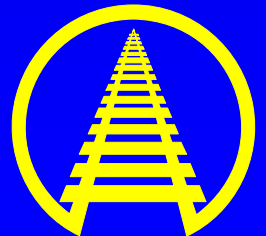
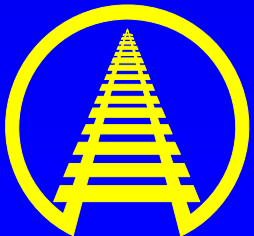


U.S. Freight Railroads

Washington Update

Association of American Railroads

September 2006

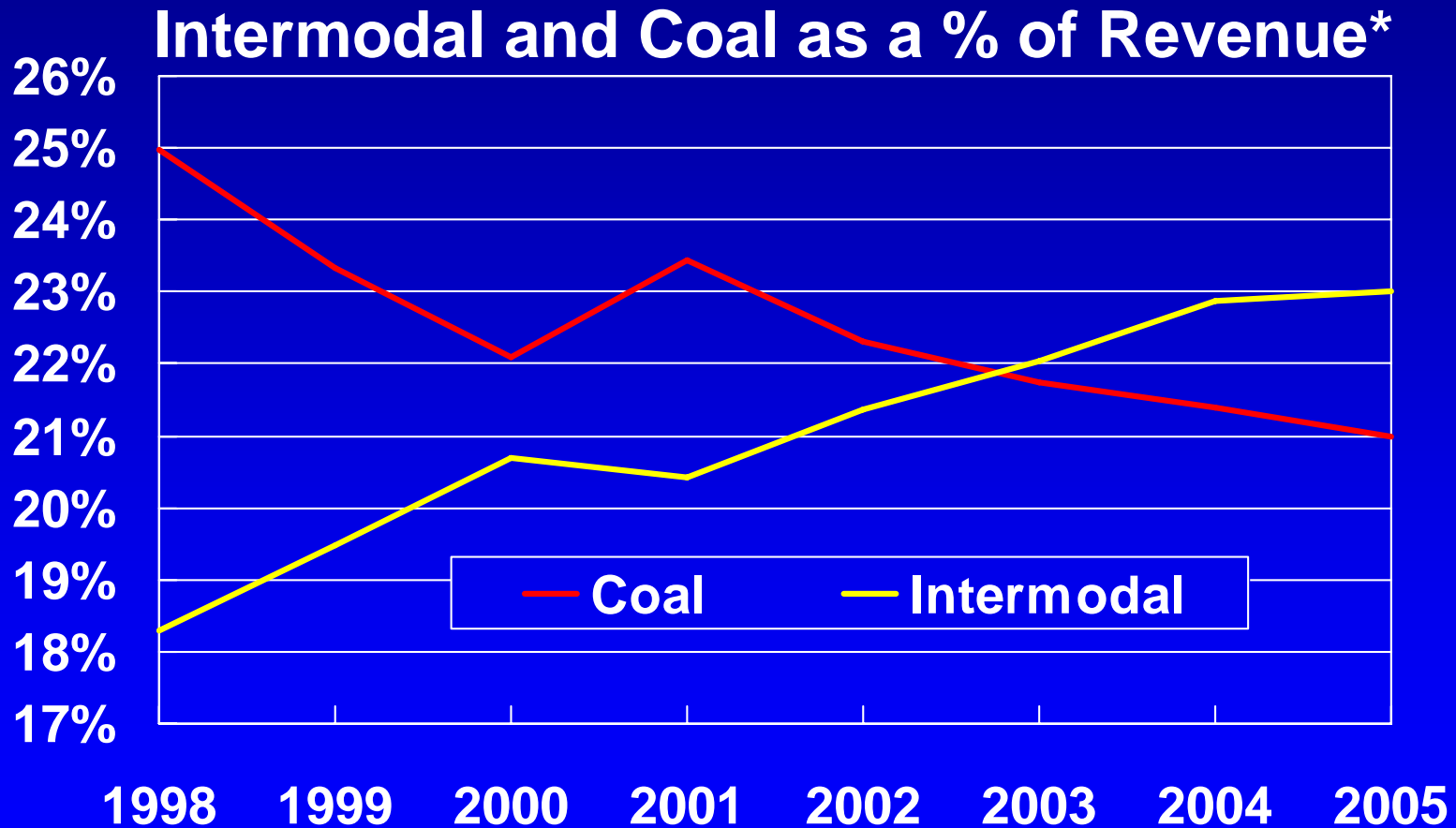


25 Years After Staggers: Solid Gains and a Promising Outlook

- Unprecedented productivity gains passed to customers as lower rates
- Dramatic safety gains
- Infusion of advanced technology
- Growth of non-Class I carriers
- Closer to financial sustainability

