

CREATE Testimony for STB Hearing

Submitted By:

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Introduction

The City of Chicago has a strong appreciation for, and a vested interest in, the role freight railroads have in the nation's transportation system and their importance to the regional and national economy and competitiveness. Chicago is the critical hub in the nation's freight transportation system. The Chicago region is the largest transit point for international freight in North America.¹ One third of the nation's rail freight moves through Chicago. Sixty percent of all cargo shipped via the Los Angeles and Long Beach ports leaves that region, much of it destined to Chicago, and more than half of containerized goods leaving those ports is transported via rail. For example, more than 70 percent of all freight from the Seattle and Tacoma ports travels to Chicago. The freight railroads and the industries they support represent a key part of our regional economy. Mayor Daley is a leader in advocating for improvements to the national rail system. Because of Illinois' strategic role in that system, many of these improvements must be implemented in our region.

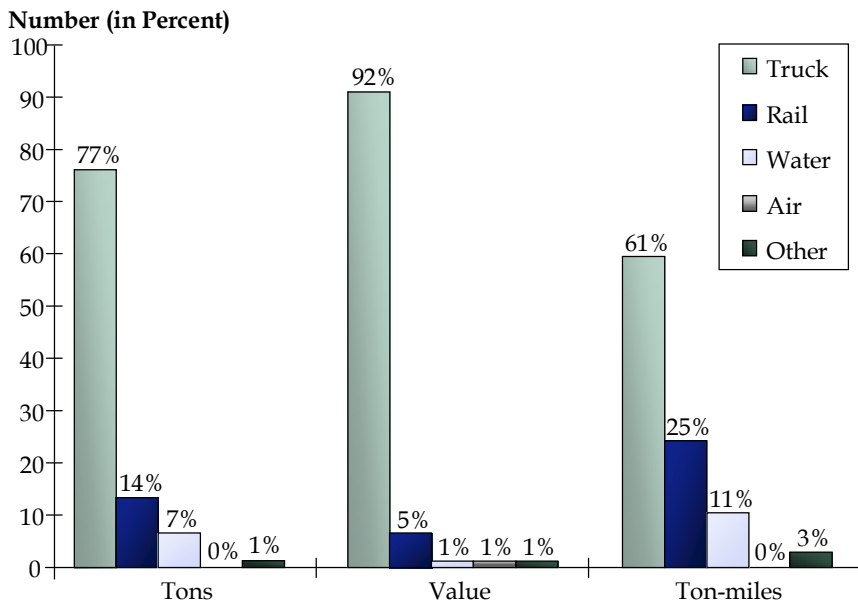
In 2005, the nation's freight railroads operated 140,810 miles of rail lines, employed 182,000 people, and reported \$47.88 billion in revenue. The nation's freight railroads help stimulate the economy by providing long-distance, line-haul transportation for goods ranging from basic commodities such as coal and grain, to finished goods such as automobiles. However, freight rail transportation is having trouble keeping pace with the growing demand. In some markets, goods formerly shipped via rail have been diverted to trucks increasing traffic on an already congested highway system. This is happening despite the improving financial health of the railroad industry, because the industry is generally operating at capacity and is not investing as fast as its market is growing. This is of concern because the freight system overall is in the early stages of a capacity crisis. If rail cannot maintain its share of freight, the consequences will be increased congestion on highways, a higher cost of doing business, a higher cost of living, and increasing environmental degradation of our neighborhoods.

Rail's share of the freight market is a modest but vital component of the nation's freight transportation system, as illustrated in Figure 1.²

¹ CREATE Program Final Feasibility Study, 2005

² Cambridge Systematics, Inc., AASHTO Freight Transportation Bottom Line Reports, forthcoming, 2007, based on Global Insight, Inc. 2004 TRANSEARCH data and economic forecasts

Figure 1 Freight Tons, Value, and Ton-Miles
by Mode – 2005



Source: Global Insight, Inc., 2004 TRANSEARCH data.

Rail and the other modes used to transport freight are both competitive and cooperative. Each mode offers advantages and disadvantages in terms of cost, speed, reliability, visibility, security, and safety. When shippers design supply chains for their products, they try to use each mode to its greatest advantage.

