN, ABFS, CNW, ODFL, SAIA, YRCW, R; Rail avg includes BNI, CNI, CP, CSX, NSC, UNP, GWR, KSU, PACR. (1) Reflects nine-year CAGR from 12/31/99 to 12/31/08 unless otherwise stated. Note: UACL started trading on 2/11/05; reflects three-year CAGR from end of 2005. UTIW started trading on 11/2/00; reflects eight-year CAGR from end of 2000. SAIA started trading on 9/11/02; reflects six-year CAGR from end of 2002. CP started trading on 9/11/02; reflects six-year CAGR from end of 2002. KSU started trading separately from Stillwell Financial on 7/13/00; reflects eight-year CAGR from end of 2000. PACR started trading on 6/21/02; reflects six-year CAGR from end of 2002. (2) 1Q:09 stock performance through 01/22/09.
Source: FactSet Research Systems Inc.; Wolfe Research, LLC.

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Testimony
of
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Chairman, CEO, and President
Union Pacific Corporation
And Chairman
Association of American Railroads
1400 Douglas Street
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January 28, 2009

Before the
United States House of Representatives
Committee on Transportation and Infrastructure
Subcommittee on Railroads, Pipelines, and Hazardous Materials

Freight and Passenger Rail: Present and Future Roles, Performance, Benefits, and Needs

Chairwoman Brown, Ranking Member Shuster, and Members of the Subcommittee, my name is Jim Young, and I am Chairman, CEO, and President of Union Pacific Corporation. I appreciate the opportunity to testify today on behalf of the rail industry. My testimony will be in two parts. The first will look at the role of the freight rail industry in the economy and the benefits associated with freight railroads. The second will discuss how we are faring in today's economy and the future needs of the freight railroads.

America's freight rail system provides the most efficient, cost-effective freight rail network in the world; it is vital to the economic health of U.S. industry, and it keeps American companies competitive in the world market. America's freight rail network is also the safest, most environmentally friendly, and energy efficient mode of surface transportation. Freight railroads are the backbone of the United State's transportation network, moving more than 41% of the freight ton miles. This is more than any other mode of transportation.

What does 41% of the freight ton miles mean? Let me give you a glance behind this number. Railroads move 70% of all automobiles produced in the U.S. We move 30% of the entire nation's grain harvest – enough wheat to provide every man, woman, and child a fresh loaf of bread six days a week. We move 70% of the coal in this country, which provides more than half the nation's electricity needs. During normal economic times, we move enough lumber to build almost three houses every minute of every day and enough cement to build 45 miles of new highway every day. Our intermodal business, which provides the door-to-door convenience of trucks with the long-haul economy of freight railroads, brings a vast array of products to U.S. consumers. Everything that we touch in our daily lives – from orange juice, to the clothes we wear, to toys, bicycles, computers, DVDs – all have had some part of their journey on a train. In fact, over the past 25 years, we have gone from moving 3 million trailers and containers a year to more than 12 million a year. We also carry steel, the wind turbines that create renewable electricity, and chemical products that are used to make the medicines we take, protect the water we drink, help grow the food we eat, and produce the products that make our lives more comfortable. In short, 41% of the freight ton miles mean just about anything that touches our lives.

Freight railroads also directly employ approximately 187,000 people, and the vast majority of these are union jobs. These are good U.S. jobs where the average total compensation is roughly $95,000. This makes freight railroads one of America's highest-paying industries. In addition, railroads and their employees pay for and are covered by the Railroad Retirement System, which provides benefits considerably more generous than Social Security. Roughly 550,000 retired railroad workers and family members receive more than $8 billion in retirement and survivor benefits each year.

In addition, all of the large, and the vast majority of smaller freight railroads, are privately owned. This means that we must build and maintain our own tracks and rights-of-way. We must also purchase the equipment that operates on these tracks as well as the signal control systems, and we do this with virtually no governmental assistance. (In fact, in 2007, we paid almost $600 million in state and local property taxes on this same infrastructure and equipment.) From 1980 through 2007, freight railroads invested approximately $420 billion in both operating expense and capital investment – more than 40 cents out of every revenue dollar – to maintain, renew, and expand track and equipment. This investment generates billions of dollars in economic activity to the rail supplier community through the purchase of locomotives, cars, steel, timber and concrete for ties, rock and aggregate for ballast, circuits for our train control and communications systems, and much, much more. In fact, we estimate that for every billion dollars in increased rail investment, 20,000 jobs are created.

