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RAILROAD DAY BACKGROUND MEMORANDUM

America's railroad industry is big business, but 99% of its participating carriers are small. The six dominant long-distance carriers have familiar names and nationwide equipment visibility (BNSF Railway, Canadian National, CPKC, CSX Transportation, Norfolk Southern, Union Pacific) and operate roughly 67% of the restructured national network of approximately 136,000 route miles in the 49 continental states. The other 33% is comprised of about 600 small businesses affording a connecting local or regional presence in each of those states, commonly known as short lines. They epitomize private entrepreneurship that extends the reach of the total system to support rail-dependent industrial activity in hundreds of outlying communities. Relatively few even have interstate presence and authority.

Today's annual event affords an opportunity for executives of those companies to explain their value-added transportation significance to the political community of federal oversight officials. Though utility-type regulation was legislatively eliminated in 1980 (two decades after construction of the competitively transformational Interstate Highway System), every fixed-guideway short line has a multitude of waiting trucking competitors traveling on public roadways offering the ability to turn at any intersection. These circumstances enable motor carriers to be particularly competitive for shorter distance and more time-sensitive movements within 300 miles of origin. The economic reality of revenue inadequacy to maintain the expanded rail network inevitably led to necessary neglect of branch-line customer service and infrastructure upkeep.

The short lines' principal concern therefore is the increased cost of upgrading and maintaining inherited aging infrastructure on light-density branch lines to present-day safety standards for weight and speed. Though some originated independently early in the last century, the great majority have been the product of divestitures and abandonments of unprofitable properties by major carriers following legislative repeal pf utility-type regulation authorized by Congress 45 years ago. The Staggers Act of 1980 has resulted in a dual network - of profitable, heavily trafficked intercity mainlines associated with a vastly expanded second tier of underutilized short-line connections facing infrastructure and traffic challenges.

The operating economics differ dramatically. The "Big Six" favor trainloads of 100 or more freight cars with up to 100-ton ladings (equivalent to three semi-truckloads) moving longer distances at 50 or more miles per hour in multiple daily trips. The typical short line focus is on interchanging traffic with its long-haul carrier(s) and performing time-consuming local industrial switching. In may not run every day and pulls whatever loads and empties are to be exchanged. The profitability differential with similar infrastructure responsibilities is evident.

Revenues from freight haulage on these castoff properties typically are insufficient to cover both cists of operation (manpower, equipment, fuel, administration, etc.) and the very large component of maintenance and capital investment in century-old track and associated right-of-way structures. Accordingly, major-carrier downsizing and consolidation of neglected infrastructure to more entrepreneurial small railroads has shifted responsibility from those better able to pay to risk-taking newcomers envisioning potential opportunity to redevelop

former branch-line traffic and promote industrial development in smaller communities served by the resulting multitude of short lines.

The demonstrated solution to the competitive infrastructure challenge has been a legislative provision recognizing the collective common interests of small carriers, their diverse freight customers, local community sustainability, and preservation of traffic interchanged with the "Big Six" The innovative Section 45G federal income-tax credit is available to affected rail users that purchase such authority from the serving short line for cash proceeds dedicated solely for infrastructure investment. The cost of such improvements is borne by the railroad and reimbursed following project completion and audit. Our "Railroad Day" mission today is to solicit continued Congressional support for legislation that has worked to restore the health of a vital transportation service that has demonstrated its transformed ability to stimulate and spread domestic industrial development to outlying areas.

[Cite an example for your railroad]