Caren Kraska T&I Testimony

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Subcommittee on Railroads, Pipelines and Hazardous Materials

Hearing on "Full Steam Ahead for Rail: Why Rail is More Relevant Than Ever for Economic and Environmental Progress"
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I am Caren Kraska, President and Chairman of the Arkansas and Missouri Railroad (A&M). I am speaking on behalf of the American Short Line and Regional Railroad Association (ASLRRA), the trade association representing the nation's 600 Class II and III railroads. These railroads operate in 49 states over nearly 50,000 miles of track, or approximately one third of the nation's railroad network. Short lines are often called the first mile/last mile of the nation's railroad system and handle in origination or destination one out of every five rail cars moving on the national system. In 36 states short lines operate at least one quarter of the state's rail network. Chairman Payne's State of New Jersey is one of ten states where short lines operate more than 70% of the state's rail network—11 short line railroads operating nearly 800 miles of track. In Ranking Member Crawford's state of Arkansas, my home state, there are 23 separate short line railroads – we work in tandem with the 3 Class I's in the state to provide Arkansas with a world class freight rail network.

Twenty-eight of the 33 Members of this Subcommittee have a short line in their District. As examples, I've **attached** maps of short lines in the home states of Chairman DeFazio, Ranking Member Graves, Chairman Payne, and Ranking Member Crawford.

Although short lines are most often associated with small town and rural America, they also serve large urban areas and many of the nation's busiest ports, including Miami, Los Angeles and Long Beach, Hampton Roads, and New York/New Jersey. Likewise, various short line railroads operate as neutral terminal switching carriers for multiple Class I railroads in Chicago, New Orleans and St. Louis. The Chicago South Shore and South Bend Railroad and the Long Island Railroad operate freight traffic over two of the busiest rail commuter corridors in the country.

The name "short line" can create the mistaken impression that these railroads are all very short rail lines. The fact is we come in all sizes. The Tyburn Railroad in Congressman Brian Fitzpatrick's District is 1.5 miles long. The Rapid City, Pierre & Eastern Railroad in Congressman Dusty Johnson's District is 743 miles long. In Florida, Iowa, Massachusetts, Michigan, Minnesota, Montana, New Hampshire, South Dakota, and Vermont short lines operate track that stretch almost the entire length or breadth of the state.

Regardless of our size or our geographic location, our common denominator is that we operate track that was not viable under the structure of the larger national Class I railroads, that we run small efficient operations, that we stay very close to our customers, and that we hustle, fight, scratch and claw for every last carload of stuff we can get our hands on. We are obsessed with growth and want every piece of business that comes our way.

My own railroad operates 150 miles of track from Monett, Missouri to Fort Smith, Arkansas, employs 66 people and handles 32,000 carloads annually. We serve 75 customers on that 150 miles and, in conjunction with our Class I connections, deliver or receive their products to and from states as far away as California, Florida, New Jersey, and Washington State**.**

The A&M also runs excursion trains in a very scenic portion of northwest Arkansas. Approximately 36,000 people ride these trains in a normal year.

The lexicon of railroading permeates American vocabulary. While some of those phrases carry a negative connotation – he was "railroaded", the project was a "train wreck", the talks were "derailed", it's the "end of the line" for you, I much prefer your Committee's selection from that lexicon – "Full Steam Ahead for Rail." That is the phrase that captures the attitude of short line entrepreneurs endeavoring to preserve and grow what began as the nation's most vulnerable railroad infrastructure and what is today a huge American success story.

Those of you who have served on this Committee are very familiar with that story and have contributed much over the years to that success. For those of you who are new to this story, let me comment briefly on four defining characteristics of the today's short lines.

<u>Most short lines operate track that was headed for abandonment under previous Class I owners</u>. These were light density lines that could not make enough money under the cost structure of the big national carriers. They served customers that were located "off the beaten path" for the large railroads and that typically shipped smaller volumes. Because these were marginal or money losing lines, they understandably received little or no capital investment by their previous owners, resulting in deferred maintenance. To be successful, short line owners must not only eliminate that deferred maintenance but must upgrade the track to handle the heavier, longer trains operated by our Class I connecting partners. To do that, short lines invest on average from 25% to 33% of their annual revenues in maintaining and rehabilitating their infrastructure, and this makes short line railroading one of the most capital-intensive industries in the country. You need only talk to Chairman DeFazio to confirm the significance of this fact. For years he made it his personal mission to save the Coos Bay Rail line that was on the verge of being sold for scrap after decades of troubles. The line's crumbling infrastructure, and a very problematic tunnel in the middle of the line, required a herculean effort to bring together tens of millions of dollars of federal, state, local and private resources needed to fund the necessary rehabilitation. After being closed down completely, the line was re-opened in 2011. There is still work to be done, but the rail line now moves the equivalent of 16,500 truckloads annually and serves as a critical link to the local port, connecting Oregon's lumber industry to the national economy.

