TESTIMONY OF RICHARD F. TIMMONS, PRESIDENT
AMERICAN SHORT LINE AND REGIONAL RAILROAD ASSOCIATION

BEFORE THE
RAILROADS SUBCOMMITTEE OF THE HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

APRIL 26, 2006

Thank you Mr. Chairman and Members of the Committee. I appreciate the opportunity to be here this morning to talk about the short line railroad industry. As I think you all know there are some 500 short line railroads operating nearly 50,000 miles of track across the country. We serve shippers that aren't on the Class I mainline system, preserving rail line that otherwise would be abandoned, saving rail jobs that would otherwise be lost and providing customers with competitive service that is almost always less costly than comparable truck transportation.

Just to put our role in the national transportation system in perspective, 23 of the 24 Members of this subcommittee have a short line railroad in their district. I might add that we are taking up a collection from those 23 to purchase a short line in that last remaining district, which is Congressman Porter of Nevada.

In the time I have this morning let me touch briefly on three topics that relate to the issue of capacity.

First, the short line industry strongly supports the Class I tax credit initiative. Ed Hamberger has laid out the facts and figures and we think they are compelling. As I will discuss in a moment short line infrastructure needs are different than the Class I's, yet the capacity improvements they are addressing are important to us as well. Everyone is familiar with the famous assertion that "when GM sneezes America catches a cold." The short lines are in that same boat. Nearly 90 percent of our traffic originates or terminates on a Class I railroad. Short lines handle in origination or termination one out of every four railcars moving on the national rail system. When the Class I system experiences capacity problems our customers can't get cars, can't move their product and ultimately can't market their product. This is particularly critical in rural America where truck transportation is more expensive than short line rail and where local roads cannot accommodate substantial increases in heavy truck traffic.

Our strong support for this Class I initiative also results from our own experience with the recently enacted short line rehabilitation tax credit. 2005 was the first year of the tax credit and it is already demonstrating its worth.

A railroad in Congressman Latourette's district, the Wheeling and Lake Erie, is using the tax credit to replace light jointed rail with heavier welded rail on a line where traffic has increased some 35% in the last five years. The steel, coal and utility customers on the line are making major capital improvements partly due to the competitiveness and improvements in rail service.

The Kansas & Oklahoma Railroad in Congressman Moran's district is using the tax credit for an $8 million rehabilitation project on a line that has 100 year old rail. Speeds will increase from 10 mph to 25 mph and the line will be able to handle new heavier 286,000 pound cars which are becoming the industry standard. It is likely this line would have been abandoned without the tax credit.

The Florida Northern and Florida Central Railroads in Congressman Mica's district are using the tax credit to support a $14 million track upgrade which will increase speeds from 25 mph to 40 mph and allow the short line to handle the heavier, longer trains that are so important to the shippers. The railroad believes the upgrade will result in a significant increase in the amount of coal that can be shipped over the line.

We are collecting dozens of such stories from around the country and they all share a common theme. The tax credit is allowing light density lines to take on or accelerate projects that would otherwise fall by the wayside. These projects are allowing us to handle more traffic, pick up and deliver the heavier longer trains of the Class I system and help our customers reduce their transportation costs

This is a good news story for many reasons, but one that is worth highlighting here is the reaction of our shippers. As Congress is well aware, our industry has its share of tension between railroads and shippers. This tax credit is being uniformly applauded by our customers because in a very real sense they are its ultimate beneficiary. Let me share with you just one quote that is representative of many we have received during this first year of the credit. It is from the owner of Delta Trading Company which ships hazardous materials on the San Joaquin Valley Railroad in Bakersfield, California and which operates over a line that received a $2.7 million upgrade made possible by the tax credit.

"The track rehabilitation made possible by possible by the tax credit is directly responsible for my company's decision to invest nearly $3 million in our in facility and almost triple our number of employees. We now have a short line railroad partner that can provide the volume and level of service that allows us to significantly grow our business. This tax credit was a very smart decision by the federal government and I suspect it will more than pay for itself as our experience is repeated on short lines across the country."

Mr. Chairman, you and the Members of this Subcommittee were strong supporters of this tax credit. Congressman Moran was the chief sponsor and chief cheerleader of the original legislation and many of you were among the bill's first co-sponsors. The short lines are very grateful for your support. As successful as we believe it will be there is one hitch we did not contemplate and that is the impact that the Alternative Minimum Tax is having on the credit. I know the AMT is a huge issue that has implications far beyond our industry. But, representing the world over which this Subcommittee has jurisdiction I think it is important to emphasize.

