STATEMENT OF

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BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE'S

SUBCOMMITTEE ON RAILROADS, PIPELINES, AND HAZARDOUS MATERIALS

REGARDING

THE 35TH ANNIVERSARY OF THE STAGGERS RAIL ACT: RAILROAD DEREGULATION PAST, PRESENT, AND FUTURE

MAY 13, 2015

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Thank you Chairman Denham, Ranking Member Capuano and Members of the Committee. My name is Linda Darr and I am President of the American Short Line and Regional Railroad Association (ASLRRA). ASLRRA is a national trade organization representing the nation's 550 Class II and Class III railroads as well as 480 railroad suppliers and contractors that serve the railroad industry. Together short line railroads operate 50,000 miles of track or nearly 38% of the national railroad network. We are often called the first mile/last mile of the nation's railroad system and we handle in origination or destination one out of every four rail cars moving on the national system. On behalf of our members I thank the Subcommittee for giving us the opportunity to comment on the Staggers Act.

As Mr. Hamberger has said, the Staggers Act literally saved the railroad industry from near total collapse. In many respects the Staggers Act is also the parent of the short line industry as we know it today. The economic freedoms and regulatory flexibility embodied in that Act allowed the railroads to save light density branch lines rather than abandon them. The results were quite remarkable. Short lines have grown from 8,000 miles of track in 1980 to 50,000 miles today. They operate in 49 states. In five states short lines operate 100 percent of the state's total rail network. In 10 states they operate more than 50 percent of the railroad network and in 30 states at least one quarter of the rail network.

In saving the Class I industry the Staggers Act preserved the private national railroad network. In creating the modern-day short line industry the Staggers Act insured that huge areas of rural and small town America would stay connected to that national railroad network. For the small businesses and farmers in those areas, our ability to take a 25-car train 50 miles to the nearest Class I interchange is just as important as the Class I's ability to attach that block of traffic to a 100-car train and move it across the country. Tens of thousands of rail customers cannot make the journey across the country without Class I railroad service. But they can't start that journey without short line service.

Staggers jump started today's short line industry but I am proud to say that short line railroaders took hold of that opportunity and made the most of it. Today's short lines come in all shapes and sizes. Some are members of rail holding companies, some are large regional entities, and 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. They are aggressive and agile companies that make wise use of the resources available to them**.** They employ a skilled, productive workforce, offering them a good quality of life and they place considerable emphasis on training that workforce to be as safe as possible. Above all, they are aggressive marketers that fight as hard for single carload business as they do for unit trains. And that fight for business helps keep transportation costs as competitive as possible which is good for our customers and ultimately for the nation's consumers.

Let me put a little more detail around a number of items that I think have contributed to short line success.

First the short line industry is blessed with a large number of entrepreneurs who took large financial risks to purchase and subsequently rehabilitate these light density lines. Most borrowed heavily from the bank and contributed substantial amounts of their personal capital to make these new ventures go.

Second, short lines have worked hard on building relationships with their customers. In the beginning many of those customers were our partners in helping save the most marginal lines. They did so by helping finance rehabilitation through realistic rates and by agreeing to meaningful traffic volumes. The short lines have continued to work closely and cooperatively with our customers. As many of you know the short line industry undertook an aggressive campaign to secure a rehabilitation tax credit in 2004 and I am pleased to say that our customers played an active and perhaps decisive role in that effort. Thousands of individual shippers have publicly supported the creation and the extension of the credit and communicated with their own Congressmen about the benefit they derive when their railroad infrastructure is improved.

Third, short lines reinvest on average as much as 30 percent of their annual gross revenues in repairing and upgrading their infrastructure. In absolute dollar terms this does not compare to the huge private investment the Class I railroads have made, but it is a huge percentage of what we earn and it is evidence of our drive to succeed.

That investment has been supplemented by some very important help from Congress in the form of the so-called 45G rehabilitation tax credit which I alluded to earlier. The Members of the Transportation & Infrastructure Committee have been enormously helpful in shepherding this legislation through the legislative process and for that we are very grateful.

