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 RAILROAD REHABILITATION AND IMPROVEMENT FINANCING PROGRAM

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Madam Chairwoman and Members of the Committee, I appreciate the opportunity to provide my thoughts on the Railroad Infrastructure and Improvement Financing Program (RRIF). I am Rich Timmons, President of the American Short Line and Regional Railroad Association (ASLRRA). ASLRRA represents the nation's 500 short line railroads.

The short line railroad industry has been the primary user of the RRIF program. Twenty one of the twenty three loans approved to date are short line railroads. These short lines have borrowed a total of approximately $614 million. These loans have provided an important tool in the building and strengthening of the short line railroad industry. They have helped short lines maximize capital investment through direct rehabilitation loans and in some cases through refinancing existing debt so as to increase cash available for rehabilitation. In a number of instances they have provided the financing necessary to start up new short line railroads and those new railroads are preserving rail service and jobs in areas no longer served by the Class I railroads.

The Transportation and Infrastructure Committee developed this program in 1998, has improved it over the years and perhaps most important, has been steadfast in protecting the program from those in previous Administrations who would have killed it. I want to particularly call out Congressmen Oberstar, Corrine Brown, Bill Shuster and Jerry Moran who led the charge last year to put a stop to a set of Administration proposed rules that could have effectively killed the program through the back door.

For the benefit of those Members that are new to this Committee, let me give a brief explanation as to why the government is in the RRIF loan business. After all, the short line industry is not the largest segment of our national transportation system, and indeed, in market share and annual revenues we may be among the smallest. Our importance is not our size or our total market share but in who and where we serve. For large areas of the country and particularly for small town America short line rail service is the only connection to the national railroad network. For the small businesses and farmers in those areas, our ability to a 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 train and move it across the country. To paraphrase a popular saying, "you can't get there from here, without us."

I think it can be fairly said that today's short line industry was launched by the federal government's decision in the 1980's that it was better to save light density branch lines than to abandon them. Short lines have grown from 8,000 miles of track in 1980 to nearly 50,000 miles today. There are over 500 short lines operating in 49 states. In five states short lines operate 100 percent of the state's 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 the Chairman's home state of Minnesota short lines operate 30 percent of the state's total network. In Florida, the home of Railroad Subcommittee Chairwoman Brown and Ranking Member Mica, short lines operate 39 percent of the state's total railroad network. There are 22 new Members on the Railroad Subcommittee and all but

5 of you have a short line in your district. We are working on a plan to buy properties in those 5.

Short lines are the "first mile-last mile" for over 14 million carloads of goods annually – nearly one out of every four carloads moving on the national rail network. This interchange with our partners, the Class I railroads, earns for those Class I railroads 18 to 20 percent of their revenues.

As you have heard many times, railroading is the single most capital intensive industry in the country. Short line railroading is even more so because these properties must make up for years of deferred maintenance experienced under their previous Class I owners, and, more recently fund the rehabilitation necessary to handle the new 286,000 pound railcars. Based on comprehensive data surveys ASLRRA has conducted since 2004, short lines invest nearly 30 percent of their annual gross revenues in track rehabilitation and maintenance. It is an enormous investment, but given the deferred maintenance and 286 issues, it is not enough. A recent Cambridge Systematics study indicated that short line railroads require an additional $13 billion to upgrade track and equipment and provide capacity for future business. This for an industry whose annual gross revenues total approximately $3 billion.

In the time I have today I would like to emphasize three important points about the current RRIF program and propose two changes that we believe will greatly enhance its economic and transportation benefits.

First, the RRIF loan program leverages substantial private investment in short line infrastructure. These are loans that must be paid back in full by the railroad. The relatively low interest rate and the 35 year amortization are terms short lines cannot secure in the private market and the program has allowed those who have taken advantage of it to undertake projects that could not have been done or that would have been stretched out over many years. I am proud to say in the ten years the RRIF loan program has been on the books, not a single short line railroad has missed a single quarterly payment on its debt. In today's world we might be one of the only groups that can say that.

Second, because these are loans that must be repaid and are secured by an ironclad first lien on the railroad's hard assets, RRIF loans are not being used to fund frivolous, cost ineffective projects. I know that Congress and the new Administration are very keen on insuring that all federal monies that are being used to stimulate economic growth be spent as wisely and effectively as possible. No small business is going to use its limited financial resources to fund a project that does not yield substantial economic benefits.

