

Strategic Rail Finance

FUNDING THE GROWTH OF RAILROADS, SUPPLIERS & CONTRACTORS

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I am honored and humbled by this opportunity to speak before the Board. I founded Strategic Rail Finance in 1994 to finance and support the freight railroad industry. I've met with over 150 congressional offices. I've developed relations with almost every state's rail office. And most importantly, I've had over 3000 conversations with almost every owner of shortline and regional railroads in the United States. Along the way, I've coordinated financing for projects in 21 states.

The freight railroad industry is healthier now than at any time since the Staggers Act. I'm confident that much of the testimony today will reflect that. Perhaps, this hearing can serve to acknowledge that progress. If we officially declare the Staggers Act a success, we're free to set a new course, with new forward-looking measures of our collective hard work and investment. The freight railroad industry has clearly stabilized. Can we now shift our horizon toward the long-term, dynamic growth of North America's utilization of freight rail transportation?

What I just said falls into the category of "easier said than done". But like all great achievements, we begin by speaking it into existence. We can cause the dynamic growth of North America's utilization of freight rail transportation! However, accomplishing this requires a much higher level of coordination and collaboration than what we see in most industries, and indeed what we see in the rail industry. And to produce growth that actually contributes to the quality-of-life and the economic well-being of our continent, we must provide the right foundation. That foundation consists of; 1) a clear set of measurable goals toward which to set our commercial and public policy sights, 2) an intellectually sound, multi-discipline, multi-stakeholder forum for teasing out win-win approaches to old industry stumbling blocks, and 3)

increased coordination of public-sector and private-sector financial and business interests and resources.

Growing our rail system makes economic and environmental sense, and it's doable. Coordination and collaboration is what's needed. Yet, in the United States, we are facing an across-the-board challenge of coordination in so many arenas.

For most of our history we could absorb the high cost of competition that allows so many businesses, communities, and regions to lose out. The competition-fueled growth of individual railroads and other businesses in the 19th and 20th centuries more or less served the growth of the continent. Fortunately, in the 21st-century, we are beginning to understand the finite limits of our natural, human, and capital resources. We are seeing that capital and human resources are sustainable only when their investment is engineered to maximize our limited natural resources.

On the way to where we are now, economic statistics for growth have often been amorphous and misleading. We can no longer afford to invest without clear goals. And we can no longer assume that what is best for the most successful competitors will trickle down to support the whole system. It is time to collectively ask and answer — what do we want our rail system to do for us. The process for determining these goals must be mediated amongst wide, multi-stakeholder concerns, utilizing leading-edge, group, and collaborative methodologies. Only in this way, can we implement plans that satisfy long-term goals as well as short term goals, and public interests as well as private interests. The goals and measures thus set consciously and intentionally will extend well beyond ton-miles, container loadings, and the stock price of individual railroads.

When we agree on the results we want from our railroad system, and how to measure our progress toward those goals, I believe we will have a heightened concern for the ongoing decrease in rail service to rural and urban America. Too many small and large businesses are suffering from a diminished or an entire loss of rail service, while the industry and Wall Street continue to measure success in unit trains of coal and double-stack containers of imported goods moving inland from our ports.

Yes, the country needs long-haul movement of massive quantities of standard, repetitive shipments. The country also needs local, state, and regional rail service provided to as many of our towns and businesses as possible. We have a valuable network of rail lines in place within a growing continent and yet, we allow individual

business plans within the industry to starve many shortline rail segments into stagnation or out of existence. The rail industry's practice of abandoning line segments for scrap value instead of keeping it in the system for future development is not in concert with whole systems economics. Sacrificing service to domestic shippers while shifting capital to import movements misses the opportunity to strengthen the economic fabric of North America. Last month, I met with the vice-president of logistics for a \$100 billion American company who is under executive orders to use the rail system as little as possible because Class I railroads fail the company's standard for collaborative business practices.

Today, in the United States Senate, when Senators Rockefeller and Burns propose legislation to increase rail competition, they actually desire increased cooperation. Unfortunately that's been considered an anti-capitalist, anti-American concept, so the entire issue gets muddled. I've seen that we aren't suffering from a shortage of competition in the industry. Competition is alive and well. It is rampant and it is strident. For instance, one railroad tactically prevents its shippers from shipping via a competing railroad at a nearby interchange. In another instance, Railroad A prevents a nearby Railroad B from expanding service to one of Railroad A's customers. As a result, rail freight becomes less and less attractive as the supply and distribution marketplace is fragmented by these ongoing competitive tactics.

Representatives of railroads focus too much of their public policy endeavors on the agendas of the largest railroad and shortline holding companies, rather than the smaller railroads, or the whole system. What we are actually suffering from is a shortage of cooperation and collaboration in the best interests of the industry, the economy, and the continent.

Railroads are neither the only option nor the best option for all shipments. However, we'll have greater productivity from all transport modes with a system that maximizes the utilization of railroads. Funding for freight rail development will flow in record amounts, when private sector funding sources are presented with an assertive and cohesive industry business plan for growth. Government can play its most productive role by stimulating and facilitating this planning process. I have conceptualized a methodology for this collaboration. Thank you for this time to speak. I look forward to the board's input into making it a reality.

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Message: I have previously requested time to speak at the October 19 hearing on the 25th anniversary of the Staggers Act.