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American Short Line and Regional Railroad Association

North American Short Line and Regional Railroads Industry Report





Recent Background of Railroads

- 1970's Freight Railroads in NE Collapsing
 - 20% of Rail Companies Bankrupt
 - 1 Bankruptcy per Year for 10 Years (1968-1978)
 - PRR, NYC, Penn Central, Reading, etc.
 - 25% of Track Under Slow Orders – 40K Miles
 - Accidents Rising
 - Market Share Declining
 - USG Deems Railroad Industry Essential to the Economy and Steps in Taking Control of all NE Major Rail Companies
 - Creates Consolidated Railroad (Conrail) as a Government Owned and Operated Entity for Freight and Amtrak for Passenger
 - Industry Continues to Stagnate and Fail



Recent Background of Railroads, cont'd.

- 1980 - Staggers Act Partly Deregulates the Railroads
 - Railroads Allowed to Set Rates and Become Competitive with Each Other
 - Railroads Authorized to Contract with Customers – As the Rest of the US Industry
 - Promoted Revenue Adequacy to Maintain Equipment and Roadways
 - Can Divest and Sell Money-Losing Properties and Lines
 - Short Line and Regional Railroad Industry Takes Off as Class I's Shed Branch Lines
 - Through Mergers and Acquisitions, 42 Class I Railroads in 1980 Become 7 Railroads in 2003
 - Deregulation Drives Rates Down, Benefiting Customers and the Economy



Recent Background of Railroads, cont'd.

- 1980's and 1990's – The Rail Industry Makes a Comeback
 - Infrastructure Investment
 - Higher Speeds
 - Fewer Accidents
 - Reduces Car / Locomotive Inventory
 - Reduces Manpower
 - Rail Mergers Become Commonplace Improving Efficiency
 - More Reliable Service
 - Cheaper Rates
 - Stock Value Increases
 - Short Line and Regional Railroads Increase to 550 Roads in the U.S.



Recent Background of Railroads, cont'd.

- By 2003-2005...
 - Record Breaking:
 - Carloads
 - Intermodal Containers
 - Revenues
 - 4.3 Cent Diesel Tax Elimination
 - Infrastructure Legislation (for Short Lines through Federal Tax Credits)
 - New Customers
 - Safety



The Role of Short Line and Regional Railroads

The Class II and III railroads connect rural and small town America to the national freight rail transportation network.

Short Line and Regional Railroads (Class II / III) interchange freight, commodities and raw materials to and from large national railroads (Class I's) and deliver or pick up from local businesses, plants and consumers.

The advantages are costs, services and flexibility.



What are Class II & III Railroads?

The classes of freight railroads are designated by the Federal Surface Transportation Board (STB) based on their annual operating revenues.

For 2002:

Class I - \$272.0 million or more

Class II - \$21.8 - \$271.9 million

Class III - less than \$21.8 million

(These limits are adjusted annually for inflation.)



How it Works

The big (Class I) railroads move large trains of 110-150 car loads of commodities into switching yards throughout the country.

The yard teams sort out the cars by destination and group them together for pick-up by the short lines.

On an agreed upon schedule the short line arrives to drop off empty cars and pick up loaded cars for their customers.

The reverse occurs when short lines bring products to the Class I's for delivery elsewhere in the U.S.



Who They Are

Short lines are:

- Privately owned companies
- Publicly owned companies
- Grouped under holding companies
- Government owned or controlled
and / or
- Subsidiaries of larger corporations



A Profile of the Industry

- **System Size:** 46,474 miles of right of way. This is nearly 1/3 of the U.S. freight rail network.
- **Average Short Line Length:** 82 miles; (Median: 32 miles)
- **Number:** 545 Railroads (Class II and Class III)
- **Customers:** 2002 - 11,156, Employing over 1.3 million workers
- **New Customer Facilities:** 2002 – 629, Employing 25,229 workers
- **Short Line Commodities by Carload (11 million annually) in Priority:**
 1. Intermodal
 2. Coal
 3. Metallic Ores
 4. Farm Products
 5. Primary Metals
 6. Chemicals
 7. Lumber & Wood Products
 8. Transportation Equipment
 9. Food Products
 10. Pulp and Paper



A Profile of the Industry (cont'd.)

- **Interchange:** 25% of all rail freight traffic on Class I railroads is dependent on a Class II or III railroad for delivery or pick-up of freight
- **HazMat:** Approximately 50% of short lines and regional railroads handle hazardous materials.
- **Revenues:** \$2.8 billion annually
- **Annual Expenses:** \$759 Million for Transportation, Equipment, Way and Structures, General and Administrative
- **Railroad Locations:** 49 States (i.e. PA 59 lines, TX 41 lines, IL 31 lines, CA 28 lines); as well as Canada and Mexico.



A Profile of the Industry (cont'd.)