<u>Our importance is not our size or our total market share but in who and where we serve</u>. For large areas of the country and particularly for rural and small-town America, short line railroad service is the only connection to the national railroad network. For the businesses and farmers in those areas, our ability to take a 25-car train 75 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 unit train and move it across the country. While my Arkansas frozen poultry shippers cannot complete the journey to West Coast ports for export without Class I service, they cannot start that journey without short line service.

Flexible local service is a key driver of our success. One reason short lines can make a go of it where the Class I's cannot is our ability to deal face to face with customers and offer the flexible service their businesses require. Large national railroads running thousands of trains a day over long distances are not particularly well suited to the needs of the small businesses we serve. For example, my railroad serves George's Inc. facilities in Springdale, AR and Cassville, MO. They need corn for feed, and lots of it, consistently. When the local harvest is good, they truck in the corn from local sources. But when the harvest is not good, the customer needs to shift gears, so they turn to us to bring in unit trains of corn from states where the corn harvest is more abundant, such as Iowa, Nebraska, Minnesota, and Kansas.

Short lines are small businesses. Our combined annual revenues are less than the annual revenues of each one of the nation's four largest Class I railroads. All Class II and III railroads in the U.S. meet the Small Business Administration's small business industry size standard. The average short line employs 30 people or less, and a significant number run with fewer than a dozen employees. Like all small businesses, we are forced to do more with less. A very large number of our customers are also small businesses, who depend on the economics of rail service and direct connections to the rail network that we provide to remain competitive in a cutthroat global economy.

Your hearing today is exploring the ways rail can contribute to the nation's economic and environmental progress going forward. Before I talk about what short lines can do, let me take a moment to thank you for what you have already done to help us move forward. In 2004 Congress enacted a short line rehabilitation tax credit to maximize private investment to repair and upgrade our track and bridges, to help realize the full potential of the benefits we could provide the country. The original term of the provision was three years, and it was temporarily extended six times since first enacted. In the last Congress legislation was introduced to make the credit permanent. It was one of the most heavily co-sponsored pieces of legislation in the 116th Congress, with a bi-partisan majority of 303 Representatives. The T&I Committee and particularly your Rail Subcommittee led the way in this effort. Almost every one of your Members co-sponsored the legislation and you were constant cheerleaders on our behalf. The credit was made permanent in December of 2020. As I noted at the outset, short line railroading is one of the most capital-intensive industries in the country. We were old infrastructure operating in a new world and the tax credit was and will continue to be a critical element in helping us preserve and rebuild that infrastructure.

It is as you suggest "full steam ahead for rail" and your support for the tax credit has given us a full head of steam as we move forward. For that we are most grateful.

My fellow railroad panelist from BNSF will I'm sure highlight the substantial economic and environmental benefits of the railroad industry writ large. I will not repeat those same points but let me put a short line slant on some of them.

In 2019 the Short Line Association engaged Price Waterhouse Coopers (PwC) to take an independent look at the economic contribution of the short line industry. I have **attached** a copy of that report, along with an easier-to-digest 2-page overview of the short line industry which repeats some of the same information. Among the study's findings:

- The short line industry directly provides 17,000 jobs annually, paying labor income of $1.1 billion and adding $2.2 billion to the nation's GDP;

- Operational spending by the industry supported 33,730 indirect and induced jobs and capital spending supported another 10,240 jobs;
- Across the US economy .51% of business inputs rely on transportation services provided by short lines, amounting to 478,820 jobs, $26.1 billion in labor income and $56.2 billion in value added.

Our contribution to economic progress is also measured in ways beyond these more traditional statistical measurements.

<u>Short lines preserve service and jobs over track that was headed for abandonment</u>. For thousands of communities across the country, short line rail service is the only connection to the national railroad network. For the businesses and farms in those communities, this connection is an economic lifeline.

<u>Railroads not only allow shippers to succeed but also support thousands of contractors and suppliers and the broader American economy</u>. Much of what goes into our track– the ties, the rail, the ballast – is made in America, so most of the dollars we spend are spent in America, supporting American workers, and American industry and innovation. Over the last five years, the Arkansas and Missouri has spent over $26m on maintenance-of-way operating and capital expenses.

<u>Rail rehabilitation is labor intensive</u>. As small businesses, most short lines do not have the necessary in-house labor force or specialized equipment to complete major rehabilitation projects so they must hire additional contractors and lease heavy machinery for most of the work. The Federal Railroad Administration estimates that half of every dollar spent on short line track rehabilitation goes to pay workers.