So, as you can see, freight railroads play a vital role in the U.S. economy, but this is really only part of the story. An even more exciting story concerns the benefits we provide – and they are many.

First and foremost, we move all this freight safely. Nothing is more important to railroads than the safety of our employees, our customers, and the communities we serve, and our safety record is excellent. From 1980 to 2007, the last full year for which data is available, railroads have reduced the overall train accident rate by 71% and our employee casualties by 80%, with 2007 being a record year in terms of overall safety. Today, railroads have lower employee injury rates than other modes of transportation and most other major industry groups – including agriculture, construction, manufacturing, and even some types of retail activity.

As the nation's only privately funded transportation system operating a 140,000-mile network, railroads require vast amounts of private investment to meet the large capital demands necessary to support our infrastructure. In fact, the two largest railroads each spent more to operate, maintain and expand their infrastructure than did the State of New York on its highway system and almost as much as California. Other modes of transportation rely on government funding to support their infrastructure. Our ability to facilitate this private investment is a tremendous asset and benefit to our country. If we were not able to attract this investment, the government would have to find the billions of dollars necessary to fund our network in addition to those of our competitors (trucks and the inland waterways for barges), or alternatively would have to spend vastly more on highways to handle the business we carry, thereby forcing an even heavier burden on taxpayers.

Moreover, railroads are also a cost-effective mode of transportation. Based on revenue per ton mile, on average it cost 54% less (in inflation adjusted terms) to move freight by rail in 2007 than it did in 1981. These reductions have saved our economy countless billions of dollars over the years.

Then, of course, there are the major energy efficiency and environmental benefits rail offers. Railroads are more fuel efficient than other modes of transportation. On average, railroads are three times more fuel efficient than trucks, and our fuel efficiency is improving all the time. In 1980, railroads, on average, moved a ton of freight 235 miles per gallon of fuel. Today, that figure is 436 miles per gallon.

If just 10% of the freight that moves by highways moved by rail instead, our country's annual fuel savings would exceed one billion gallons. In addition, due to our fuel efficiency, freight that moves by rail instead of truck reduces greenhouse gas emissions by two-thirds or more per ton mile. In fact, the EPA estimates that for every ton-mile, the typical truck emits roughly three times more nitrogen oxides and particulates than a locomotive. The EPA also found that while railroads accounted for over 40% of the nation's freight ton miles, they produce only 9% of total transportation related nitrogen oxide emissions and 4% of transportation related particulate emissions.

Freight railroads also help reduce highway gridlock. A typical train takes the equivalent of several hundred trucks off the highways. Overcrowded highways act as an inefficiency tax that seriously constrains economic growth, and costs commuters days per year in lost time. Freight railroads help relieve this tax by reducing congestion, enhancing personal mobility, reducing the cost of maintaining existing roads and reducing the pressure to build costly new ones.

I would be remiss if I did not mention our relationship with passenger rail as a public benefit. Virtually all passenger rail operations outside the Northeast Corridor (including Amtrak) run on track owned by the freight railroads. We have a very healthy and robust relationship with passenger rail operators, and we often partner with them to take hundreds of thousands of commuters out of their cars and onto trains. The one thing we must guard against in these arrangements is to avoid robbing Peter to pay Paul. Taking rail capacity from freight to provide rail capacity for passengers is not the answer to America's urban congestion problems, as it will only shift thousands of trucks onto the highways. The real answer is to grow capacity for both freight and passenger. This concept was recognized in the recently passed Amtrak Reauthorization legislation, which provides additional funds for new capacity.

To sum up the freight railroads' benefits and role in the economy, when one considers the amount of freight we carry, our investment in American jobs and infrastructure, the safe and efficient manner in which we operate, and our benefits to energy consumption, the environment, and congestion relief, the industry provides enormous benefits to the country. When comparing those benefits to the total cost to shippers and taxpayers, we have the world's best, most cost-effective, environmentally friendly freight system in the world – one that keeps American industries competitive in the world marketplace.

Now, let me turn to how we are faring in today's tough economy and what the needs will be in the future.