The credit was first enacted in 2004 and has been extended numerous times, most recently through December, 2014. We in the short line world believe this has been the most consequential piece of railroad legislation for our portion of the industry since the Staggers Act of 1980. The tax credit has been responsible for leveraging over $1.5 billion in short line capital investment. Just to give you some idea of the magnitude of this the National Railroad Tie Association estimates that the tax credit has resulted in the purchase of between 500,000 and 1 million ties annually over above normalized short line purchases. I might add, in the spirit of current debates on Capitol Hill, that every one of those ties is produced in the United States. Under the statute, short lines must spend one dollar for every 50 cents in tax credit up to a credit cap equivalent to $3,500/mile. And to be clear, the government is not giving us 50 cents, but rather is letting us invest more of our own earnings in capital investment. I think economists of every stripe will agree that maximizing capital investment is what grows our economy and creates jobs.

As of today we have 161 co-sponsors of our tax credit extension legislation and our goal is always to get more than the 218 needed for passage on the House Floor. I would be remiss if I did not use this opportunity to ask those of you who have not yet co-sponsored the legislation to please consider doing so.

Capital investment in railroads is about economic growth and jobs, but it is also about safety. Every dollar we invest in track rehabilitation makes our track safer. The overwhelming majority of train derailments are track related and the better our track the fewer derailments. There has been and will continue to be vigorous debate among transportation policy makers about the best ways to insure and improve railroad safety. I think everyone in the railroad industry understands how important safety is. But in the last few years the railroad industry has been confronted with an avalanche of new rules, regulations, and technological requirements. The cost of these new mandates will run into the hundreds of millions if not billions of dollars. And we believe in many instances the proposed solutions are not supported by the science or by the experience and that their contribution to improving safety are negligible at best.

We can certainly discuss and debate the exact proper balance between cost and benefit but it seems to me we are getting seriously out of balance. The economics of everything the government is suggesting is enormously consequential and I hope that your Committee in particular can encourage a thorough consideration of these issues.

Before I leave the issue of safety let me briefly describe a short line initiative that we believe will help our members get at one of the key factors in improving safety. The Short Line Association has partnered with the Congress and Federal Railroad Administration to establish a Short Line Railroad Safety Institute which will become central to our Associations' mission moving forward. Our goal is to draw from the best and most current safety knowledge in the industry and to build an advisory board from all facets of the railroads, academic and research disciplines and to use their advice.

In our pilot phase, the Institute will engage a group of full-time safety experts who will assess the safety practices and safety culture of individual short lines, and make recommendations for changes. Our safety assessors will dig deep into short line operations and survey employees to make a realistic and unbiased determination of what needs to be changed or improved. The assessments will be confidential and we believe that confidentiality will provide an opportunity for candid and constructive criticism in a way that might not otherwise be possible. We expect to hear some very critical things, even on those properties that believe they have good safety plans in place. But that's our intention. This is not an effort to show that we are committed to safety, it is an effort to make us better tomorrow than we were the day before.

The Congress and the FRA has provided us the startup funds for this enterprise and we hope to have it up and running very shortly.

Your hearing today is to mark the 35th Anniversary of the Staggers Rail Act and it is an Anniversary well worth noting. The Staggers Act saved the national railroad industry and it was instrumental in creating the modern day short line industry. There are very few sitting Members of Congress that were here in 1980 and so there is little institutional memory of how bad things were for the industry. Your hearing today does a great service in helping explain to those who did not live through the darkest days of railroading the importance of this legislation.

I would like to conclude with a short anecdote that probably tells our story as concisely as anything I have said here today.

WATCO Companies is a prominent short line railroad holding company and its Executive Vice President currently serves as Chairman of our Association. In 1983, three years after the Staggers Act passed Dick Webb, the father of the current CEO of WATCO was a unionized car repairman at the Kansas City Southern. He took out a $25,000 bank loan to begin a rail switching operation in DeRidder, Louisiana which began WATCO Companies. Today WATCO operates 4,600 miles of short line track, employs 3,600 people and moves over 1 million carloads annually across railroad track that was surely headed for abandonment.

Hundreds of short lines across the country can repeat some version of that same story. It is a great American success story and it was made possible in no small measure by the Staggers Act.

I appreciate the opportunity to be here today and I welcome any questions.