As those of you who represent rural areas know, it is difficult to <u>create jobs in rural America</u>. According to the U.S. Department of Agriculture, from its post-recession low in 2010 through 2017, rural employment grew at an average annual rate of only 0.5% compared to 1.8% in urban areas. Short lines and the shippers they serve are a significant source of good paying jobs in rural America.

<u>Short lines lower transportation costs for shippers</u>. One rail car holds the equivalent of three to four truckloads. In addition, here is a typical example from my railroad – our rate for moving a ton of freight 54 miles from Butterfield, MO to Springdale, AR is about one-third of the truck rate. That level of savings can be cited for most short lines and is a very meaningful number for the businesses and farmers we serve.

I cannot pretend that these numbers are more than a footnote in an economy measured in the trillions of dollars. But for those shippers we keep connected, for those communities where we create economic activity, for the employees we hire, these are most assuredly meaningful numbers.

The environmental benefits of rail transportation have been well documented and are impressive. The transportation sector is the biggest source of greenhouse gases in the United States. EPA data show that rail, which accounts for 40% of U.S. long distance freight volume, is responsible for just 2.1% of the sector's emissions. You will hear today from my Class I colleague, Tom, that freight trains move on average one ton of freight more than 470 miles on one gallon of diesel fuel.

Highway congestion is a significant contributor to harmful emissions. As noted, the average railcar holds the equivalent of three to four truckloads and removing those trucks from the highway helps reduce congestion. The rail industry handles about 12 million carloads annually which is the equivalent of about 40 million truckloads, plus another 13 million intermodal containers and trailers annually.

Trucks impose an exponentially greater amount of wear and tear on pavement than do passenger automobiles. Each truckload avoided thanks to short lines saves resources that would otherwise have to be used to more frequently rehabilitate or replace road facilities. This is a particular concern for rural areas and small cities and towns that are commonly served by our industry.

Short lines are often the custodians of expensive bridges and tunnels that were originally built by the much larger railroads and are reaching the end of their useful life. Rehabilitation or replacement of this legacy infrastructure results in substantial benefits. In 2018 the Arkansas & Missouri successfully secured a TIGER grant, now known as BUILD grants, to rehabilitate three deteriorating railroad bridges. A successful application requires a detailed analysis of the environmental benefits of the grant. In this instance that analysis showed substantial benefits associated with the reduction of harmful emissions.

From all indications it appears the new Administration and many in Congress will be pushing for a robust infrastructure program. The Transportation and Infrastructure Committee will surely play an important role in developing that program and your Rail Subcommittee will have a significant say in how short lines are included. As you begin to craft that legislation let me offer some programmatic recommendations that we think would maximize the economic and environmental benefits that we offer.

We strongly support the **CRISI** program as it specifically provides for short line eligibility and puts a focus on benefit-cost analysis. We think with that level playing field, short line projects will fare well. The authorization levels for the program should be significantly increased and there should be no big, new set-asides (e.g. for commuter or passenger or large projects) to ensure an even playing field for all applicants, including small business freight railroads.

We are also supportive of the **INFRA** grant program, or a successor program such as **PNRS** as proposed in H.R.2 in 2020. There is value in a merit-based discretionary grant program open to multiple modes of transportation, especially one that is focused on freight and goods movement. We recommend three changes to this program.

- Allow the program to support the most efficient and effective freight projects by fully removing or at least significantly increasing the $500 million cap on non-highway portions of the multimodal freight projects, as suggested in H.R.2 in 2020.

- Ensure that the program can fund efficient and effective projects by increasing the “small projects” set aside. Currently, the 10% cap on small projects, defined as a minimum grant of $5 million for projects that do not meet the $100 million project minimum, does not provide enough opportunity for INFRA grants to be used to help with most short line infrastructure projects. The small set-aside discourages short lines from applying for this program. The 10% set aside should be increased to 25% to more accurately represent the many needs in the less populated regions of the country. The proposal in last year’s H.R.2 to eliminate the small set-aside entirely in PNRS would move in the wrong direction and we hope will be reconsidered.

- Maintain reasonable non-federal share requirements for INFRA grants, and consider increasing the maximum permissible share of INFRA program funding per project from 60% to 80% for small projects. Giving increasing preference to grant requests with “over-matching” may appear logical but can lead to missing otherwise important short line projects that cannot overmatch with internal funds or are not located in urban areas that enjoy significant taxing and bonding authority.

Include short line railroad projects in any new transportation grant programs targeting emissions, congestion reduction, resilience or any other goal where short lines can help be part of the solution. For instance, H.R.2 in 2020 created two new programs (**Sec. 1202, Increasing the Resilience of Transportation Assets - Pre-disaster Mitigation Program and Sec. 1213 – Carbon Pollution Reduction)** in which short line projects were not eligible but could have and should have been. Not only is rail an environmentally friendly way to move freight, it is also an attractive option to provide resilient infrastructure that can serve as an alternative to the highway system. Adding freight rail project eligibility would help achieve the goals of the program and moving some freight to rail also improves mobility on public roads.

