



*The Voice of the Railroad Construction Industry*

**Written Submission of James Daloisio**

President of Railroad Construction Company of South Jersey  
President of Railroad Constructors Incorporated  
Past Chairman of the National Railroad Construction and Maintenance Association (NRC)  
Secretary-Treasurer of Railroad Cooperation and Education Trust (RAILCET)

Submitted to the  
Transportation and Infrastructure Committee of the United States House of Representatives  
Subcommittee on Railroads, Pipelines, and Hazardous Materials

Hearing on Rail Capacity  
Wednesday, April 23, 2008, 10:00am  
2167 Rayburn House Office Building

Witness:

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The National Railroad Construction and Maintenance Association, known as the NRC, is the national trade association representing the independent railroad construction and supply industry. The NRC has more than 200 member companies, with employees in all 50 U.S. States and each of the Canadian provinces. NRC members perform every type of rail infrastructure work imaginable - from design and engineering to basic construction and maintenance to highly specialized and custom jobs. Work includes laying new rail, rail welding, rail grinding and surfacing, ballast distribution, tie insertion and removal, grade crossings, signal systems, switches, turnouts, re-railments, bridge maintenance, and the list goes on.

NRC members serve every type of track owner, including Class 1 railroads, short line and regional railroads, industrial track owners, the United States military, port facilities and terminals, and rail transit agencies operating light rail systems, street cars, subways, metro systems, and commuter rail operations.

As the railroad industry has grown dramatically since de-regulation by the Staggers Act in 1980, the size of the railroad contractor and supplier community has grown in proportion. There are now over 650 independent railroad contracting companies in the United States performing over \$10 billion worth of rail infrastructure construction and maintenance work every year.

The consistent growth of the rail freight and rail transit industries has provided tremendous benefits to America. Our rail freight system is widely regarded as the world's most efficient, and is a major contributor to the economic competitiveness of American industry. The railroad industry employs well over a quarter million people, pays billions of dollars in taxes,

efficiently serves tens of thousands of shippers, is growing every year, and is one of the true economic success stories of the last 25 years.

In addition, moving freight and people by rail is environmentally friendly. Railroads are three to four times more fuel efficient than trucks on a freight-ton mile basis. A railroad could move one ton of freight from here in Washington DC to Boston on one gallon of diesel fuel. Moving freight by rail, as compared to trucks or even water barges, dramatically reduces greenhouse gas emissions and cuts fuel consumption. Steel wheel on steel rail is simply the most efficient way we have to move freight in this country.

And moving people by rail transit on public transportation systems has an equally dramatic effect. By taking existing public rail transportation instead of driving a car, a single person saves 4,800 pounds of carbon dioxide emissions per year. Taking rail transit to work provides more benefit to the environment, combined, than adjusting the thermostat in your home, installing energy efficient light bulbs, and buying Energy Star appliances.

Investments into rail transit systems also have the benefit of encouraging more efficient and environmentally sound land-use patterns and facilitating high-density economic development focused around rail transit stations.

And both freight rail and passenger rail play a crucial role in taking cars and trucks off the road and decongesting our crowded highway system. And there is no doubt that our highway system is already unacceptably congested – the Texas Transportation Institute tells us that motorists in the largest urban areas in the country are spending 54 hours in traffic delays every year. That is more than a full working week each year, completely wasted sitting in traffic. TTI estimates that traffic congestion cost our economy \$78 billion last year. A typical freight train takes over 200 18-wheelers off the road, eliminating close to 100 million truck trips last year. And there were over 4 billion trips taken on rail transit systems last year. Without these rail systems, highway congestion would be much worse. And with increased investment into these rail systems, highway congestion can be reduced and the pressure and expense of building new highways can be relieved.

Railroads also play a crucial role in the safety and security of our country by providing military transport, and by lessening our dependence on foreign oil. Railroads are used for disaster evacuation and recovery and are often the most resilient form of transportation. And railroads also transport the vast majority of hazardous materials in the country, moving them safely and keeping them off of our highway system.