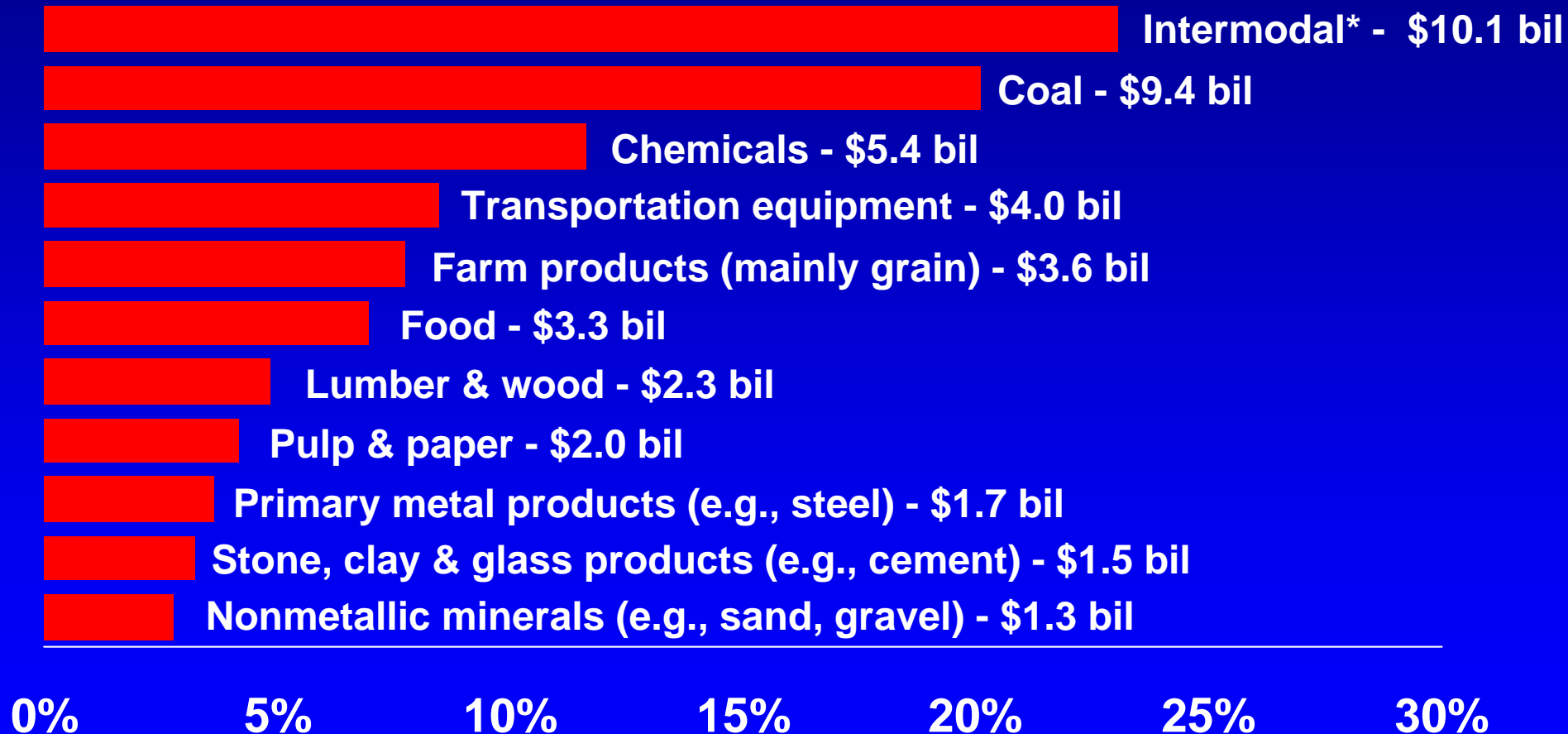


Intermodal is Now the Top Class of U.S. Freight Rail Traffic



*Data for BNSF, CSX, KCS, NS, and UP Source: railroad financial reports

Class I Railroad Traffic in 2005 (Gross Freight Revenue)



Source: AAR *Estimated. Some intermodal revenue is also included in individual commodities.