When we promoted the tax credit concept we were not sure how the AMT would impact its use. With most companies filing their tax returns just two weeks ago, we still don't have a complete picture. But we have enough of that picture to know it's not pretty. In many cases the AMT is taking up to half the credit away and in some cases it is eliminating it altogether. This tax credit is capped at $3,500/mile which is far less than it costs to rehabilitate a mile of track, and rightly so. The legislation was never intended to fully fund these upgrades, but to help us help ourselves. It jumpstarts rehabilitation on light density lines thus helping us to win back the traffic needed to finish the job. It

appears the AMT is going to reduce that benefit significantly and I would hope this Subcommittee would support some type of AMT relief for the period of this credit.

Finally, let me briefly mention the Railroad Rehabilitation and Infrastructure Financing Program, or RRIF as you know it. I know this was a subject of a Subcommittee hearing a few weeks ago and I submitted a letter for the record on that subject. Let me reiterate that the RRIF loan program is a cost effective way for the federal government to maximize railroad capacity. It allows Class II and III railroads to access capital on terms they would never be able to negotiate in the private markets.

Short line railroads are very risky businesses. Our owners are small business entrepreneurs who have already borrowed large sums to try and save the light density branch lines that could not be operated profitably by the Class I railroads. Because many of these lines could not earn their keep in the Class I system they received little investment and were often headed for abandonment. When private bankers look at these lines they see deferred maintenance, high rehabilitation costs and a history of declining traffic under the previous ownership.

The analysis under the RRIF regime is not without its hurdles. The FRA makes sure the government's interests are protected. But the relatively low interest rate and the 25 year term are, like the tax credit I spoke about earlier, a way to jumpstart the rehabilitation so badly needed by much of our 50,000 mile network. And like the tax credit I think you will find that as we publicize examples of RRIF-related projects the benefits to the railroad network are substantial and will lead to increased capacity.

During your recent RRIF hearing a number of Committee Members indicated they had received complaints about the administration of the RRIF program by the FRA. Administrator Boardman wrote to me following the hearing to seek the Short Line Association's perspective on that subject. While there has been much to complain about since the beginning of the RRIF program, I believe the situation has dramatically improved in the recent past and I wanted to submit for the record my written response to Administrator Boardman.

I appreciate the opportunity to appear here today and am happy answer any questions.

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Mr. Joseph Boardman
Administrator
Federal Railroad Administration
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Dear Administrator Boardman:

Thank you very much for your recent letter concerning the Railroad Rehabilitation and Improvement Financing (RRIF) program. I appreciate the opportunity to provide my perspective on the administration of this program.

As you know, the RRIF program had a difficult and far too lengthy startup period. There were a host of reasons for this including a complicated application process, an inadequate and short handed team of FRA analysts, and institutional opposition to the program among some agencies outside of FRA. In some instances those difficulties were exacerbated by inadequate applications from the short lines themselves. These problems are evidenced by the fact that only 12 loans have been approved in the program's first six years.

I believe those problems are largely behind us and that the FRA has put in place the personnel and procedures necessary to allow this program to finally meet the goals that were intended when it was first enacted. The quality of your in-house staff has improved. The information on your website is more user-friendly and useful. The process for engaging outside consultants has been streamlined. Perhaps most important, it appears that FRA is making every effort to meet the 90-day application processing deadline provided for in last year's transportation legislation. It was the significant length of the process that was the most discouraging to potential applicants.

While I am certain there are a variety of reasons for this turn around, I wanted to take special note of Mr. Joseph Pomponio who was recently put in charge of processing RRIF applications. Mr. Pomponio has been most helpful in explaining the program to potential applicants, assisting with the development of applications and in advising short line railroads as to how they might amend applications that might otherwise not meet the government's financial requirements. I hear this from my short line members and know it to be true from the many times my own staff has called seeking his advice. While he sometimes gives answers a short line does not like, he has been very accessible and responsive.

I have no doubt that individual Congressmen have heard many negative comments about this program. But I suspect that the majority of those comments relate to the past not to the present. Because you have asked me this question I will take some time to explore the subject with the short line membership. In the meantime I believe you have made significant progress and the short line community is very grateful. Obviously the final measure of progress will be an increase in the number of approvals and that remains to be seen in the months ahead, but I am confident we are headed in the right direction and increased applications and loans will result.

Respectfully,
Richard F. Timmons