Rail capacity is important because of a series of substantive public benefits:

- **Transportation System Capacity and Highway Cost Savings** – The freight-rail system carries 14 percent of the nation’s freight by tonnage, accounting for 25 percent of total ton-miles, and 5 percent of freight value, which translates to about 105 million trucks and 1.4 trillion ton-miles not on the highways.³
- **Economic Development and Productivity** – Freight rail provides shippers with cost-effective transportation, especially for heavy and bulky commodities, and can be a critical factor in retaining and attracting industries that are central to state and regional economies. Truck lines utilize rail as one solution to labor shortages, equipment utilization dragged down by congestion, and mounting fuel prices.
- **International Trade Competitiveness** – Freight rail connects U.S. seaports with inland producers and consumers.

³ The 105 million trucks is based on total rail tonnage divided by 20 tons per truck.

- **Fuel Efficiency and Environmental Health** – Freight rail is fuel-efficient and generates less air pollution per ton-mile compared to trucking, both of which are likely to become more important as the 21st Century progresses.
- **Safety and Security** – Rail offers a naturally separated right-of-way for freight in most corridors. Rail is a preferred mode for shipments of hazardous materials.
- **Emergency Response** – Freight rail provides critically needed transportation in national emergencies and is vital to military mobilization.

Growing Demand

Pressure on the rail freight system will increase because freight demand is growing. The U.S. economy is forecast to grow at a compound annual rate of 2.8 percent over the next 30 years. At this rate, the demand for freight transportation will nearly double between 2005 and 2035. Measured in tons, freight demand will grow from 15 billion tons today to 29 billion tons in 2035 (see Figures 2 and 3), an increase of 93 percent. This rate of growth is not extraordinary. It is about the same as in the last 20 years and roughly tracks growth in Gross Domestic Product (GDP). But no provision has been made to accommodate this growth.⁴

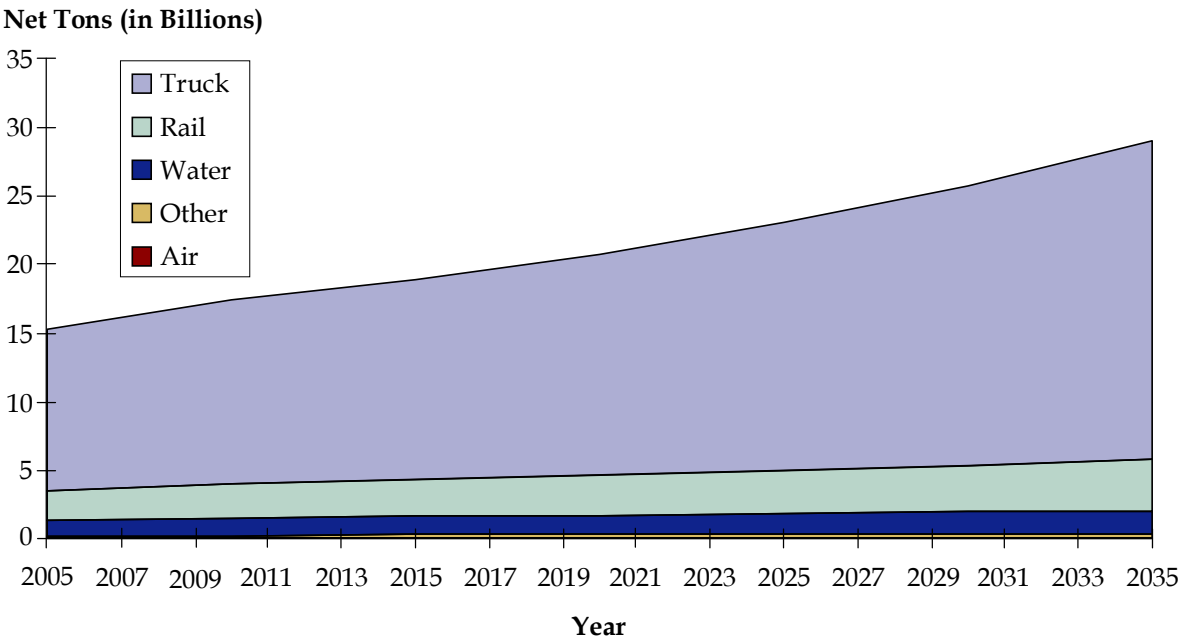
Economic growth, including population and trade growth, will generate 14 billion additional tons of freight to be moved in 2035. Railroads could carry 1.5 billion of these new tons, resulting in 71 percent more tonnage than they carry today. Roughly two-thirds of all new rail tonnage is attributable to coal and intermodal shipments. The intermodal business is projected to maintain a 3.8 percent compound annual growth rate over the next three decades, causing it to more than triple in size. This freight will be carried over longer distances than in the past, resulting in an 85 percent increase in rail ton-miles. By 2035, every second railcar on the rail lines today will have an additional railcar behind it. This assumes continued investment in the rail system to handle this growth.

