U.S. House of Representatives
Committee on Transportation and Infrastructure

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Washington, DC 20515
December 11, 2007

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Ranking Republican Member

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MEMORANDUM

TO: Members, Committee on Transportation & Infrastructure

FROM: Ranking Republican Member John Mica

DATE: **December 11, 2007**

Subject: **SUMMARY OF SUBJECT MATTER:**
Forum on Freight Railroad Finance
9:30 AM a.m. December 12, 2007 Room 2253 RHOB

PURPOSE

This forum will examine the future capacity needs of our nation's freight rail system, projected capital investment over the next thirty years, and the financial incentives needed to attract sufficient private capital investment.

BACKGROUND

Between 1955 and the early 1980s, a number of major railroads went bankrupt. By 1976, more than 47,000 route-miles had to be operated at reduced speeds because of dangerous track conditions. More miles of railroad were bankrupt in the 1970s than in the Great Depression of the 1930s.

Major Railroad Bankruptcies 1960-80

- **New York, New Haven and Hartford Railroad**
- **Boston Terminal Corporation (South Station)**
- **Central Railroad of New Jersey**
- **Boston and Maine Corporation**
- **Lehigh Valley Railroad**
- **Reading Company**
- **Lehigh and Hudson River Railway**
- **Erie Lackawanna Railway**
- **Ann Arbor Railroad**
- **Rock Island Railroad**

- **Penn Central Transportation**
- **Penn Central subsidiaries**
- **United New Jersey Railroad and Canal Company**
- **Beech Creek Railroad**
- **Cleveland, Cincinnati, Chicago and St. Louis Railway**
- **Delaware Railroad; Erie and Pittsburgh Railroad**
- **Michigan Central Railroad**
- **Northern Central Railway**
- **Penndel Company**
- **Philadelphia and Trenton Railroad**
- **Philadelphia, Baltimore and Washington Railroad**
- **Pittsburgh, Fort Wayne and Chicago Railway**
- **Pittsburgh, Youngstown and Ashtabula Railway**
- **Union Railroad of Baltimore**

The principal legislative response to this situation was deregulation under the Staggers Rail Act of 1980. The Staggers Act gave railroads the flexibility to set their own rates, while still allowing government regulators to limit prices if the railroads abused their power.

The Staggers Act produced a major turnaround in the financial condition of the industry. Private sector capital flooded into our nation's rail system, allowing the rehabilitation of rundown lines and the replacement of aged locomotives and cars. New technologies were adopted, and uneconomic routes were sold off or closed. As a result, no major rail carrier has failed since the early 1980s.

Since deregulation, shipping prices for many commodities have actually declined in real terms while system efficiency has increased remarkably.

- In 1972, our rail system moved 784 billion ton-miles of freight.

- In 2006, our nation's rails moved 1.7 ***trillion*** ton-miles.

- In 1972, our railroads could move a ton of freight 173.5 miles on a gallon of fuel.

- In 2007, one ton of freight can travel 423 miles on a single gallon of fuel.

The Future of Our Rail System

Beginning in the late 1990s, congestion has replaced bankruptcy as the biggest threat to our major rail carriers. As traffic surged after the year 2000, many lines were operating at or above full capacity.

The demands on our rail system are only expected to increase over the next thirty years. According to a recent study by Cambridge Systematics, $148 billion in new investment to meet rail capacity demands by 2035.

Major Federal Programs

The federal government does not currently provide operating funds for freight railroads. Federal participation in capital funding has been extremely limited--

1. **The RRIF Loans Program is the only major government source of capital for freight rail.**
   a. $35 Billion is available.
   b. Only about $736 million has been expended.
   c. Prior to 2006, it was extremely difficult to get a RRIF loan due to OMB restrictions.
   d. SAFEATEA LU changed the law to make it easier to get a RRIF loan.
   e. SAFETEA LU also expanded available funding to $35 Billion from $3.5 Billion.
   f. Eligible entities include:
      i. state and local governments,
      ii. railroads,
      iii. entities in a joint venture with a railroad,
      iv. interstate compacts
      v. certain shippers.
   g. Eligible activities include acquisition or rehabilitation of railroad lines, cars and facilities.
   h. **Note:** President Bush has called for abolition of the RRIF program.

2. **Shortline Tax Credit**
   a. Current law provides a 50% tax credit for Class II and III railroad track maintenance.
   b. Capped at $3500 per mile (which is a small fraction of the actual annual maintenance cost.)
   c. The Tax Credit expires on January 1, 2008.
   d. S.881 and H.R.1584 would extend the tax credit to 2011 and increase it from $3500 to $4500.
   e. This is Ways & Means Jurisdiction.

3. **Proposed 25% Tax Credit for Rail Capacity Expansion**
   a. S. 1125 and HR 2116 (Freight Rail Infrastructure Capacity Development Act of 2007) would provide a 25% Tax Credit for –
      i. New track (such as a second main line), sidings, or spurs.
      ii. New intermodal or transload facilities;
      iii. Technology-based expansion, such as signaling dark territory;
      iv. New locomotives that increase the total horsepower of a railroad's fleet.

b. The legislation may move in 2008.

Expected Participants

Government

Mark Yachmetz, Associate Administrator
Federal Railroad Administration

Chip Nottingham, Chairman
Surface transportation Board

Industry

Ed Hamberger
American Association of Railroads

Rich Timmons
ASLRRA (Shortlines)

Matt Rose
BNSF Railroad

Finance

Tony Hatch
ABH Consultants

Ed Wolfe
Bear Stearns

Mort Downey
Coalition on America's Gateways & Trade Corridors

Labor

Tom Pontolillo
Brotherhood of Locomotive Engineers and Trainmen