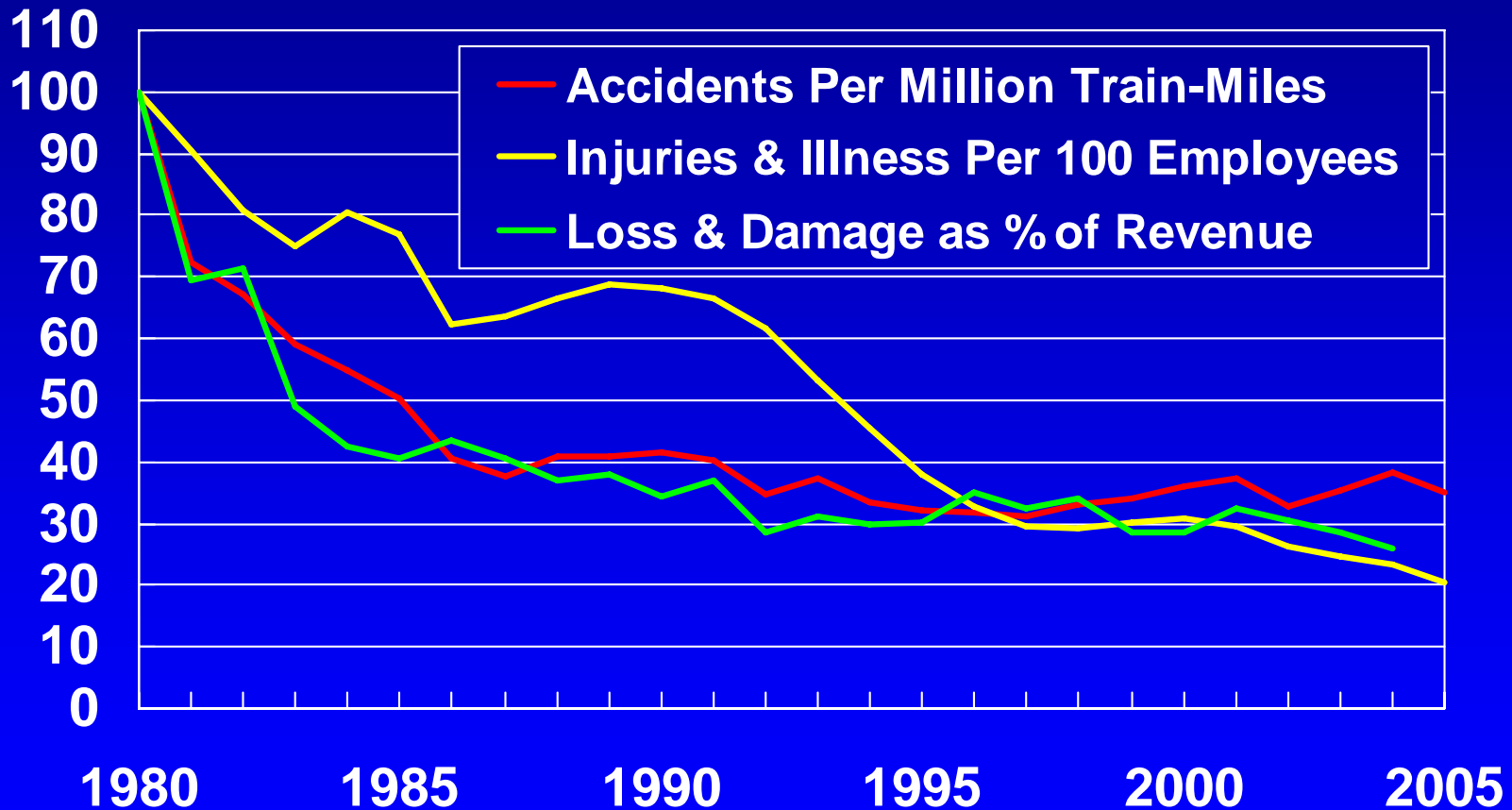
U.S. Freight Railroads and Labor

- ~177,000 freight railroad employees; ~150,000 belong to a union.
- ~\$14 billion in annual wages and benefits.
- Among nation's most highly-compensated workers. Average Class I employee in 2004:

Wages:	\$65,500
<u>Benefits:</u>	<u>\$25,300</u>
Total Compensation:	\$90,800
- ~\$8 billion in retirement benefits to 625,000 retired railroad workers and family members.

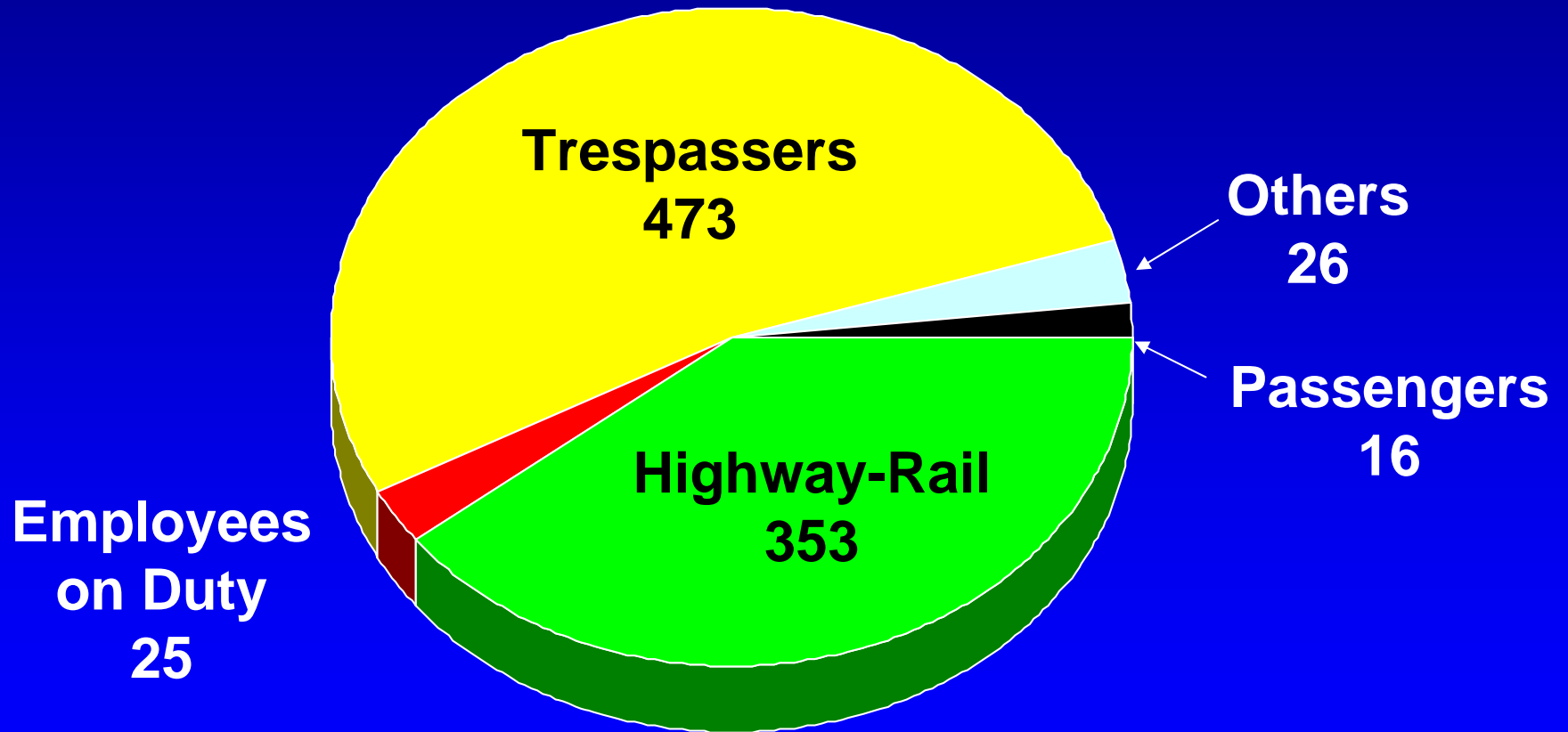
Railroads are Safe and Getting Safer

RR Safety Trends: 1980-2005 (1980 = 100)