As was done in H.R.2 in 2020, **the state freight highway formula program** should become more multimodal and eliminate the non-highway cap, so that program can become a source of funds for State DOTs to use to support freight rail projects if they choose. There are a growing number of states that manage small freight rail grant programs – while these programs pale in comparison to the state road programs, and there are still many states that don't have any program, they are a step in the right direction.

In addition to these specific programs, we would suggest several general principles that would help short lines better utilize any infrastructure program.

1. Short lines should be **directly eligible** applicants for project grants, similar to CRISI. Too often in the past, federal programs have been only open for application to local units of government, which in turn requires short lines to create unnecessarily complex and burdensome applicant structures and which sometimes favors politically popular projects over economically beneficial projects.

2. The application process needs to be as **simple and transparent** as possible. Short lines are small businesses and generally the individuals writing and engaging with the government on our applications are employees with other duties on the railroad. We do not have full time grant writers or the resources to hire expensive consulting firms.

3. The analysis used to judge a project should **not be a rigid one-size-fits-all** process. For example, the process to apply, the public planning and the engineering required, and the appropriate benefit-cost analysis format for incrementally upgrading a ten-mile segment of existing track serving five small grain elevators should not be the same as building a new subway line or adding lanes to an interstate highway.

4. If there is to be an associated **environmental approval** process, it must be completed in a reasonable period of time. Approval processes that last for years are a deal-killer to those running a business.

5. The process of getting from award to grant agreement can be very slow. The committee should work with appropriators to ensure a **sufficient "take down"** is authorized and provided within grant programs for the FRA's grant administration tasks, so that the resources are ample to enable the most efficient grant agreement negotiation and execution process possible. Short lines, more so than many other modal recipients, can be at a disadvantage in terms of the administrative and legal resources with which to engage the FRA's grant program managers and environmental and permitting specialists following award.

6. Imposing limits on a **state DOT's number of grant submissions** allowed in a round of a program forces pre-application competition between smaller short line projects and other larger projects, often putting the smaller short line project at a disadvantage.

7. **Do not equate funding for passenger rail with funding for short line railroads**. There is certainly a strong case to be made for taking people off the highways and onto Amtrak and other commuter rail services. But if passenger rail becomes the dominant placeholder for "checking the rail box" Congress will lose a significant opportunity to fund short line programs that offer significant economic and environmental benefits.

Avoid any Increases to Truck Size and Weight (TSW) limits – Any increases and exceptions to current federal limits would further subsidize our competition on the highway, alter the economics of freight shipping, and would result in a shift from freight rail to truck transportation which would be harmful to everyday drivers, the environment and the public infrastructure paid for with taxpayer dollars. We oppose any legislation that increases current limits. Personally, I expect that with an increase to the size and weight of trucks, my railroad could lose more than 50 percent of our business.

Avoid unnecessary operational mandates such as a crew size mandate – This would be a major problem for all railroads. We maintain this entire concept is unnecessary considering the lack of data regarding any safety benefits of such a mandate and the overall safety record of freight railroads. It would also discourage future innovation and legislates on an issue that has properly been the subject of labor negotiations for more than a century. Further, this mandate would disadvantage railroads in the competition for freight and over time shift freight to the highway, where it is inherently more dangerous and less environmentally sustainable.

I sincerely appreciate the opportunity to give the views of the short line industry at this hearing. I would like to conclude with a personal observation which I believe is shared by many of my colleagues. I am a businesswoman running a small business and I do not pretend to understand the pressures, processes and politics that govern your world. I was however involved in the decades long effort to extend and then make permanent the short line industry's 45G tax credit and I learned an important lesson from that experience. When we launched that initiative in 2003, short line economics were little understood by the majority in Congress. Indeed, for many, short lines were just a quaint name on the Monopoly board.

We worked hard at developing and documenting our story and Members of Congress gave us the time to tell that story, took the time to understand the story, and visited our local properties to get a first-hand look at who we were and what we did. Most importantly, our Congressional allies committed to leading a bi-partisan effort, regardless of who controlled Congress. We worked to extend this legislation in seven separate sessions of Congress, and party control of the House and/or Senate changed many times during that period. Regardless of party control, and often in the face of fierce partisan battles, our chief sponsors never wavered in their commitment to sticking together in bi-partisan support of the legislation. It showed me that government works when you work hard at working it out. We need that today more than ever and I hope that can be the spirit in which you approach creating a much-needed infrastructure package.