To insure that this presentation is fully compliant with the antitrust laws, I think it would be appropriate for me to talk about how Union Pacific is faring in today's economy rather than talk about other railroads. Having said that, I fully believe the other Class I railroads share the same economic hurdles as do we.

Just last week we reported our earnings for the fourth quarter and full year of 2008. Frankly, we had a good year in 2008 as we reported record returns as well as record investments. However, we began to see the impact of the weakening economy in the second half of the year as rail traffic dropped sharply in the fall, and that weakness is clearly continuing into 2009. In the fourth quarter of 2008, our car loadings dropped 12%. So far in January, car loadings have dropped further, and we have not seen anything that makes us believe the first quarter of this year will bring anything different. The one piece of positive news has been the falling cost of fuel. Because we (Union Pacific) use 1.3 billion gallons of diesel fuel a year (41 gallons per second) to carry our customers' goods, the falling price of oil has benefited both our company and our customers in the form of lower fuel charges.

This year will clearly be a year that challenges our company, our customers, and our employees. During our peak periods, we have handled up to 205,000 car loads a week, and in 2006 and 2007 we averaged over 190,000 car loads per week for the entire year. Just last week, our car loads were below 150,000, and in prior weeks, the number was much lower. These are numbers we have not seen since the 1990s, and the reduction in car loadings cuts across every commodity group we carry. This drop in business translates into a reduction in earnings. With volumes running well below last year's levels, it is unlikely that we will be able to reach last year's First Quarter earnings of .85 cents per share.

How are we dealing with this reduction in car loadings and revenue? First, I am confident that the long-term fundamentals of our industry are sound. These reductions are a symptom of a worldwide decline in manufacturing and consumption. We clearly feel its effects as do our customers. We will act carefully to avoid making short-term decisions that could impact the strong, long-term opportunities we see for the future. Nevertheless, we will take aggressive steps to ensure we remain viable during this severe recession.

Today, we have unused assets all over the railroad. We have over 1,200 locomotives and 48,000 cars in storage. We expect these numbers to grow. These are assets we must maintain in place for the long-term and continue to absorb in our cost structure, notwithstanding the fact that they are not now producing revenue. We must also spend significant amounts of money to maintain our railroad. As you know, we are one of the most capital intensive industries in the country. We cannot afford – both from a safety standpoint and a customer service standpoint – to defer maintenance on our system, and we are not doing that. However, we will need to cut back on our capital for growth. We simply cannot afford to spend money we don't have to continue with our aggressive capital growth strategy. As I reported last week, our projected 2009 capital budget will be $2.8 billion. This is down from the past two years, which were both over $3 billion. Our reduction in spending also hurts the thousands of rail suppliers who support our industry as our orders shrink.

We are also implementing other forms of cost control across our system in an attempt to make sure the money we do spend is spent in an efficient manner. In fact, these cost containment efforts have lead to a significant reduction in our operating ratio, which is one of the things that helped us deal with the business reductions in 2008's fourth quarter and will continue to help us in 2009.

Unfortunately, we must also reduce the number of active employees. Over the last five years, we have hired over 27,000 people to accommodate growth and replace retired workers. Today, Union Pacific has roughly 3,150 employees out on furlough or in a part-time work program. I can tell you, as Chairman, that this is a very painful but necessary step to protect the rest of our workforce. However, the majority of those furloughed are in a program we call Alternative Work and Training Service (AWTS). Under this program, we guarantee an employee 8 days of paid service per month. This can be in the form of work or training. We usually designate the weekends as paid service days to cover weekend vacancies and to allow the employee to get another job during the week. We also continue to provide health care coverage and pay railroad retirement taxes for the employees in this program. We started AWTS as a mechanism to keep otherwise furloughed, well trained employees available to return to service when we see an uptick in demand.

Retaining excess assets (locomotives and cars) and ensuring a readily available pool of trained employees – while expensive – is a deliberate strategy that we have undertaken to insure the long-term health and responsiveness of our company. We want to be ready to meet increased demand for rail transportation should the economy respond to the stimulus proposals currently before Congress.

At this point it isn't at all clear what will happen throughout the remainder of 2009. However, one thing is certain – Union Pacific will be required to take the cost containment steps necessary to reflect economic reality. If the economy grows, we will make the much needed investments for the future. If not, we will contain spending, reduce costs, and reduce capital to reflect the weaker economy.