Source: FRA, AAR

Well Over 90% of Rail-Related Fatalities Are Effectively Beyond RR Control



Data are for 2005. Source: FRA

Highway-Rail Grade Crossings Are a Major Safety Concern

- Highway safety issue.
- States establish priorities.
- ~246,000 crossings (~151,000 public) nationwide — ~40,000 fewer than 1990.
- Section 130, Operation Lifesaver.
- Railroads spend ~\$250 million annually on crossings.





**SLOW DOWN
OR
DIE**



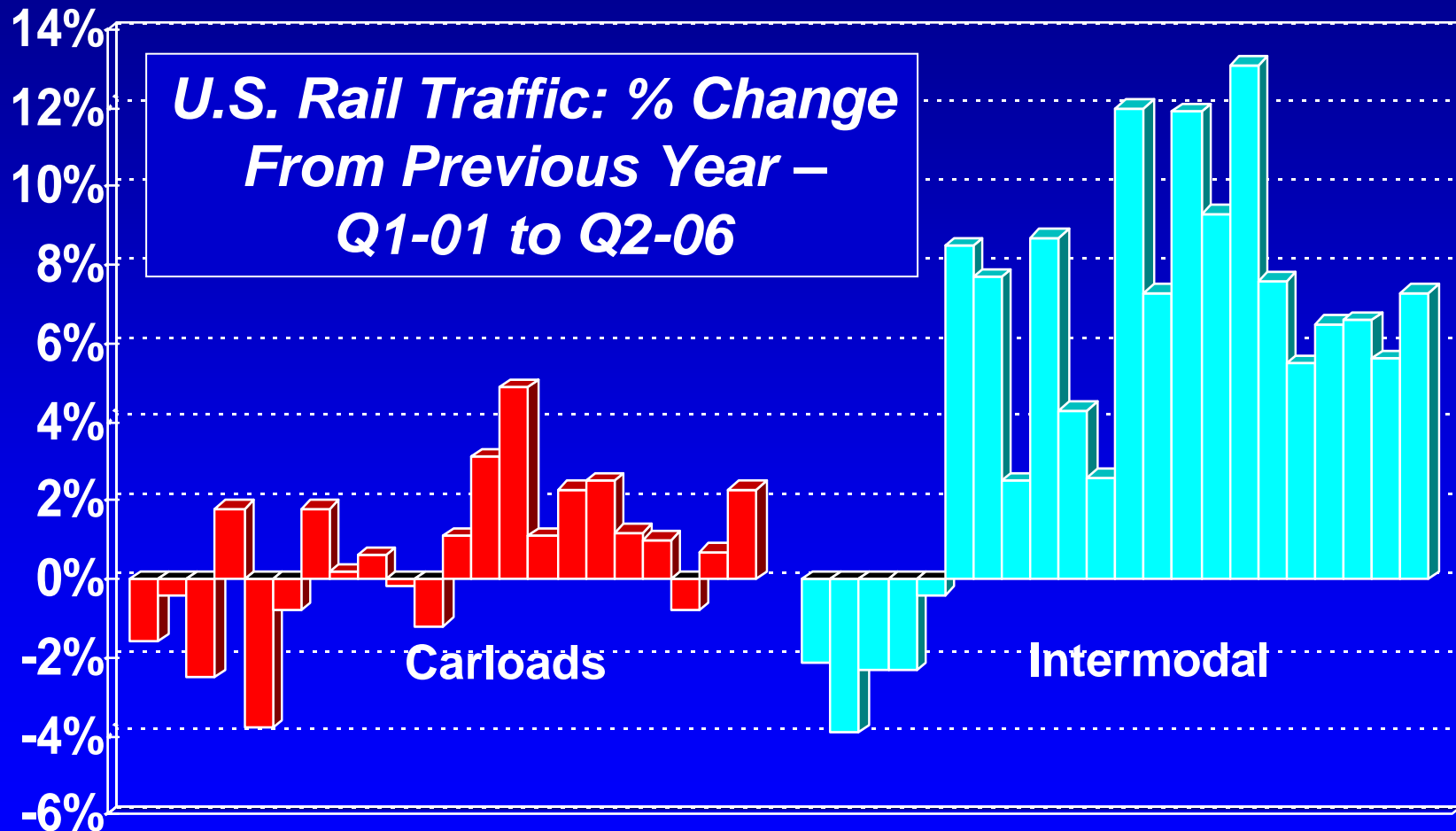
2005 Was a Good Year for Railroads...

