



American Association of
State Highway and
Transportation Officials

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STATEMENT

For

Surface Transportation Board Hearing

On

Rail Capacity and Infrastructure Requirements

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In 2003 The American Association of State Highway and Transportation Officials addressed the subject of this hearing—Rail Capacity and Infrastructure Requirements—in the **AASHTO Freight Rail Bottom Line Report**.

The **AASHTO Freight Rail Bottom Line Report** turned out to be a best seller. It focused the state departments of transportation on the importance of rail transportation in its own right and as an essential complement to highway freight movement. It provided a framework and foundation for the creation and expansion of state rail programs. It was embraced by the industry because of its positive treatment of freight rail from an unlikely source and because it said things that the industry collectively might have had difficulty agreeing on. It has been used by the Congress and others as a basic source of information and analysis. (The report will be provided to the STB for the hearing record.)

The **AASHTO Freight Rail Bottom Line Report** presented an early and credible case for the proposition that adequate freight rail capacity is an essential element of the national freight transportation system. Importantly, the focus was not on the need strengthen rail companies but on the need to strengthen the freight rail system in the context of an integrated multimodal freight transportation system.

The purpose of the 2003 report was to express “AASHTO’s views concerning the capacity of the nation’s freight transportation system, especially the freight rail system, to keep pace with the expected growth of the economy over the next 20 years. “

The conclusion –based on consensus forecasts of freight demand and realistic estimates of investment from traditional sources—was that freight rail capacity would be insufficient to maintain rail’s share of total freight movement and that the costs measured in terms of highway congestion, highway maintenance and construction, and increased costs to shippers and consumers would be large. The report also concluded that “relatively small investments in the nation’s freight rail system can be leveraged to provide relatively large public benefits.” These investments would fill the gap between what the rail industry could be expected to generate from its own sources and what would be needed to make it possible for rail to continue to carry at least its current share of total freight volume.

To bring home the point, the report noted that in the unlikely event that all traffic moving on freight-rail “were shifted to trucks tomorrow, it would add 92 billion truck vehicle-miles-of-travel resulting in the need \$64 billion for highway improvements over the next 20 years. This \$64 billion is a conservative figure that does not include the costs of improvements to bridges, interchanges, local roads, new roads or system enhancements. If these were included, the estimate could double.”

In addition to the costs and benefits related to highways, the report identified other significant benefits, including:

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, regional, and national economies.

International Trade Competitiveness--Freight rail, in partnership with the trucking industry, provides intermodal transportation connecting U.S. seaports with inland producers and consumers. Freight rail also carries 16 percent of the nation's cross-border NAFTA trade. Intermodal freight-rail service is crucial to the global competitiveness of U.S. industries.

Environmental Health and Safety--Freight rail is fuel-efficient and generates less air pollution per ton-mile than trucking. Rail also is a preferred mode for hazardous materials shipments because of its positive safety record.

Emergency Response -- Freight rail is vital to military mobilization as demonstrated most recently with the mobilization for Iraqi freedom and provides critically needed transportation system redundancy in national emergencies.

It is important to keep in mind, however, the most important benefit produced by the freight rail system is freight transportation.

The report presented a set of scenarios, provided estimates of the volume of freight that could be carried and the benefits and costs for different levels of investment ranging from "no growth" to "aggressive." (See report.)

Based on this report AASHTO developed and adopted its standing policy on Freight Rail Investment – Principles and Objectives (Attached).

AASHTO's policy stated that without investment from outside the railroad industry, the rail system will accommodate some of the forecast freight growth, but relieve little of the forecast congestion on the highway system. Public participation in rail investment could produce a rail industry that provides the cost-effective transport needed to serve national and global markets, relieve pressure on overburdened highways, and support local social, economic, and environmental goals.

Importantly, the policy suggests the development of a public-private strategy. Making increased levels of investment and realizing the public benefits of a strong freight-rail system at a national level will require a new partnership among the railroads, the states, and the federal government.

This partnership must enunciate a clear national policy of improving freight system productivity; expanding state eligibility and flexibility to invest where freight-rail improvements have significant highway and public benefits; increasing loan and credit enhancement programs; and initiating innovative tax-expenditure financing programs, including accelerated depreciation, tax-exempt bond financing, and tax-credit bond financing. The partnership must extend beyond state boundaries to match the scale of the policy and investment decisions to the scale of today's freight-rail system.

When the policy was adopted, it was felt that "The present need is to treat the key elements at the top of the system: nationally significant corridor choke points, intermodal terminals and connectors, and urban rail interchanges. Investments at this level hold the most promise of attracting and retaining freight-rail traffic through improvements in service performance." That remains the case today.

AASHTO is currently preparing the **AASHTO Freight Rail Bottom Line Report II**. In the relatively short period between the two reports much has changed and much has remained the same. The conclusions in 2007 remain basically the same as those drawn in 2003:

"Freight rail transportation is not keeping pace with demand and the economy. It is shedding traffic to trucking and an already congested highway system. This is happening despite the financial health of the railroad industry, because the industry broadly is operating at capacity and is not investing as fast as its market is growing. This is worrisome because the freight system overall is in the early stages of a capacity crisis; if rail cannot maintain its share of freight, then the consequences will be increased congestion on highways, a higher cost of doing business, and a higher cost of living."