Despite all of the benefits of rail transportation, we have a major problem staring us in the face. We are running out of capacity, and it's going to get much worse unless we start fixing the problem as soon as possible. Commissioners on the National Surface Transportation Policy and Revenue Study Commission believe that freight volumes will be 70% higher by 2020 than they were in 1998. According to AASHTO, the organization of State DOTs, tons shipped into the U.S. will rise from 16 billion in 2007 to 31 billion in 2035.

A lack of capacity causes higher prices for shippers, decreased efficiency for carriers, and the loss of the benefits that rail transportation can provide for our country.

The major recent study by Cambridge Systematics estimates that, using today's dollars, an investment of \$148 billion for rail infrastructure expansion over the next 28 years is required to keep pace with economic growth and meet the U.S. DOT's forecasted demand for rail freight. And this is not even taking into account the desired shift in market share to rail that would provide further benefits to the country. Of this \$148 billion amount, the Class 1 freight railroads' share is \$135 billion and the short line and regional freight railroads' share is \$13 billion.

The Class 1 railroads anticipate that they will be able to generate approximately \$96 billion of their \$135 billion share through internally generated cash flow. This would leave a balance for the Class 1 freight railroads of \$39 billion, or about \$1.4 billion per year to be funded from outside sources, simply to maintain their current share of the freight market. The amount of funding required is much higher if we aim for our goal of expanding freight rail market share.

This problem, of more funding being required than the private rail system can generate on its own, is precisely the issue this Committee will have to grapple with during the next transportation re-authorization legislation. The short line and regional railroads face the same issue as the Class 1s, and rail transit systems throughout the country are also seeing demand for their services far exceed funding resources that are currently available.

I would like to note quickly that the railroads' ability to invest heavily into their own infrastructure going forward is based on the assumption that the current regulatory environment will remain stable. If Congress were to increase regulation of the railroads, their ability to manage their own businesses and produce sufficient return on investment would be hampered, and thus their ability to invest back into their network would be decreased. This would be counter-productive public policy that would harm the nation's economy and competitiveness. In fact, prices for rail service have fallen by about 50% since de-regulation, while productivity and volume have risen sharply. If rates are capped then re-investment into the infrastructure will decrease and these gains are put at risk and thousands of jobs in the railroad construction and supply industry will vanish.

So, it seems clear that rail transportation, both freight and passenger, is highly beneficial to America. And it is equally clear that the current rail system is running out of capacity and needs a dramatic infusion of new investment to meet demand in the near-term future. And I think we would all agree that the current transportation legislation framework is not organized in a way that makes it easy for Congress to direct increased funding to the rail system.

The NRC believes that Congress should use the opportunity of the next transportation re-authorization legislation to completely revamp transportation law in this country. As many of the leaders of this Committee believe and have stated publicly, the next transportation re-authorization legislation should not be incremental in nature – it should be transformational.

As a basis for this transformation, we endorse the Transportation for Tomorrow framework put forward by the National Surface Transportation Policy and Revenue Study Commission.

Specifically, we support:

- The adoption of the proposed Freight Rail Infrastructure Capacity Expansion Act (H.R. 2116/S.1125), which provides a 25% tax credit for rail infrastructure investments that would expand capacity. This has been introduced by Representatives Kendrick Meek (D-FL) and Eric Cantor (R-VA), and Senators Kent Conrad (D-ND) and Gordon Smith (R - OR).
- The extension of the Short Line Railroad Rehabilitation Tax Credit (H.R.1584/S.881), which provides a 50% tax credit for railroad rehabilitation spending to preserve the viability of short line and regional railroads as feeder lines for the national rail network. This has been introduced by Representatives Earl Pomeroy (D-ND) and Dave Camp (R-MI), and Senators Blanche Lincoln (D-AR) and Gordon Smith (R - OR). As of today, the House bill has 244 co-sponsors, including 42 Members of this Committee.
- The creation and funding of a national freight transportation program and surface transportation trust fund that would be mode-neutral and direct federal funding towards projects on a strictly merit-based approach. The program would provide public investment in crucial, high-cost transportation infrastructure including strategic intermodal connectors, key freight corridors, and national rail bridges and tunnels where the cost of construction exceeds the return on privately invested capital.
- Strong federal support of public-private partnerships such as the Alameda Corridor, Chicago CREATE, and the Orlando commuter rail/CSX deal. It must be explicit that public entities and private entities should pay for their respective benefits, and that public investment should complement private investment, not replace it.
- A major increase in investment into intercity passenger rail, with reform of the current Amtrak system. The eventual goal should be true high speed rail, with separated right of way. However, the current reality is a system of joint use by freight and passenger rail. Passenger rail should be improved, but that can not come at the expense of freight rail or else it is counter-productive to the country and our goal of increased rail capacity.
- Innovative financial tools and programs such as TIFIA are already working well, and they should be expanded. RRIF, the Railroad Rehabilitation and Improvement Financing Program, is a valuable infrastructure program that is under-utilized by the railroads.

