

Mr. Chairman and Members of the Board, I appreciate the opportunity to appear before you today to discuss railroad traffic and infrastructure requirements from the perspective of the short line and regional railroad industry.

While I know each of you is familiar with the short line industry I think it is worth repeating that America's short line railroad industry has undergone tremendous change in the last thirty 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. They employ a skilled, productive workforce 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.

Today's short line industry was launched by the passage of the 1980 Staggers Act and by the federal government's decision that it was better to save light density branch lines than to abandon them. Your predecessor agency, the Interstate Commerce Commission played a significant and very constructive role in that new policy.

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. They keep thousands of local communities and small businesses connected to the mainline systems and have become the workhorses of America's rail network. They are the "first mile-last mile" team for 12 million carloads of goods annually – nearly one out of every four carloads moving on the national rail network. This interchange with the Class 1 railroads earns for those Class 1 railroads 18 to 22 percent of their bottom line revenues.

I mention this brief history because it encapsulates our most formidable challenge and our most important potential. Both the challenge and the potential relate to the purpose of this hearing – capacity and infrastructure requirements.

The challenge stems from the fact that the majority of the track we operate today was headed for abandonment prior to the Staggers Act. These were light density lines that were marginal or money losing segments of the Class 1 railroads and as such they received very little investment. While the short line industry has made great strides in upgrading its system, it is this huge backlog of deferred maintenance which defines much of our existence. Private and government studies place the cost of this backlog at anywhere from \$7 to \$11 billion.

Today, short lines reinvest nearly one third of their annual revenues in their infrastructure, higher than any other industry in the country. As the Class 1 system moves to heavier, longer trains and to more scheduled service it becomes even more important that the short line industry maximize investment and eliminate the backlog as quickly as possible.

The good news is that we are meeting this challenge. As the statistics I cited above demonstrate, we are a growing industry and I believe we can make an increasing contribution to improving and expanding the nation's freight capacity.

Today short lines and regionals serve over 13,000 facilities that employ 1.5 million workers. Together they handle an estimated 12 million carloads of freight. For the majority of these customers short line service is the only rail service they have. It would take more than 30 million truck loads a year to move the short line business.

Let me use just one example to make the point. Kansas has 2,000 miles of short line rail track. Those short lines move grain from rural communities to the Class 1 railroads. Without the short lines that grain would go by truck and according to the Kansas Department of Transportation (DOT) that would cost the state an extra \$50 million a year in highway damages. Nationwide short lines save over \$1.3 billion a year in highway repair costs.

I know that these numbers are small in comparison to those of the Class 1 railroads and I do not mean to inflate their value. However, I think it is important to consider where we sit in the national transportation network. We operate in areas of the country that have no other rail service and for those areas of the country our ability to take a 25 car train 100 miles to the nearest Class 1 interchange is just as important as the Class 1's ability to attach that block to a 100 car unit train and take it across the country. Those areas we serve are not inconsequential. In five states short lines operate 100 percent of the state's rail network. In 10 states they operate more than 50 percent. In 25 states they operate more than 30 percent and in 30 states at least one quarter of the rail network is operated by short lines.

As just one example, in Iowa short lines operate nearly 1,400 miles of track and move over 40 percent of all Iowa grain moved by railroads. These local railroads save Iowa farmers over 10 cents a bushel in transportation costs.

In your hearing announcement you said that the "Board is called upon, among other things, to ensure the development and continuation of a sound rail transportation system," and you indicated you want to explore the "potential role of public-private partnerships and innovative financing tools in meeting the challenges."

Let me briefly mention two innovative public-private partnerships, one of which is working well and one of which is not.

In 2004 the short line industry secured the passage of a three year rehabilitation tax credit. The tax credit provides 50 cents on the dollar for every dollar invested in our track structure. Now in its third year, this credit has been enormously successful in maximizing private investment in our infrastructure. As an aside I want to take this opportunity to thank Mr. Mulvey for the critical role he played in the passage of this credit. In his previous life Mr. Mulvey was a senior transportation counsel to Congressman Jim Oberstar, the then ranking Democrat on the House Transportation and Infrastructure Committee and one of the acknowledged experts in federal railroad policy. Our tax credit legislation was successful in part because we were able to attract 268 House co-sponsors, more than almost any other bill introduced in that Session of Congress. Mr. Mulvey took up our cause in that Session of Congress and was personally responsible for recruiting a significant portion of those co-sponsors. For that we are very grateful and want to thank him publicly for that effort.

Because 2006 tax returns are not yet available I cannot yet provide a comprehensive set of data on the tax credit. However, I think a good measure of the credit's success is the commentary we are receiving from our shippers. I have attached to my testimony a sample of some of that commentary and if you take the time to review it I think you will see that our customers are not only benefiting from our increased investment, but are increasing their own rail infrastructure rail investments as well.

In that regard I would ask you to look at the individual letter I have attached to customer stories. The letter is from the manager of Dakota Prairie Ag, a grain shipper in North Dakota and a customer of the Red River Valley & Western Railroad. The tax credit made possible a \$3 million upgrade that allowed the shipper to finally participate in the BNSF's "shuttle train" program. Prior to the upgrade there was a 12 mile segment on the short line that could not handle the heavier 110 car unit trains. The tax credit provided \$1.5 million of the \$3 million investment. The customer writes in that letter and I quote:

*"The more efficient service has saved farmers approximately 10 cents per bushel in transportation costs, or approximately \$480,000 per year for all our producers. In addition my company made a \$2.5 million investment in our Edgeley facility that was needed to efficiently handle the unit trains on our property. So in 2006 a \$1.5 million tax credit resulted in approximately \$3 million in combined private savings and investment in North Dakota. I doubt there are very many government initiatives that can boast that kind of return."*

In an era when much of what we hear about shipper/railroad relations is negative I think the kind of response we are getting from customers on the short line tax credit is well worth your attention.

Our tax credit expires at the end of 2007 and we are pushing for a three year extension of the credit. That extension is embodied in H.R. 1584 introduced by Congressmen Pomeroy, Camp and Moran in the House and S. 881 introduced by

Senators Lincoln and Smith in the Senate. While endorsing legislation may be outside the realm of the STB's responsibilities, there is one important contribution you could make to this effort. That is, it would be very helpful if you could allow Mr. Mulvey a leave of absence so he could once again help us recruit co-sponsors for this legislation.

The second item I would mention is the Railroad Rehabilitation and Improvement Finance Program or the RRIF program as it is called. This program provides loans to railroads for a variety of capital purposes including track and equipment rehabilitation. It provides loans at "cost of money" to the government for 25 year terms. Short line railroads cannot secure this kind of funding in the private markets and the program should serve as one of the most cost effective public-private partnerships in the transportation field. These are loans that must be fully repaid. There is absolutely no cost to the federal government. The loans are secured by collateral equal to 100 percent of the loan value, plus the payment of a so-called "credit risk premium" that covers the risk of default.

This program could go a long way toward funding the \$7 to \$11 billion shortfall I referenced earlier at no cost to the federal government. Unfortunately it is not. Since the program was initiated in 1998 only 15 loans have been approved - 13 for freight railroads and 2 for passenger railroads. I will not take your time today explaining all the reasons for this failure, and indeed I am not sure I understand all of them myself.

However, I would say that if the Board wants to make a positive contribution to enhancing effective public-private partnerships, it should take up the cause of exploring why the federal government cannot make this program work.

I appreciate the opportunity to share my thoughts with you today and would be pleased to answer any questions.