Pressure on the rail freight system will increase because of overall growth in freight demand which is driven by population growth, economic growth, and changing patterns of supply chain management. Moderate economic growth—no more than 3% per year—will produce a doubling of freight moved in the United States by 2035. At present there is no plan for dealing with this growth in any of the freight modes.

The demand for freight rail services is projected to increase by 69 percent in tons and 84 percent in ton miles by 2035. By that time, without investment in capacity expansion beyond what the railroads are capable of doing from their own sources, rail could see a decline in total tonnage and ton miles. One reason for the shrinking share of traffic is simply structural change in the economy. A higher percentage of lighter, less bulky, high value goods results in a mix of freight more favorable to trucking. Another reason is the pace of investment. Operating at or near capacity in the nation's most capital intensive industry makes it possible for the railroads to operate profitably without making substantial new investments, which, given their market constraints, may as well exceed their capacity.

"Railroads, like all private industry," the report observes, "will continue to make capital decisions based on private financial returns, and public benefits will be just an incidental part of the decision unless public capital plays a role."

Adequate freight rail capacity is an essential element of the national freight transportation system but it is not the responsibility of the freight railroad companies to create and operate a successful national freight transportation system. It is the responsibility of the railroads to operate successful businesses. It is the responsibility of both sectors to collaborate to achieve their separate and common objectives.

The issue for the public is not whether existing freight rail capacity is adequate to support profitable rail companies, but whether it is adequate to meet the nation's need for freight rail transportation.

The system of rail infrastructure we have today is the same system we had at the beginning of the 20th century, only smaller. It is clear that the system needed today is not the system planned and built in the 19th and early 20th centuries. Since the passage of the

Staggers Act the railroads appear to have wrung everything possible out that system in terms of volume, productivity, and revenue, while at the same time lowering average costs to shippers.

It is past time to be just thinking about the 21st century. Recent projects, some well-known some not, demonstrate efforts to retool the 19th century system. The Alameda Corridor was an early example—a major grade separation to serve the needs of what has become the nation's largest container port complex. Others include:

- The Kansas City Flyovers—eliminating a Class 1 intersection.
- The Shelpot Bridge—reconnecting the Port of Wilmington with rail service.
- The Heartland Corridor—creating the possibility of double-stack intermodal service between the fast-growing Port of Norfolk to Columbus, Ohio, and intermodal connector points in between.
- The FAST Corridor—constructing multiple improvements to make rail and truck traffic to and around the Ports of Seattle and Tacoma more efficient and productive.
- The Middle Atlantic Rail Operations Study—analyzing investments needed in a multi-state corridor to improve system performance.

These are examples of the types of public benefit freight rail projects needed to assure that rail will be a valuable element of the national freight transportation system in the future. They also are examples of successful state participation in public-private efforts to achieve both business and public policy objectives and they involve a variety of creative financing approaches.

Four issues that warrant special attention in the context of this hearing are the meaning of national, the role of the short line and regional railroads, the achievement of public benefits, and the importance of passenger rail.

A freight rail system that only moved freight from a point on the west coast to a point on the east coast would span the nation but not be “national.” A national system is one that serves the needs of the nation, including locations and shippers that are necessarily a high priority in the profit paradigm of the Class 1 railroads. Given this view of national the short line and regional railroads are an essential element of the “national” system. Their role and significance in the “national” system should be recognized and their continued viability should be supported.

On the subject of public benefit, the proposition that the national freight transportation system needs a strong freight rail element does not mean that any capital investment in freight rail produces a public benefit. AASHTO supports public incentives for private investment in freight rail. If such incentives are created, however, their public benefit purposes should be well-defined, and there should be a process that makes it possible to measure the benefits and determine whether or not the objectives have been met. State involvement and support for state investment should accompany private investment incentives.

From AASHTO's perspective one of the important public benefit purposes for freight rail investment is the expansion of intercity passenger rail service. This service is essential to personal mobility in many areas of the country. Everywhere passenger and freight rail share the same track. Outside of the Northeast Corridor the track is owned by the freight railroads. Public incentives for rail investment should specifically address projects that increase both passenger and freight rail capacity.

AASHTO continues to be strongly interested in the expansion of freight rail capacity. In addition to the forthcoming report, AASHTO's Board of Directors has included rail transportation recommendations in a comprehensive set of recommendations to the National Surface Transportation Policy and Revenue Study Commission, (Surface Transportation Policy Recommendations for the National Surface Transportation Policy and Revenue Study Commission, March 2007).

AASHTO urged the Commission to support the establishment of a National Rail Transportation Policy. The recommendation declared that "Intercity passenger and freight rail are critical components of the nation's surface transportation system," and went on to state that "Current rail capacity is not sufficient to meet passenger or freight needs" and called for "...a national rail policy that addresses institutional roles, passenger and freight capacity and new, non Highway Trust Fund funding and financing options. This policy must be developed in partnership with federal and state governments and the railroads."

AASHTO pledges to work with the Surface Transportation Board, the rail industry, and all of those committed to an efficient and productive 21st century freight transportation system to achieve these critical national objectives.