RRIF provides low interest, 25 year money for railroad rehabilitation and construction. The FRA has approved 20 RRIF loans for a combined total of \$743.6 million. One of the reasons the program is underutilized is the unnecessary length of time it takes to process an application, due to institutional opposition to the program in the OMB. The OMB should not oppose a successful program that would increase rail capacity. The RRIF program was enacted in 1998 and no railroad has ever missed a single RRIF loan payment. The program should be expanded and improved.

- The project delivery process must be reformed by significantly shortening the time it takes to complete reviews and obtain permits. Projects must be designed, approved and built as quickly as possible if we are to meet the huge transportation capacity challenges facing us. It takes too long and costs too much to deliver projects, and the waste due to delay in the form of administrative and planning costs, inflation, and lost opportunities for alternative use of the capital hinder us from achieving our capacity expansion goals.
  - o This expediting of transportation projects can be accomplished while retaining all current environmental safeguards
- Grow the current federal transit program in size, while maintaining the overall structure and funding guarantee system. This system has been very successful and simply needs to be bigger to meet rail transit demand. Transit projects would also benefit from expedited review and project delivery reforms, which would help limit their high cost.

If Congress adopts these proposals, there will be a dramatic increase in investment into the nation's rail infrastructure, and a corresponding expansion of rail capacity. The question then naturally arises as to whether or not the railroads and the independent construction, maintenance, and supply industries could handle all of this increased work. The answer is yes.

NRC members are big and sophisticated construction companies, and we have a large and diverse supplier base providing us with the necessary tools and equipment. Our people are well trained and we provide good wages and good benefits. Many of our members are unionized and draw on a strong pool of organized labor.

Railroad contractors are already performing over \$10 billion worth of rail infrastructure construction and maintenance work every year, and I believe we could handle double that amount in a relatively short time frame. The major design, engineering and consulting firms stand ready to begin the process of planning major rail projects right away, and we will be able to implement them safely and effectively. Financial and strategic investors also continue to demonstrate interest in the railroad construction and supply industry, and they would be available to help us ramp up to meet an investment program of any reasonable size.

Finally, I would like to note that of the legislative proposals mentioned earlier in my testimony and submitted for the written record, not all of them need to wait for the next major transportation re-authorization legislation. Some of the proposals should be implemented now, such as:

- The two tax credit proposals, the capacity expansion tax credit and short line rehabilitation tax credit, could be included in an “Economic Stimulus 2” package if Congress decides that is necessary
  - o A one year extension of the short line tax credit, which expired at the end of 2007, was passed by the full House last year in a tax credit extenders bill. We encourage you to get that extenders package enacted into law this year.
- Another program that should be funded in a second economic stimulus package if it happens is the \$50 million Capital Grants for Class II and Class III Railroads program that was authorized but not appropriated in the Energy Independence And Security Act of 2007
- Intercity passenger rail reform can be implemented via the Amtrak authorization or appropriations process. We think that the new process of providing matching capital grants to states to let them improve rail transportation holds great promise, and suggest that 50% of the available capital grants be allocated to the states, rather than directly to Amtrak. This will encourage additional state investment and increase rail service. We also believe a high speed rail section, such as the one recently proposed by T&I Ranking Member Mica in H.R.5644, should be added to the Amtrak legislation.
- Finally, we’d like to strongly urge that all rail construction and maintenance work being done with direct federal assistance or tax benefits be competitively bid to the independent railroad construction industry, to the fullest extent possible. Railroad contractors have a long and well-documented history of providing quality services at competitive prices. We have learned how to do more with less, and the efficiency and competence we bring to this task will be a big benefit as we all search for ways to improve America’s transportation infrastructure.