Class I Railroad Performance (billions, except percentages)

	<u>2004</u>	<u>2005*</u>	<u>% change</u>
Operating Revenue	\$40.5	\$46.1	13.8%
<u>Operating Expenses</u>	<u>\$35.1</u>	<u>\$37.8</u>	<u>7.8%</u>
Net Revenue From Oper.	\$5.4	\$8.3	52.9%
Net Income	\$2.9	\$4.9	71.4%
Ton-Miles	1,663	1,696	2.0%
Operating Ratio	86.6%	82.1%	
Net Margin	7.1%	10.7%	
Return on Investment	6.1%	8.2%	

*preliminary Source: AAR, based on R-1 annual reports

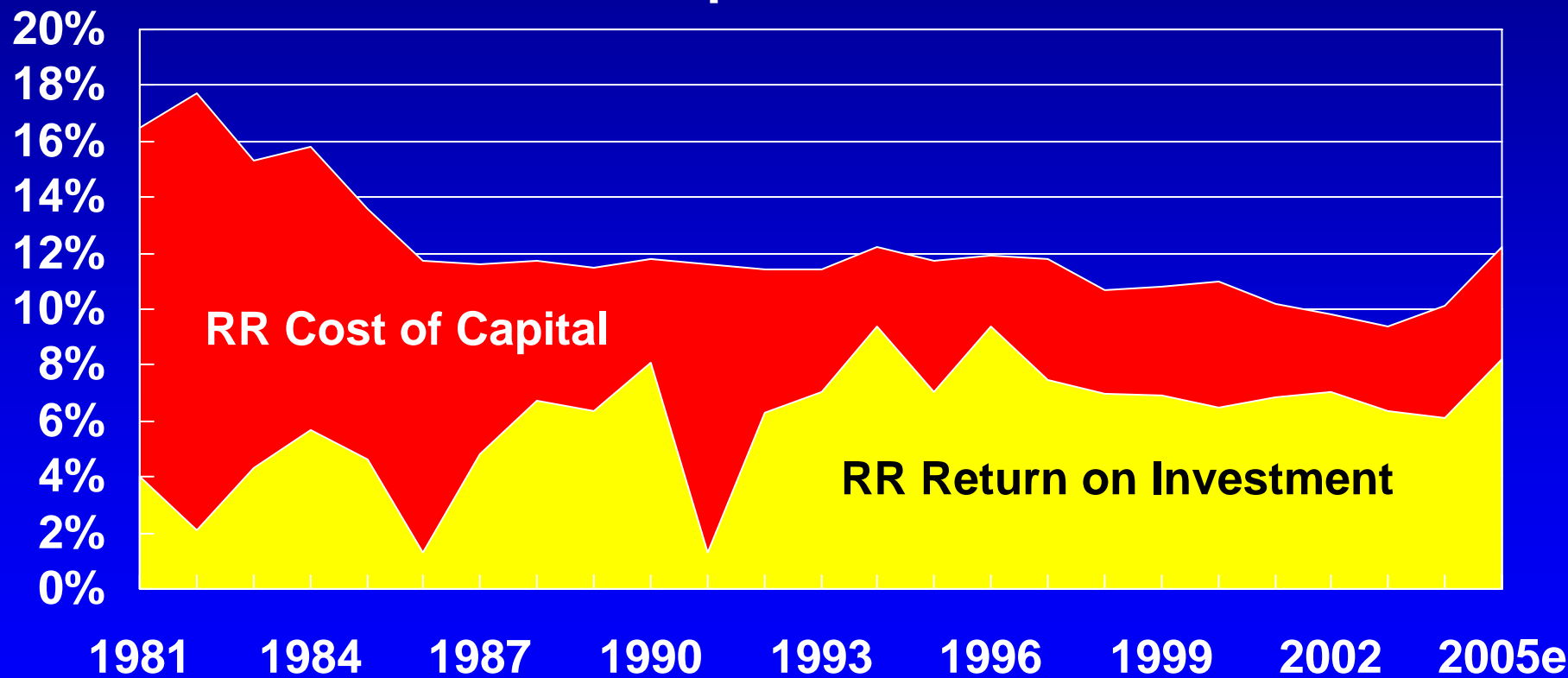
Record Rail Traffic Has Led To Capacity and Service Issues



