

Presentation to House Transportation
&
Commerce & Economic Development Committees
by
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On behalf of the largest state railroad association in the United States, we welcome the opportunity to make this presentation to your committees. As most of you know Keystone State Railroad Association is truly an entrepreneurial effort, organized just 3 1/2 years ago and now the largest such state association and we believe - one of the best.

This growth has not been without some pain and turmoil. Government and even some companies have sometimes struggled with the concept that such an organization could so quickly organize and request a position at the policy-making table of government.

Some view us as competition to government, which is unfortunate because our goal is to be an effective partner. To be effective, however, we must change the image of our industry and we must become better at attracting customers and capital investment to areas served by our industry, a primary focus of today's meeting.

First, some background: Railroads are at a major crossroads as we enter a post merger phase of a new millennium. Railroads require huge capital investments, now some \$2.5 billion per year with a current anemic rate of return and a slow increase in carload growth.

We are concluding a decade of dramatic merger consolidations, a reduction in cost, a reduction in overall employee costs and major improvements in size, quality and efficiency of equipment. Now the decade of opportunity is upon us when the industry will either grow or die.

Government, and especially the legislative branch, will play a major role, including:

- Assuring a level playing field.
- Partnering with railroad industry to create industrial magnet centers of companies who want timely, quality, cost effective customer service.
- Focusing anew on infrastructure financing, which is not so much a question of more dollars, as getting the most efficient combination of financing.

- Realizing that timing is almost everything, a theme familiar to the political world and equally significant in attracting capital investment.

In each case, your most reliable rail transportation consultant is your local rail provider and in many cases, the railroad's other Class I partners.

The Keystone State Railroad Association is often your coordinating agency to bring the partners together and to bring a focus to various proposed programs and solutions. There are major changes in policy occurring in the railroad industry.

Several of these changes will have a major impact on your decision making, including:

- The 286,000 pound car is already here as the new standard, which was previously 265,000. Many Pennsylvania short line and regional railroads will need major bridge and infrastructure upgrades to handle this new standard.
- Boxcars are now 80 feet, not 40 feet, which makes many railroad spurs obsolete and in some cases inoperable.
- Class I partners, In Pennsylvania's case, NS, CP, & CSX want to partner with public agencies to finance infrastructure development and improvements. Previously, these entities opposed public financing except for the rehabilitation of track for short lines, which was previously abandoned by the Class I carriers. This will require state government to consider increased funding or short line and regional railroads will see a sharp decrease in available financing.
- As you might now suspect, capital for maintaining and upgrading our rail infrastructure is in short supply. The new Federal rail loan funds and state programs need to be meshed so as to fund larger projects. In some cases, incremental financing may be part of the answer.
- Pennsylvania's Rail Freight Assistance Program has been exemplary but every year, a much greater portion goes to traditional economic development projects (siding and industrial parks). This does nothing to improve the short line or regional railroad infrastructure servicing the area. Some of these expenditures are being made in a speculative manner, without regard to the servicing rail line or its capability.

- Yesterday the ASLRRRA announced that the organization will explore two options:
 1. Feasibility of diverting a portion of existing transportation funding to a dedicated infrastructure fund, similar to that used for mass transit.
 2. Seek more flexible funding for intermodal related projects designed to relieve current congestion and environmental problems.
- The recent CSX/NS purchase of Conrail is redefining the core functions of many short line and regional railroads, at least for the short term, i.e.,
 - a) Classification of traffic.
 - b) Blocking of specific destination trains.
 - c) Synchronization of information systems.

How does this all relate to economic development? If we partner together, a solution to many of the issues may be found. Railroads will be a major player and originating rail traffic and jobs will grow in Pennsylvania. Railroads could again become a major growth industry.

Conversely, if we ignore the problems and let other states control the location of industrial jobs and shipping gateways, our rail transportation system will be reduced to corridor overhead traffic and our overall transportation system will be more costly to maintain and probably deteriorate.

One of the biggest problems is the lack of understanding of the railroad system by legislators, administrative officials, congressional representative and senators.

We live in a very competitive country, constantly challenged by an equally competitive world. As an example, the little state of Maine has embarked on an aggressive rail infrastructure program, which addresses many points made in this presentation.

Major short line and regional railroads in the United States are the preferred operator of many foreign rail systems being privatized by their national public owners. The major reason is their ability to dramatically cut operating costs and their emphasis on customer service.

The key customer slogan is - More and better service on a scheduled, timely basis. As an industry we want to be an aggressive partner in attracting and expanding the field of customers. But serving these customers may often depend on our ability to work together. No one has yet found the silver bullet but we can tell you that new and expanded government regulations, antagonistic government officials, and a sea of misunderstanding will certainly deter our best efforts.