Third, most short lines do not have the in-house manpower to undertake rehabilitation projects and must hire contractors and additional laborers to do the work. The Federal Railroad Administration (FRA) estimates that approximately 50 percent of every rehabilitation dollar is spent on labor. Let me give you just a few examples. The Wheeling & Lake Erie Railroad secured a $25 million track rehabilitation loan and hired

141,000 man-hours of labor to complete the project. The Iowa Interstate Railroad secured a $21 million track rehabilitation loan and hired 100,000 man-hours of labor. The Iowa Northern Railroad secured a $22 million loan for track rehabilitation and new construction and hired 132,000 man-hours of labor. Railroad rehabilitation projects are labor intensive projects. In addition, 100 percent of the ties and the overwhelming majority of the rest of the materials used in track rehabilitation are made in the U.S.

While the short line industry has been the primary user of the RRIF program, it remains a highly underutilized program. RRIF is currently authorized at $35 billion and has yet to reach a billion in outstanding loans. This is due in part to the slow start up of the program and to the lengthy delays in the approval process. I believe that FRA has worked diligently to accelerate the process, particularly that part of the process they control. I don't think it is any secret that FRA has had to deal with substantial institutional opposition to the program within other federal agencies. Whether that opposition continues in the new Administration is an open question.

Setting aside the delay issue we believe there are two changes that would significantly increase the use of the RRIF program and that such an increase would help promote the goals of maximizing private infrastructure funding and creating immediate jobs. These are part of a three part proposal we made last year. The third change, extending the RRIF loan term from 25 years to 35 years was adopted by the Transportation & Infrastructure Committee in last year's Rail Safety legislation an we are very grateful for that change.

We propose that Congress subsidize an interest rate reduction to one percent on all RRIF loans. The current interest rate is approximately equivalent to the rate on a 30 year Treasury security, which today is approximately 3.5%. At today's rate a $500 million subsidy would support approximately $1.5 billion in RIFF loans, or three times the subsidy amount. Spending a federal dollar to leverage three additional dollars of private infrastructure investment seems to us to be well worth the expenditure.

We further propose that RRIF payments should be deferred in a manner comparable to the deferral that is allowed in the Transportation Infrastructure Finance and Innovation Act program (TIFIA). As many of you know, TIFIA is a credit assistance program that provides low interest long term loans for large public transportation infrastructure projects, particularly in the highway and transit areas. Under RRIF, repayment begins immediately after the loan is drawn down. TIFIA provides that repayment shall not commence later than 5 years after the date of substantial completion of the project. Given that the typical short line rehabilitation project takes from three to 12 months, such a provision for RRIF would provide a near six year deferral.

The current RRIF statute gives the Secretary the discretion to defer payments for up to six years. To the best of my knowledge that provision has never been exercised and I am led to believe it is not something the agency encourages the applicant to pursue. Part of the difficulty may be that there does not appear to be a definitive answer to the question of how the Congressional Budget Office (CBO) would score such a deferral. I would argue that since 100 percent of the deferred payments would be added to the remaining term of the loan beginning in year seven, there is no cost to the government. Under TIFIA this is not an issue because TIFIA receives an annual federal appropriation to cover any subsidy associated with the loan. If it is determined such a subsidy is required to secure the RRIF deferral we urge that it be provided.

The RRIF program was modeled after a very similar federal loan program known as the Section 511 loan program that was part of the 1976 4R Act. It was used extensively and effectively as part of the federal government's efforts to save the nation's railroads as they went into or approached bankruptcy prior to the Staggers Act. It was heavily used by the Class I railroads in the Midwest and is credited by many as playing an important role in saving a large portion of the nation's private freight rail network. The program was transformed into today's RRIF program, largely to make it conform to the Credit Reform Act of 1990.

The Section 511 program was successful in saving valuable Class I railroad infrastructure in the 1970's and 1980's. Its successor, the RRIF program, is proving to be equally valuable in saving short line and regional railroad infrastructure today. The program's only shortcoming is that it is not fully utilized. That shortcoming can be addressed by insisting that the relevant agencies deal with applications as expeditiously as possible. It can and should be further addressed by improving the terms of the RRIF loans. The cost to the federal government of those improvements is very small in comparison to the benefits and we believe well worth the investment.