Figure 4 compares total rail volumes in 2005 with the anticipated rail volumes in 2035.⁵ Traffic density is shown as railcars per year. The red lines indicate railcar volumes in 2005; the blue lines indicate railcar volumes in 2035. The wider the red and blue lines, the greater the number of railcars using the line.

⁴ Cambridge Systematics, Inc., AASHTO Freight Transportation Bottom Line Reports, forthcoming, 2007, based on Global Insight, Inc. 2004 TRANSEARCH data and economic forecasts

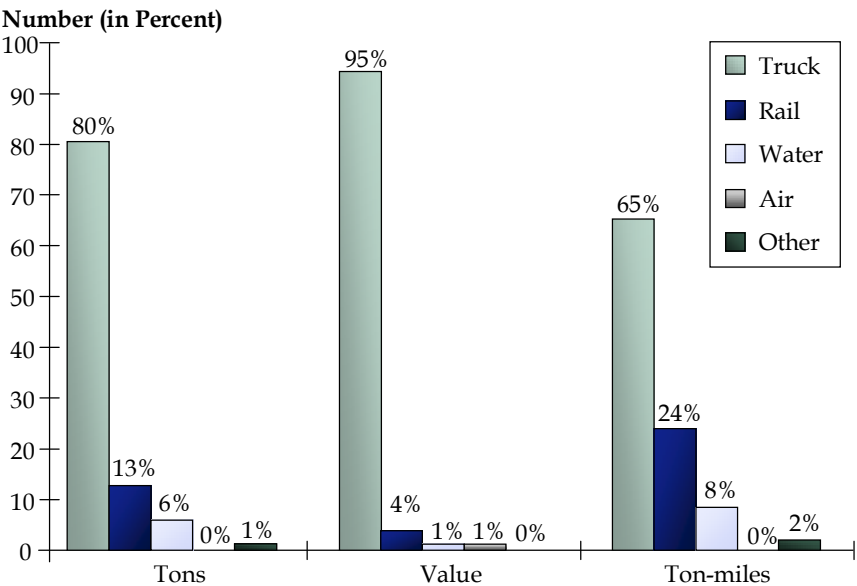
⁵ Cambridge Systematics, Inc., AASHTO Freight Transportation Bottom Line Reports, forthcoming, 2007, based on Global Insight, Inc. 2004 TRANSEARCH data and economic forecasts.

Figure 2 Freight Tonnage Forecast
by Mode – 2005 to 2035



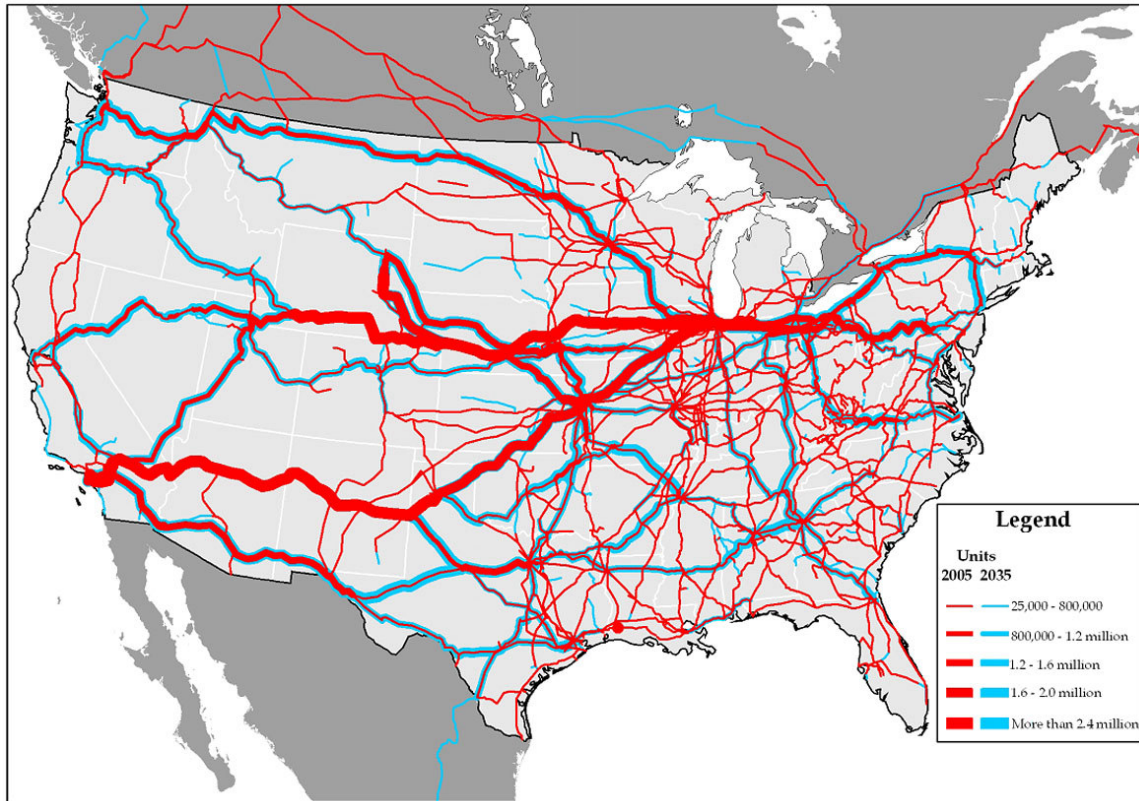
Source: Global Insight, Inc., 2004 TRANSEARCH data and economic forecasts.