- Capital Expenditures: \$297 million annually
- Maintenance Expenditures: \$463 million annually
- Liability Protection: Federal Employees Liability Act (FELA)
- Employees: 20K
- Average Annual Railroad Employee Salary: \$47K /
With Benefits: \$54K



Environmental

- Locomotives 3 Times Cleaner than Trucks
- Freight Trains 3 Times More Fuel Efficient than Trucks
 - One 130 Car Train Equals 600 Trucks
- Federal Locomotive Emissions Rule Enacted in 1997
 - Effective January 1, 2002
 - Establishes 3 Tiers of Locomotive Exhaust Pollution Filtration
 - RR's Must Comply by 2002, 2003 and 2004 for All Locomotives
 - Retrofit Kit Cost for Tier 0 Approximately \$18K
 - Short Line Railroads are Permitted to Maintain Locomotives to the Tier (or Lack Thereof) at the Time of Purchase
 - i.e. a 1988 Locomotive at Tier 0 When Purchased by the Short Line Must be Maintained at Tier 0 for the Life of Ownership
- Network of HAZMAT Teams in Every State



Oversight

- US Federal Railroad Administration (US DOT)
- US Surface Transportation Board
- US Senate/House Transportation Committees
- US National Transportation Safety Board
- US Department of Labor
- US Environmental Protection Agency
- US Railroad Retirement Board
- US Transportation Security Administration
- State Departments of Transportation
- State Public Utility Commissions (RR's are Public Utilities)
- State Senate/House Transportation Committees
- Association of American Railroads (Standards, Research)
- Shipper Groups
- Labor Unions (13)



2003 Safest in History

- The number of railroad industry employees killed in duty-related accidents were the fewest in history during 2003.
- Fatalities declined from 2001 to 2003. 2004 had an increase.
 - 2001: 22
 - 2002: 20
 - 2003: 19
 - 2004: 23



Safety

Short Line Safety Experience

Severity Index

January-November / 2000-2004

Year	Employee Hours	Categories*			Fatalities	Severity Index	Rate
		1	2	3			
2000	41,158,108	1151	53	6	6	13.49	5.88
2001	39,390,893	989	47	2	2	11.55	5.32
2002	37,494,551	779	36	3	3	9.76	4.36
2003	35,121,688	695	35	2	2	9.51	4.17
2004	32,049,464	642	28	1	1	8.69	4.19

**Categories:*

1 = Non severe and non life-threatening injuries

2 = More severe; amputations, concussions, loss of sight, hearing, etc.

3 = Very severe; could easily have been a fatality



Public Funding

Federal Funding:

- Railroad Rehabilitation and Improvement Finance Program (RRIF) – *Federal Railroad Administration*
- Transportation Infrastructure Finance and Innovation Act (TIFIA) – *Department of Transportation – Federal Transit Authority*
- Federal Section 130 Highway Grade Crossing Program – *Department of Transportation*
- Congestion Mitigation and Air Quality Grants (CMAQ) – *Department of Transportation – Environmental Protection Agency*
- Federal Tax Credit – *Internal Revenue Service*

State Funding:

- 20 states have some form of short line railroad funding in the form of grants or loans; and/or state capital projects



Challenges for the Future

- 286K lb Axle Weight Car Handling
- Funding for Rail Infrastructure Upgrades (Track, Bridges) to Handle 286K lb Cars
- Regulatory Requirements
 - Reflectorization
 - Quiet Zones
- Diesel Emissions Litigation
- Asbestos Litigation
- Insurance Rate Creep (Health & Property and Casualty)
- Future of FELA
- Aging Work Force (Avg. Age of Railroad Industry Worker is 48)
- HAZMAT and Security Issues
- Consistent, Reliable Customer Service
- Data Transparency for Customers and Operators
- New Database Products – CD, Factbook, On-Demand for Association Members



American Short Line and Regional Railroad Association

“The Voice of America’s Independent Railroads”

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Independent Railroads”*



ASLRRA Mission

The ASLRRA represents the interests of the Class II / III Railroad industry before Congress, the FRA, STB, TSA, and the Class I Railroads. Concurrently it serves as a conduit from the railroad organizations of the federal government on regulatory, safety, security and technical matters to the small railroads providing information, clarification and training. As appropriate, the Association testifies, files, comments and represents specific Class II / III Railroad interests before various federal departments and agencies and state governments, as requested.



