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Transportation Committee

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Mr. Chairman Markosek, Mr. Chairman Geist, and the other members of the Transportation committee, thank you for the opportunity to provide comments today regarding the important issues of the budget and stimulus package as they relate to the railroad industry. My brief remarks will focus on the Regional and Short Line freight railroads, and the very significant role they can play to help in the recovery of the economy in our Nation and Commonwealth.

To provide a basis for my comments, I will very briefly review the regional and short line sector of freight railroad industry in Pennsylvania. The class of railroad is based on its annual revenues. Regional, or Class II, railroads generate between \$250 million and \$20 million in revenues a year. Short line, or Class III, railroads produce up to \$20 million a year in revenue. There are 55 Class II and III railroads in Pennsylvania. There are more Class II and III railroads in Pennsylvania than any other state in the Nation. They cover all corners of the state, from metropolitan Philadelphia to Erie, and from Washington County to the Northeast. In total, they operate over approximately 2,900 miles of track, and use almost 450 locomotives to handle the equivalent of over 1.6 million truck trips over Pennsylvania roads and highway a year.

Our state economy would be dramatically different without the presence of regional and short line freight railroads. Most often created by a line sale or lease from a Class I railroad, without these Class II and III railroads many communities and companies in Pennsylvania would be without any rail service at

all. Regional and short line railroads provide the "first mile – last mile" of many rail shipments, and provide their customers with the intense, flexible and eager-to-please service necessary for them to ship rail. While the size of Class II and III railroads vary from holding companies like my own down to the "mom and pop" operations ... where the president of the railroad could be signing checks in the morning and driving spikes in the afternoon. There is one common theme among all regional and short line railroads: an entrepreneurial focus and "can do" attitude that is critical not only for survival but a necessity to grow the business.

There is one other common thread binding Class II and III railroads in Pennsylvania: A long term effort to address serious deferred maintenance. Often when a regional or short line railroad began operations, it assumed responsibility for rail lines that were in serious need for improvements. A great example of this is the continuous efforts by many Class II and III railroads in the Commonwealth to upgrade their lines to handle 286,000 lb. loaded rail cars. "286" cars, as they are known in the industry, are almost universally accepted by Class I railroads. In order to gain the maximum advantages in shipping or receiving rail shipments, rail customers want to utilize the 286 load limit. However, due to old and inferior rail and bridges, many regional and short line railroads are unable to provide this level of service to their customers.

My company, Genesee & Wyoming Inc., owns four railroads in Pennsylvania. The largest, the Buffalo & Pittsburgh Railroad, is a regional. York Railway, Pittsburgh and Ohio Central Railroad, and Aliquippa & Ohio River Railroad are short lines. All four of these companies have "shovel ready" projects that will not only make very long term improvements to the rail freight infrastructure in the Commonwealth, securing service to our customers and communities throughout the state, but also help put industrial sector workers to work. Our projects will often use Pennsylvania based contractors and Pennsylvania sourced materials. This keeps the multiplying effect of our projects within the Commonwealth.

A recent Association of American Railroads study found that Class I freight railroads on average invest more than 17% of their gross revenues back into their physical plants. On many G&W Class II and III railroads, we meet or even exceed that level.

The long term struggle by regional and short line railroads to overcome deferred maintenance, and the massive (relative to revenues) capital investments already being made by many Class II and III railroads, highlights the critical importance of public – private partnerships. Some of our projects have a strong level of "public" benefits, such as reducing highway congestion, improving air quality, or increasing economic development. With these cases, we can accelerate the project with public help. Pennsylvania has a long and successful legacy of funding rail freight projects with demonstrated public benefits, through the Rail Freight Assistance Program and the capital Transportation Assistance Program.

The expected federal recovery / infrastructure bill will give the Commonwealth another major opportunity to push these public – private partnership projects along. My company has provided PennDOT with a list of "shovel ready" projects that we cannot undertake without a public – private partnership approach. On the Buffalo & Pittsburgh Railroad alone we have identified nine ready-to-go projects that total \$10.6 million.

Pennsylvania has an opportunity yet again to lead our nation with its long-standing focus and understanding of the importance of freight railroading, and the opportunities for public – private partnerships in rail freight infrastructure. By looking at the pending federal recovery / infrastructure bill in a way that is appropriately flexible, our Commonwealth can maximize the public benefits of the infrastructure investments it will make with these funds.

Thank you for allowing me a few minutes to present these views today.