Earlier in my testimony, I described the role freight railroads play in the economy and the enormous public benefits we provide to society – both of which are significant. Today, we are in a major economic downturn, but we all know, from a historical perspective, this will not last forever. To capture all the benefits rail can provide to our economy and our society, the industry must continue to invest for the future.

A recent Department of Transportation study projects total freight transportation demand will increase 92% from 2002 to 2035, with an 88% increase in demand for rail service during that same time period. Other studies conclude the same thing. Moreover, a September 2007 study (The National Rail Freight Infrastructure Capacity and Investment Study) found that Class I railroads need $135 billion in investment to expand their network capacity by 2035 to keep pace with DOT's forecasted demand. This equates to over $4.5 billion annually for capacity expansion for the next 27 years. Several times that amount will also be needed to maintain and renew existing infrastructure. Today, on an annual basis, our industry is spending less than 40% of this amount for new infrastructure capacity. We all know that studies that project growth this far into the future may not be 100% accurate, but let's assume, for the sake of argument, these studies are off by 50%. We are still not now able to invest in infrastructure to the level the nation needs us to invest.

Another area that will bring huge costs to the rail industry is replacing existing assets that have come to the end of their useful life and replacing assets that are destroyed by natural events such as fire, floods, and earthquakes. Let me give you a few examples of these costs because they are staggering.

Union Pacific owns a bridge over the Mississippi River that is nearing the end of its useful life. This single bridge will cost hundreds of millions of dollars to replace. Last year, we started construction to replace another bridge in Boone, Iowa, that will ultimately cost over $50 million.

Because we operate outdoors, we are constantly battered by Mother Nature, and these costs can be astounding. For instance, in 2005, our Salt Lake City to Los Angeles line in Nevada was destroyed by a flood. The book value on that line at the time was $4 million. However, to rebuild the asset, it cost us $87 million. Similarly, a fire destroyed a bridge in Sacramento in

2007 whose book value was $0, yet we had to spend $14 million to replace it. Most recently, we had a mud slide on a line in Oregon that wiped out a significant portion of our railroad. The slide was as wide as a football field and the equivalent height of the Sears Tower. This took months to repair at a cost of over $100 million. All of this must be done using private dollars.

These are some big numbers associated with some big projects. Equally staggering are the day-to-day numbers. For example, Union Pacific wears out two miles of track every day – 365 days a year. At a cost of $450,000 to $600,000 per mile for replacement rail, this adds up very quickly. It costs on average $2.5 million per mile to build new track, and this figure does not include the cost of acquiring land or environmental issues that may need to be addressed.

These are the challenges we have before us, and we at Union Pacific are prepared to meet them head on. What can the government do to assist in this effort? While the government could be helpful in a number of areas, I will only make three recommendations today.

First, government must embrace policies that enhance the ability of the freight railroads to attract private investment dollars. As mentioned earlier, our ability to attract private investment in rail infrastructure literally frees up billions of dollars in public money that can be used to support other modes of transportation in this country. In fact, one could argue that the less we utilize rail in this country, the more the taxpayer must pay to subsidize other modes of transportation. We must be able to earn an adequate rate of return to attract private dollars. As returns improve to market levels, additional investment will follow.

Second, Congress should enact an investment tax credit for new rail capacity. We have endorsed a proposal that has been introduced in this Congress that would provide for a 25% investment tax credit for new rail construction that expands freight capacity. This credit will allow us to increase our return and make additional investments in rail – investments that are critical if we are going to meet the future, projected demands for rail transportation. In today's economic environment, where we must conserve our cash, this would enable us to spend more than we could otherwise. Moreover, it would have a stimulative effect on the economy.

According to U.S. Department of Commerce data, for every $1 of rail investment that would be stimulated by the tax incentive, $3 in total economic output would be generated.

Third, Congress should enact and fund programs that allow states to partner with freight railroads to move forward with projects that benefit both the freight railroad and the public. The best example of this type of project is the CREATE project in Chicago. This project will improve the fluidity of the freight railroads, enhance passenger rail service in the City, and reduce congestion on the highways. The freight railroads are willing to put up money consistent with the benefits we would receive, while the local, state, and federal governments put up the resources commensurate with the public benefits. These types of projects allow both sides – private and public – to develop and implement projects that would not otherwise move forward.