Legal Status

- An incorporated 501(c)(6) trade Association representing the Short Line and Regional Railroad Industry
- Railroad members contribute dues based on annual gross operating revenues, with a minimum of \$1,285 and maximum of \$6,950
- Associate members' dues are calculated at a flat rate



Working Commitees

- Safety
- Technical
- Finance & Administration
- Training
- Legislative Policy
- Railroad Police



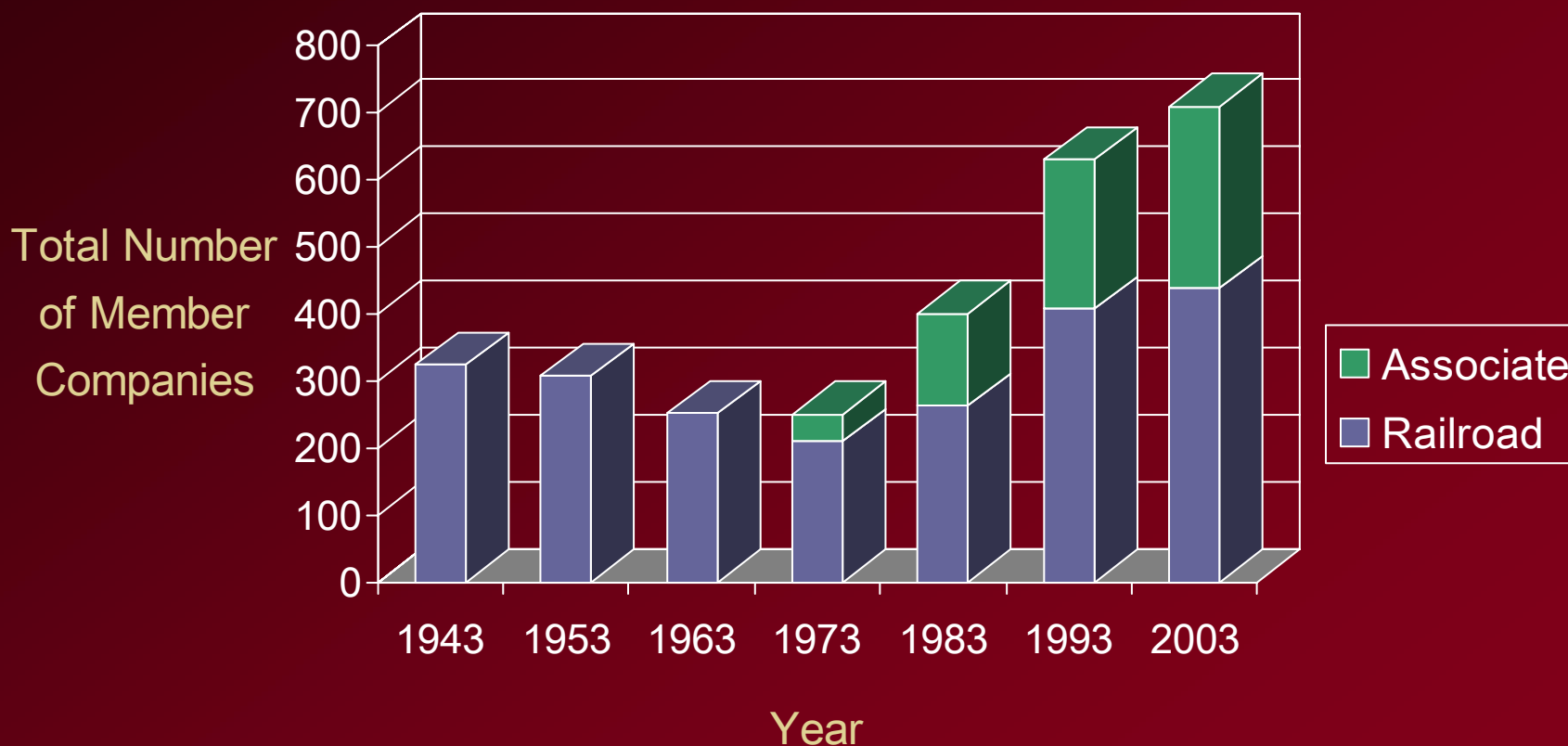
Membership

- Two types of membership:
 - Railroad Membership
 - Any railroad located in the continental or territorial United States, Canada, or Mexico, is eligible for full membership.
 - Associate Membership
 - Companies which supply goods or services to the railroad industry, and tourist and excursion railroads, are eligible for a non-voting associate membership.



ASLRRA Membership

ASLRRA Member History (1943 - 2003)





Membership Services

- Security Related
- Communication – Publications; Web-Based; Surveys; Bulletins; Letters; Meetings (annually, quarterly, monthly)
- Safety / Regulatory – Training; Assistance; Representative Before FRA, STB, TSA, Congressional Committees
- Tariffs – Rate Publications for over 400 Class II / III Railroads
- Traffic – Represent Class II / III Roads on Car Movement Issues, Rules, Disputes
- Legislative – Testify, Promote Legislative Solutions for Small Railroads, Industry Issues
- Legal Assistance – In-house General Counsel Provides Help to Small Roads as Needed
- Federal RRIF Loan – Assistance as Needed
- Committee Representation – Sit on 40 Railroad Industry Committees, Councils, Working Groups



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