Figure 3 Freight Tons, Value, and Ton-Miles
by Mode – 2035



Source: Global Insight, Inc., 2004 TRANSEARCH data and economic forecasts.

Figure 4. Comparison of Total Rail Flows in 2005 and 2035 – Railcars per Year



Source: Cambridge Systematics, Inc., AASHTO Freight Transportation Bottom Line Reports, forthcoming, 2007, based on Global Insight, Inc. 2004 TRANSEARCH data and economic forecasts.

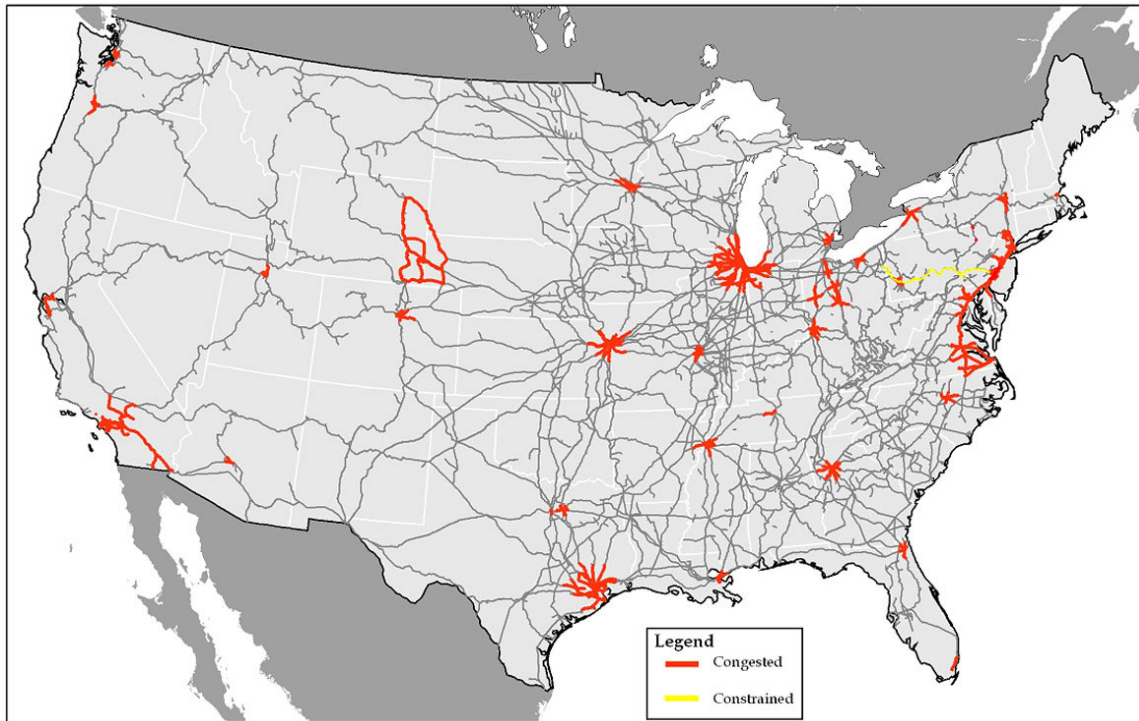
Need to Invest in Rail

Lack of rail capacity is a key factor in shifting freight from rail to truck. Supply is lagging demand, allowing and forcing the railroads to ration service by price to meet business goals. The railroads will invest and expand services in profitable markets. But preliminary analysis of rail capacity and congestion suggests that the lack of rail capacity is no longer limited to a few choke points, hubs, and heavily utilized corridors. It is nationwide, affecting almost all the nation's critically important trade gateways, rail hubs, and intercity freight corridors. It is unlikely that the railroads will invest and expand quickly enough to balance supply and demand across all these areas.