Source: AAR Weekly Railroad Traffic

...But Profitability Is Not Where It Must Be

Class I RR Cost of Capital vs. Return on Investment



e – preliminary AAR estimate

Sources: AAR, STB

Even in 2005, Railroad Profitability Was Substandard

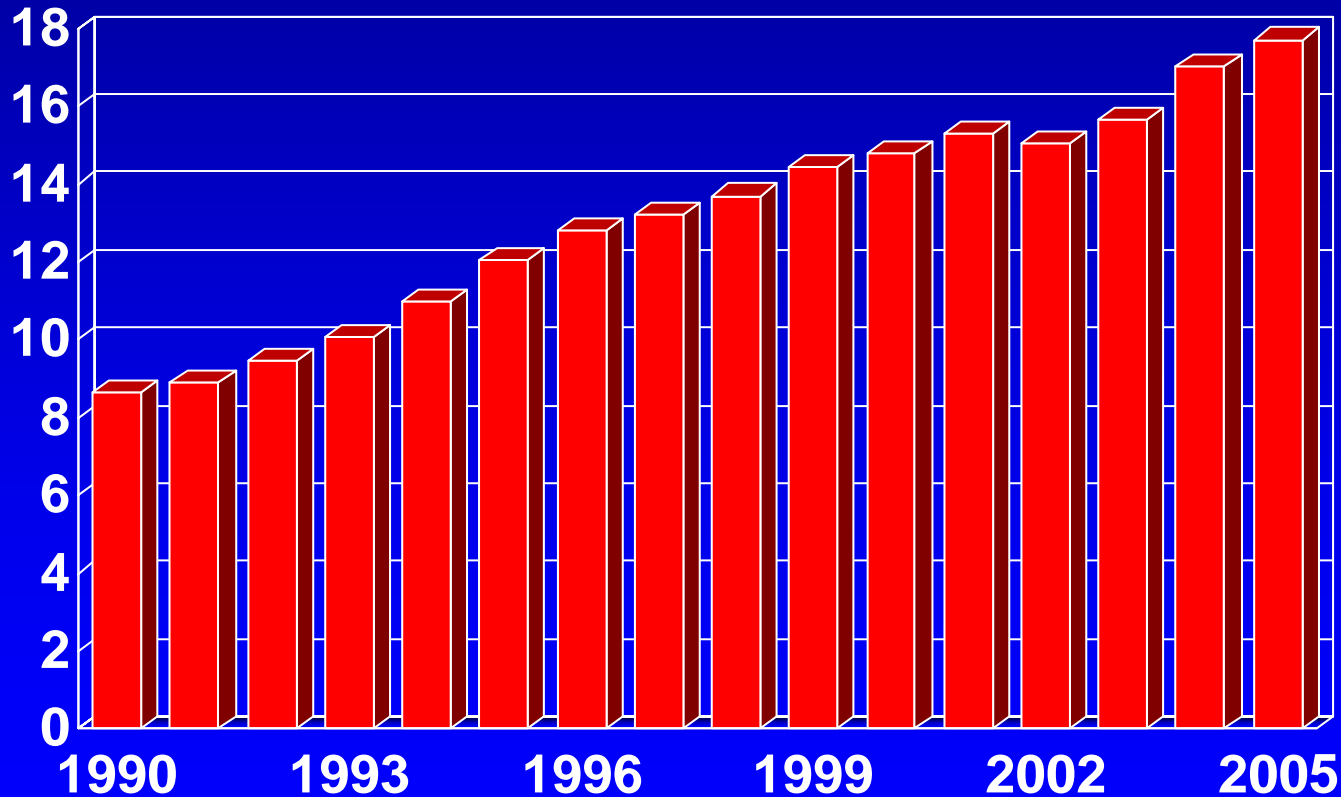
Fortune 500 Return on Equity: Selected Industries, 2005

<u>Industry</u>	<u>ROE</u>	<u>Industry</u>	<u>ROE</u>
Household & Personal Prod.	41.5%	Fortune 500 Median	14.9%
Mining, Crude-Oil Prod.	23.6%	Motor Vehicles & Parts	14.6%
Pharmaceuticals	23.4%	Railroads	14.1%
Food Consumer Products	21.8%	Pipelines	13.5%
Industrial & Farm Equip.	21.1%	Electronics, Electrical Equip.	12.1%
Computers, Office Equip.	19.7%	Engineering, Construction	11.8%
Oil & Gas Equip., Services	18.9%	Utilities: Gas & Electric	10.4%
Metals	18.3%	Energy	7.4%
Chemicals	18.1%	Food Production	6.2%
Aerospace and Defense	16.3%	Telecommunications	4.2%

Source: Fortune 500

Rail Traffic Density Has Been Rising

Millions of Class I Ton-Miles Per Mile of Road Owned



Source: AAR

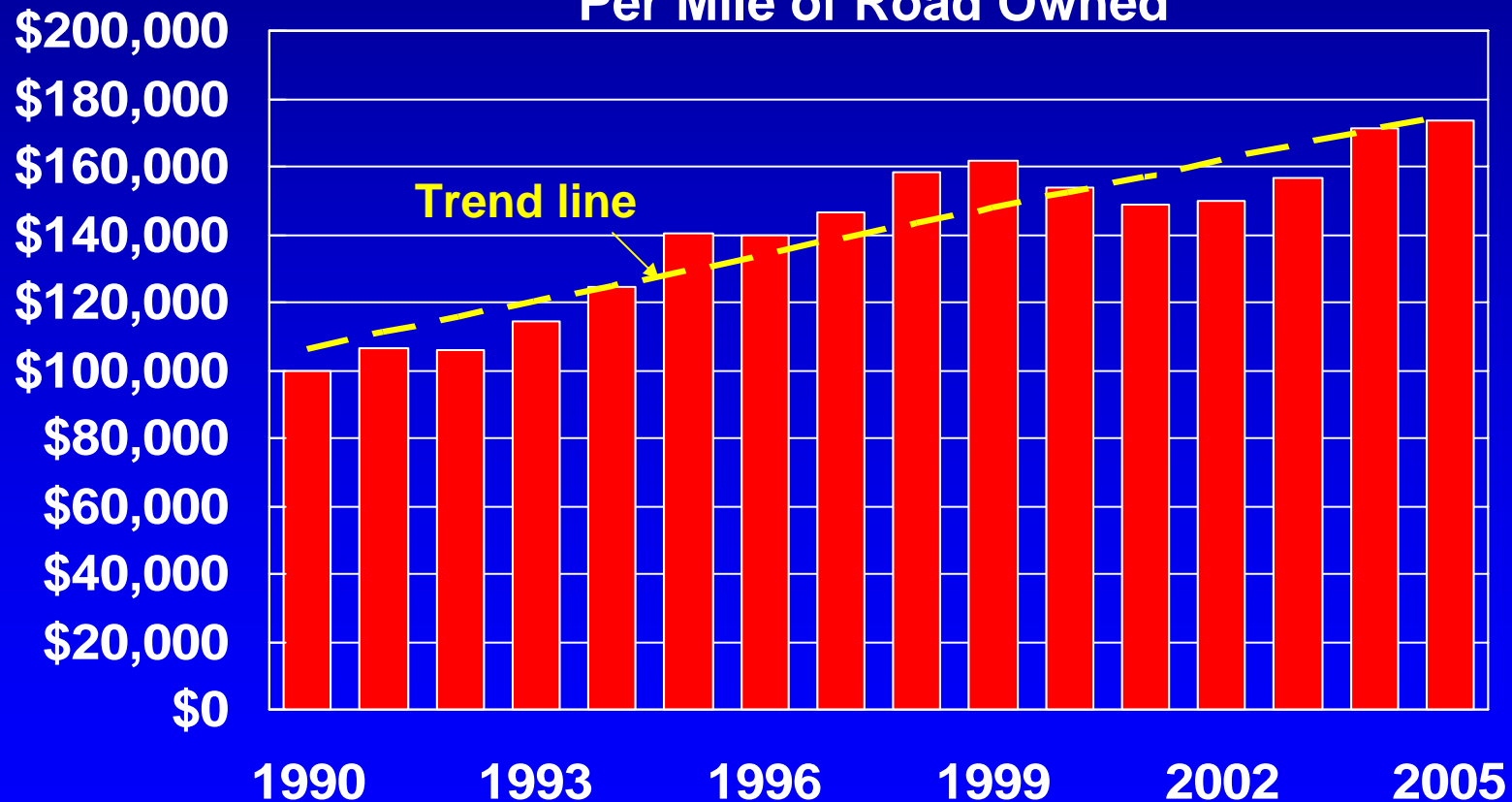
What Are Railroads Doing To Increase Capacity and Enhance Service?