Madame Chairwoman and Members of the Committee, freight rail is vital to the overall health of our economy. We offer huge societal benefits that need to be maximized, and while we are currently dealing with the economic downturn, we have a great future. I look forward to working with you to fully develop a vibrant rail system in this country.

Statement of

Ross B. Capon

President

National Association of Railroad Passengers

Submitted to the

Subcommittee on Railroads, Pipelines, and Hazardous Materials
The Honorable Corinne Brown, Chairman

Committee on Transportation and Infrastructure, U.S. House of Representatives

* * *

Freight and Passenger Rail: Present and Future Roles, Performance, Benefits, and Needs

* * *

January 28, 2009
Statement Submitted for the Record on February 11, 2009

* * *

Thank you for this opportunity to present our views for the record. We are pleased to be part of the OneRail Coalition and to endorse the statement of your witness Anne Canby. I will not repeat what other witnesses said, or what was in my statement for the record in the full committee's October 29, 2008, infrastructure hearing.

The Committee and its leaders have our thanks for your role in securing $1.1 billion for intercity passenger rail in the House-passed economic recovery bill. The funding, among other things, will help Amtrak get more cars back into service and let states that have been awaiting a federal funding partner get to work on their passenger train improvement projects. We of course continue to look forward to full funding of the authorization that reflects your hard, successful work.

It is significant that that Amtrak ridership outside the Northeast Corridor continued to rise through the first quarter of Fiscal 2009. In the most recent month for which we have data, December, passenger revenues ("unadjusted") on the overnight ("long distance") trains were 7.4% above the year-earlier month, while ridership was up 4.0% and passenger-miles (one passenger carried one mile) were up 4.6%.

For the shorter-distance "state corridors," revenues were up 2.0%, ridership 1.3% and passenger-miles 1.7%. In the Northeast Corridor, the trends were negative -- 5.8%, 6.2% and 6.8%, respectively.

The most important message is that people desperately want the train travel choice and that choice needs to be provided for many more trips than currently. That positive numbers persisted on most Amtrak routes in the face of sharply lower gasoline prices and a severe economic recession suggests that travelers are looking beyond the price of gasoline to total driving costs and may be more inclined to leave the car at home and take the train as a way to prolong the life of a car that they cannot afford to replace.

Other factors in play probably include:

- Growing senior population that has above-average interest in avoiding the hassles of long auto trips.
- A changed psychology among young people, who increasingly are "forced" into driving when they see that public transportation doesn't meet their needs rather than eagerly getting their license at the youngest possible age as a "rite of passage."
- Mistrust that gasoline prices will stay low, giving sharp price volatility, especially over the past several months.
- Many people trying the train for the first time like it and stick with it.

The decline in Amtrak's Northeast Corridor is partly explained by the high number of business travelers, the very high fares Amtrak charges, even on the Regionals, and perhaps by new bus competition. For example, checking departures 24 hours hence, Amtrak's basic fare Washington to New York was $103 for the 1:05 PM Regional departure on February 12 and $124 for the 3:02 PM, while BoltBus was asking $22 for both its 1 PM and 3 PM departures, the majority of the fleet brand new, offering AC outlets just like Amtrak and—unlike Amtrak—free Wi fi, 45 minutes slower schedule (offset for some by greater choice of departures). For taxpayers to realize the greatest benefit from the billions they have invested and will invest in the Northeast Corridor there needs to be a re-look at how Amtrak service is priced.

In an op ed that I co-authored with Dr. Vukan Vuchic of the University of Pennsylvania which was published by the Newark *Star-Ledger* on Sunday, February 1, we discussed the need for greater track capacity under the Hudson River, with one major rationale "expansion for Amtrak's future capacity needs, which will be much greater than what today's overpriced and often sold-out services require."

The main focus of the column was on our continuing effort to alert the public and legislators all along the Northeast Corridor that design of New Jersey Transit's Access to the Region's Core must be changed if any of us are going to live to see intercity train capacity under the Hudson increased, a subject discussed at length in my statement for the record of the full committee's October 29, 2008, infrastructure hearing.

Thank you for considering our views.