There is no national rail-conditions database comparable to the Federal Highway Administration's (FHWA) Highway Performance Monitoring System database, and therefore no uniform and comprehensive data for assessment of the physical condition

and capacity of the national rail system. However, Figure 5 provides an approximate mapping of known major choke points and congested areas. The map is based on best professional judgment, not uniform empirical data.⁶

Figure 5. Approximate Freight-Rail Choke Points and Congested Areas



Source: Cambridge Systematics, Inc., prepared for the AASHTO Freight Transportation Bottom Line Reports, forthcoming, 2007.

In 2003, the AASHTO Freight-Rail Bottom Line Report estimated that at the level of investment the Class I railroads could afford from their revenue plus borrowing, the freight-rail system could handle around half of its 'fair share' of the forecast growth in freight-rail tonnage, but could not keep pace with the demand for freight movement.⁷ The unmet half of new rail freight demand would likely shift to trucks and the highway system. The report estimated that to keep pace with economic growth and maintain its current share of freight tonnage, the rail system needed an investment of \$175 to \$195 billion over the next 20 years. The report anticipated that the railroads would be able to provide the majority of the funding needed (up to \$142 billion dollars) from revenue and borrowing, but the remainder (up to \$53 billion, or \$2.65 billion annually) would have to come from other sources, perhaps including loans, tax credits, and other forms of public-sector participation.

⁶ Cambridge Systematics, Inc., AASHTO Rail Freight Transportation Bottom Line Report, forthcoming, 2007

⁷ American Association of State Highway and Transportation Officials, Transportation: Invest in America: Freight-Rail Bottom Line Report, Washington, DC, 2003. See http://freight.transportation.org/doc/rail/ex_railreport.pdf <http://freight.transportation.org/doc/FreightRailReport.pdf>.

There currently are no comprehensive rail system expansion strategies at the national level to keep pace with growing demand and no overall consensus among the railroads or the public sector today on how much capacity to provide and when to provide it. In a partnership-based future - as suggested in the 2003 AASHTO Freight-Rail Bottom Line Report - the public sector would actively invest to encourage additional freight to be carried on the nation's rail system in cases where solving the capacity problem on rail costs less than solving it on other modes. This future will require a comprehensive national freight capacity expansion plan to determine the wisest investments of public funds. At the same time, States and MPOs must also incorporate freight rail needs into their long-range plans and Transportation Improvement Programs.

CREATE as an Example of Public Private Cooperation

The City of Chicago is a partner in the Chicago Region Environmental and Transportation Efficiency Program (CREATE), a project of national and regional significance, which will materially increase velocity, safety, and performance of the rail system throughout the region and the nation. CREATE includes the development of five freight- and passenger-rail corridors in the metropolitan region, and rail-highway grade separation projects outside these corridors. The development of the five rail corridors includes the upgrading of existing track structure, the double-tracking or triple-tracking of certain lines, the construction of rail-highway grade separations and rail-rail flyovers, the installation of new or improved signaling, and various other additions and improvements. First proposed in June 2003, the \$1.5 billion program will be funded by the six Class I railroads operating in Chicago, the Northeast Illinois Regional Commuter Railroad Corp. (Metra), the federal government, the state of Illinois, and the city of Chicago.

Under an initial \$330 million first phase, the federal government is providing \$100 million (authorized as part of SAFETEA-LU), the state of Illinois pledged \$100 million, the railroads committed a combined \$100 million, and the city of Chicago committed \$30 million. Last month, the FHWA released \$25 million of the federal government's \$100 million share to help get the program under way. Under the program's first phase, the partners plan to complete about 40 percent of the program's 78 individual projects, including six grade separations; engineering work on four freight/passenger rail separations; 21 signal, track and other system improvements; and various viaduct improvements. This year, construction will start on seven projects.