I appreciate the opportunity to share with you our future goals and vision.

KSRRA PROGRAM EXPANDS TO ACCOMPLISH MEMBERSHIP GOALS

The Executive Committee has approved the following Program of Work which is contingent on the continued growth of the Association and the availability of outside funding.

- ▶ Continue extensive monitoring of potential regulatory and legislative proposals which relate to railroads and their customers.
- ▶ Continue and improve the Annual Conference to be jointly sponsored with the Rail Freight Advisory Committee.
- ▶ Disseminate informational materials as needed.
- ▶ Continue to pursue fixed state funding stream for improvement of rail freight infrastructure and seek to retain \$8,000,000 in annual RFAP funding plus the capability to utilize Capital Budget Funds for larger projects.
- ▶ Continue to pursue ISTEA policy changes and strengthen rapport with Pennsylvania Congressional Delegation.
- ▶ Broaden scope of Pennsylvania legislative meetings of KSRRA to include all members of respective transportation committees, as well as legislative leadership.
- ▶ Continue participation on PennDOT task forces.
- ▶ Enhance new Political Action Fund with one special fundraising event each year.
- ▶ Discuss possible role of Association in resolving niche problems, such as policies on highway crossing funding to improve safety.
- ▶ Continue liaison with Washington rail trade associations to become their grassroots in PA.
- ▶ Develop a public affairs program designed to educate and inform the public on railroad industry issues in PA.

GET ABOARD ! Everyone's Participation Increases our Potential for Success

Your Revenues	KSRRA Investment
\$100 M & Above	\$15,000
5 M - 100 M	5,000
1 M - 5 M	2,000
Under 1 M	500
Associate Members	1,000
Contributing Members	500

Membership information can be obtained from The McFarren Group or any railroad company member.

Our goal is to develop the most effective state railroad association requires the active participation of all companies.

- ▶ Continue to refine our information database.
- ▶ Establish working relationship with Metropolitan Planning Organizations and Local Development Districts.
- ▶ Discuss possible role for the Association in resolving niche problems such as:
 - * technical advances which lend themselves to various informational seminars with a special focus on short line railroads.
 - * promoting technology for better rail safety.
- ▶ Support PennDOT's cataloging of industrial zoned areas adjacent to railroads which are available for location or expansion of manufacturing facilities which can utilize rail transportation.

FEDERAL TAX POLICY PENALIZES RAILROAD INDUSTRY

KSRRA strongly believes that national tax and budget policies should not be used as a mechanism to favor one transportation mode over another.

The Keystone State Railroad Association supports three changes for rail transportation in federal ISTEA legislation:

1. Expansion of funding for Sec. 130 highway grade crossings which will benefit both highway and railroad traffic.
2. Flexibility and higher priority for intermodal projects involving improvement or relocation of railroad infrastructure.
3. Support \$25 million annual funding for pilot study on economic benefits of short line railroad infrastructure improvements.

Railroads also support the immediate repeal of the 1.25 cent federal diesel fuel tax (\$50 million) which was levied to reduce the federal deficit. Railroads are the only transportation sector paying this tax which was repealed for highway and other transportation modes. Another 4.3 cents on diesel fuel for highway users and air transporters was diverted to dedicated trust funds to improve highway and air infrastructure. The railroad portion is still dedicated to the general revenue fund to reduce the federal deficit. This is a discriminatory tax which diverts some \$200 million per year from railroads which should be used to improve rail infrastructure and service.

Short line and regional railroads own and maintain 45,000 miles of track or 27% of total rail route mileage. These railroads generate 9% of the annual \$40 billion in gross revenues estimated for the rail industry.



A partnership of railroad companies and affiliated business working with government to develop a cost effective competitive rail freight transportation system in Pennsylvania.

Each year our load of all rail freight traffic in the United States flows through Pennsylvania

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PUTTING THE PIECES TOGETHER — THE ROLE OF KSRRRA

FOR GROWTH AND BETTER CUSTOMER SERVICE

The merger of Conrail, Norfolk Southern and CSX Transportation captured the attention of railroad management for some 18 months as restructuring agreements, appeals and hearings impacted most operating systems.

Only the future will define the ultimate benefits to the industry, customers and the overall transportation network. Changes are guaranteed. Unknown is the ultimate financial impact on various railroads and on the cost and quality of service to customers. The major determinant may be the capability to generate new business by all railroads in order to create operating margins large enough to pay for acquisition related debt and needed capital improvement.