The traffic handled by CREATE corridors accounts for about \$10 billion (29 percent) of the revenues earned by U.S. Class I railroads. This dominance can be seen by the magnitude of flows passing through Chicago as shown on Figure 4 above. Chicago is also one of the major choke points in the nation's rail system as shown in Figure 5. The enormous impact of the Chicago region's rail activity means that even very small percentage improvements in efficiency can produce very large public benefits. Additionally, CREATE will improve rail passenger service, reduce motorist delay, increase safety, and provide environmental and energy benefits to the public. We believe CREATE investment is of paramount importance for the nation's most critical rail terminal to keep the rail system working and contributing to the nation's economy and a healthy environment. It will also be extremely important to the Chicago regional economy and quality of life. Rail keeps a large number of trucks off the city streets, helping to alleviate congestion and reduce road deterioration. Freight rail offers many

benefits over trucks in terms of improved safety, reduced pollution, and less noise. An integral part of the logistics industry, freight rail contributes employment and economic vitality to Chicago. CREATE will provide the Chicago region with at least \$595 million in benefits related to rail passengers, motorists, and safety, plus air quality improvements valued at \$1.1 billion⁸.

Policy Options to Consider for the Future

To advance the national dialogue on the need for freight rail investment, several policy options should be considered:

- **Establish a national rail policy and define a national rail freight system.**

The importance of the nation's freight systems, especially the rail freight system, in the national transportation system needs to be reaffirmed. The capacity crunch facing the freight transportation system is a national challenge that cannot be solved by the railroads, their shippers, or the public sector acting alone. Establishment of a national rail policy as part of a broader national freight policy is of critical importance. The policy should define the national rail freight system, identify nationally significant choke points, and outline performance goals for the rail system that will address the need to maintain a cost-effective and efficient national freight transportation system; encourage economic development; and reduce the costs of congestion and maintenance of the public highway system.

- **Increase private and public investment in the freight- and passenger-rail systems to keep pace with economic growth and demand, and to enlarge the role rail is capable of playing in the national transportation system.**

The private sector should and will play the dominant role in investing to add capacity and improve rail services. However, the public sector should stimulate and guide investment as well as invest directly in the rail system to achieve public benefits such as jobs growth and economic development, an efficient and equitable transportation system, safety and security, and healthy communities. Public sector options to increase investment include the following:

- Support public-private partnerships for freight rail investment. Partnerships can be between a railroad and a state or local transportation agency, but can also involve shippers, motor carriers, steamship lines, and terminal operators.
- Fund grant and credit programs for public participation in public benefit projects, including dual-benefit freight- and passenger-rail improvements. In addition to the current Transportation Infrastructure Finance and Innovation Act (TIFIA) and Rail Rehabilitation and Improvement Financing (RRIF) programs, new Tax Credit Bond

⁸ CREATE Program Final Feasibility Plan, August 2005

programs as suggested by the U.S. Chamber and others⁹ should be considered. In most urban areas, freight and passenger rail services are tightly intertwined, sharing the same tracks and signal systems. Public sector investments in intercity and commuter rail improvements usually generate significant benefits for freight rail as well.

- Support private sector tax credits and depreciation policies that encourage investment in rail infrastructure and reward the sustained production of public benefits. Tax credits and depreciation policies can be used to expand investment by shippers and terminal operators as well as accelerate direct investment by the railroads. But tax credits and accelerated depreciation policies are still public investments and must be linked to a national rail policy and to projects that will produce public as well as private benefits.
- Consider a separate national freight program in the next surface transportation reauthorization such as being advocated by the American Road and Transportation Builders Association's Critical Commerce Corridor System and the Coalition for America's Gateways and Trade Corridors' Freight Trust Fund.
- **Support the improvement of urban rail operations to preserve rail service, reduce truck traffic, and minimize community impacts.**

The Class I railroads have been most successful in expanding mainline capacity between cities. They have been less successful in expanding rail lines, yards, and terminals within cities. The high cost of land, the complexity of land use planning and environmental permitting, and the pressure of dealing with local communities has, in some cases, pushed railroads to relocate terminals outside cities. This is good business for the railroads, but not necessarily for cities, their communities, and the highways, which deteriorate more rapidly from increased and longer truck trips. State and local governments, as is occurring in Chicago, should take a stronger role in the planning, permitting, and management of urban rail projects to preserve existing rail terminals and access, and consolidate and upgrade outmoded facilities to promote transportation efficiency and quality of life.

⁹ National Chamber Foundation, Future Highway and Public Transportation Financing Phase II, 2005.