Conservatively, Pennsylvania railroads need to increase traffic by some \$1 billion per year to finance the rail restructuring in process.

Unlike public transportation systems such as highways, rail infrastructure is privately funded, except for some assistance to the short line and regional railroads which have absorbed hundreds of miles of abandoned or low density freight corridors in recent years. State assistance and loan programs have been necessary in almost every state to assist in the rehabilitation of the rail infrastructure of these railroads, which in many cases had deteriorated after years of limited capital investment by the prior owner.

State financial assistance has also been provided to clear infrastructure obstacles which precluded the handling of double stacked containerized cargo — a fast growing segment of the railroad business.

The ultimate beneficiary has been the shipper who has obtained improved service and greater flexibility in transport options. Even more infrastructure improvements will be needed to adequately serve the future service requirements of customer.

Railcar weights have been substantially increased with 286,000 pounds becoming the new standard and shippers are demanding special features which are designed to better accommodate their products. Many short lines will have to upgrade their track infrastructure to handle these heavier rail cars. A quicker, more reliable delivery capability has become a necessity.

KSRRRA REPRESENTS 48 PENNSYLVANIA RAILROADS

KSRRRA represents 48 of the some 65 active and operating freight railroads in Pennsylvania. These companies, along with several suppliers, contractors and affiliates, have urged all railroad interests to unite in creating the largest state railroad association. The Association has created, in cooperation with the Pennsylvania Rail Freight Advisory Committee, an annual joint rail freight seminar. The Association retains the McFarren Group and Phillip D. McPherson as Executive Director to coordinate the organization and to advocate its Program of Work.

FUNDING

Pennsylvania's funding of the maintenance and rehabilitation of short lines and regional railroads has been increased substantially and it is projected to remain constant in future years. This level of funding from all sources is approximately \$1.5 million per year or about 30% higher than prior years. This funding is split between the Rail Freight Assistance Program and Capital Budget authorizations for larger outlays.

Further simplification of Pennsylvania funding would be beneficial. Funding programs now require numerous levels of legislative and regulatory approval. This process needs to be improved and to become more timely. As an example, railroads experienced extensive damages during the 1996 floods and winter storms. State assistance to help necessary repairs by winter two years.

THE PROBLEM

Pennsylvania has not devoted enough dollars to rail capacity planning. Our rail infrastructure has seen many improvements in recent years. However, many short lines and regional railroads will have difficulty in handling 80,000 ton plus car loads. Many railroad budgets have limitations which will prohibit such trials. Some of our existing resources are being utilized for low priority projects or could be better packaged. This becomes the major challenge to KSRRRA and member companies.

THE SOLUTION

The solution to our problem will require better capacity planning, major investments in improving rail infrastructure and a more efficient use of available resources. The most constraints, loads of shippers, slowly parallels the competitive cost of service. Our railroads are key to economic development and to improving our environment by reducing air pollution and highway congestion.

KSRRRA PARTICIPATION IS EXTRAORDINARY

A typical Executive Committee meeting has a 95% participation rate with absences normally being due to unavoidable business conflicts. All railroad companies are eligible for board membership and have one vote per member on policy matters requiring majority approval. Many suppliers, contractors and affiliated interests join the railroad companies on various committees and task forces.

A RESPECTED VOICE ON TRANSPORTATION ISSUES WORKING FOR YOU

- Created the largest proactive state railroad association in a brief two year period.
- Tripled the state rail freight assistance funding for short line and regional railroads.
- Fostered an annual joint rail freight conference with the state Rail Freight Advisory Committee.
- Created an extensive data base of all affiliated interests in Pennsylvania.
- Developed a unified state rail policy on ISTEA funding.
- Created a membership which encompasses companies carrying more than 90% of all rail freight traffic in Pennsylvania.
- Created a dialogue for railroad companies with Pennsylvania's Congressional Delegation and the Executive Branch.
- Eliminated the discriminatory gross receipts tax on Pennsylvania rail revenues.
- Eliminated most of the negative features of Pennsylvania's prevailing wage law on railroad projects.

BENEFITS OF A PROACTIVE PROGRAM

- Readily available information regarding state funding, legislation and proposed regulations.
- Daily monitoring of legislative issues.
- Advocate for new legislative programs or to oppose changes detrimental to the industry.
- Coordination of an effective state network of railroad interests which can be readily mobilized to present your case before state officials, Pennsylvania's members of Congress and the US Senate.
- Forum for exchanging ideas, information and for marketing your industry to major customer sectors.

R E S T R U C T U R I N G