- Stepped-up spending on equipment and infrastructure
- Aggressive hiring
- Infusion of technology
- New operating plans
- Cooperative alliances
- Working with customers



Railroads Have Been Increasing Spending for a Long Time...

Class I Spending* on Infrastructure & Equipment Per Mile of Road Owned

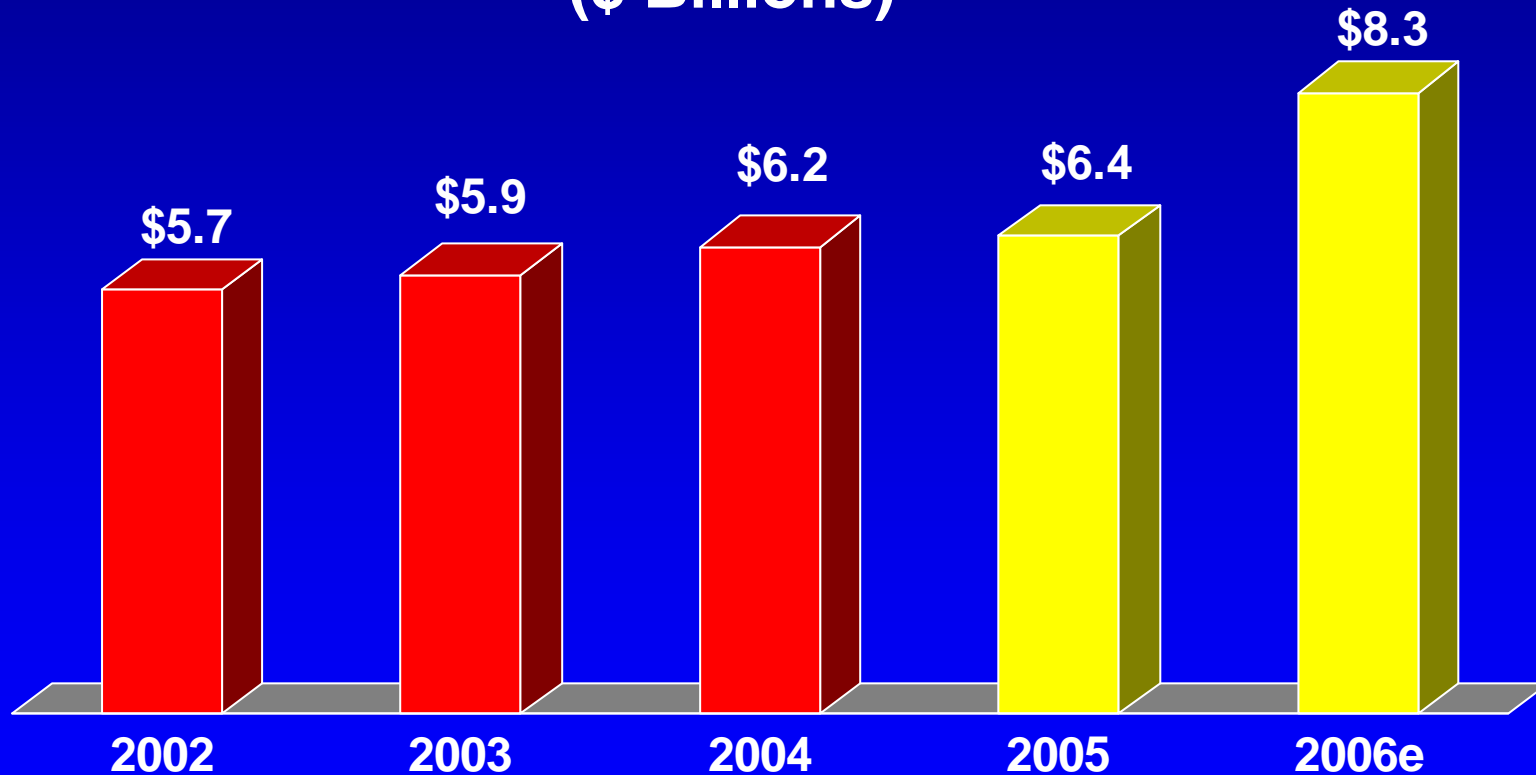


*Capital spending + maintenance expenses - depreciation

Source: AAR

...And Are Poised to Spend Even More

**Class I RR Capital Expenditures
(\$ Billions)**



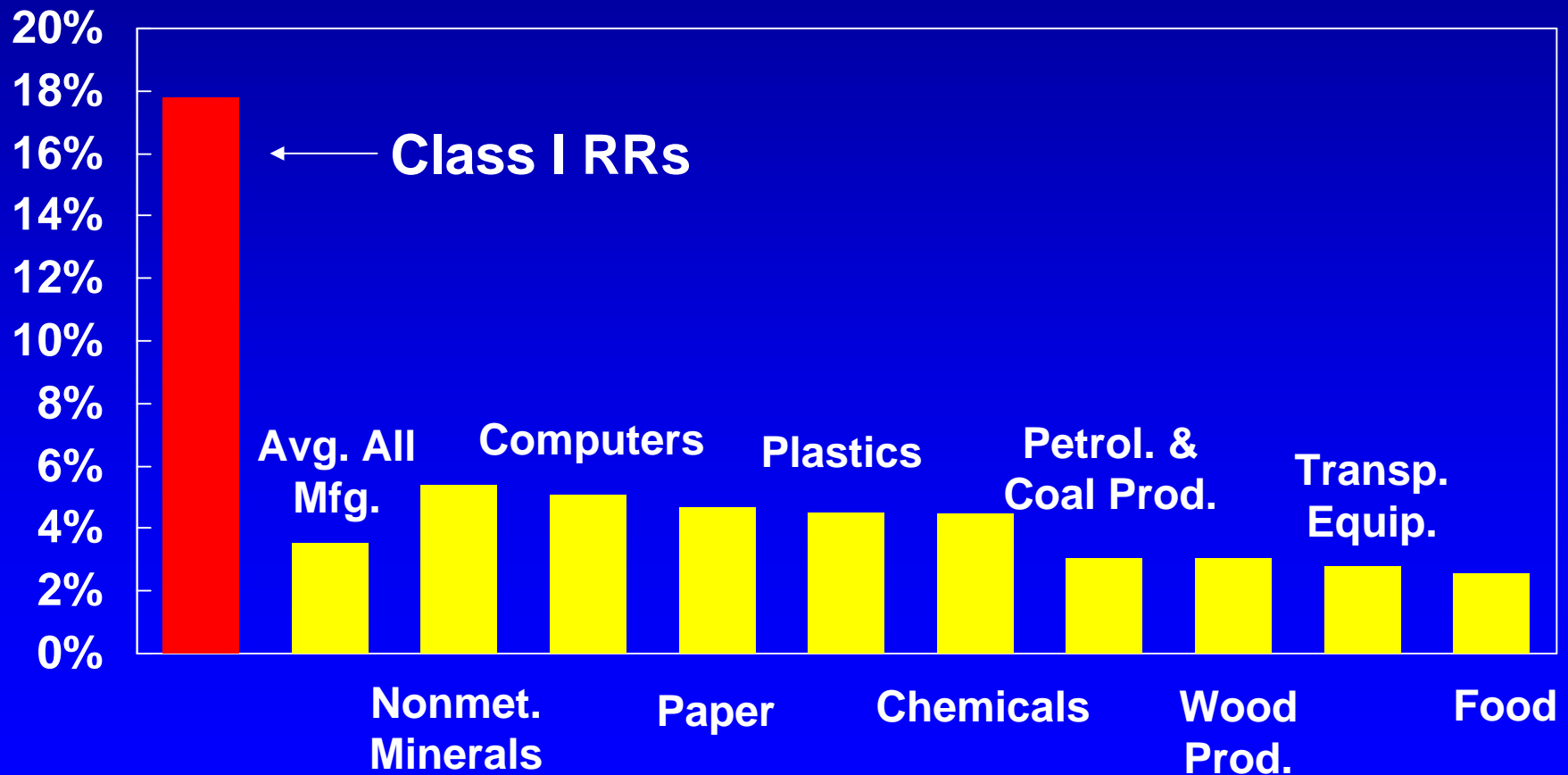
p – preliminary

e – AAR estimate

Source: AAR

Railroading is Extremely Capital Intensive

Capital Expenditures as % of Revenue: Avg. 1995–2004



Sources: Census Bureau, AAR

Reregulation Would Mean Reduced Capacity and Service

- Goal = lower rail rates for certain shippers
- Result = lower rail revenue, capital drain, disinvestment.
- S. 919/H.R. 2047 would mean less rail capacity when we need more.



“As demand increases, the railroads’ ability to generate profits from which to finance new investments will be critical. Profits are key to increasing capacity because they provide both the incentives and the means to make new investments.”

– *Congressional Budget Office (Jan. 2006)*

Capacity is Strained Across All Modes...

“Sadly, for millions of Americans gridlock has become a daily fact of life. Traffic jams. Freight tie-ups. Airport delays. All waste energy, reduce air quality and rob families of precious time together.”

-DOT Secretary Norm Mineta



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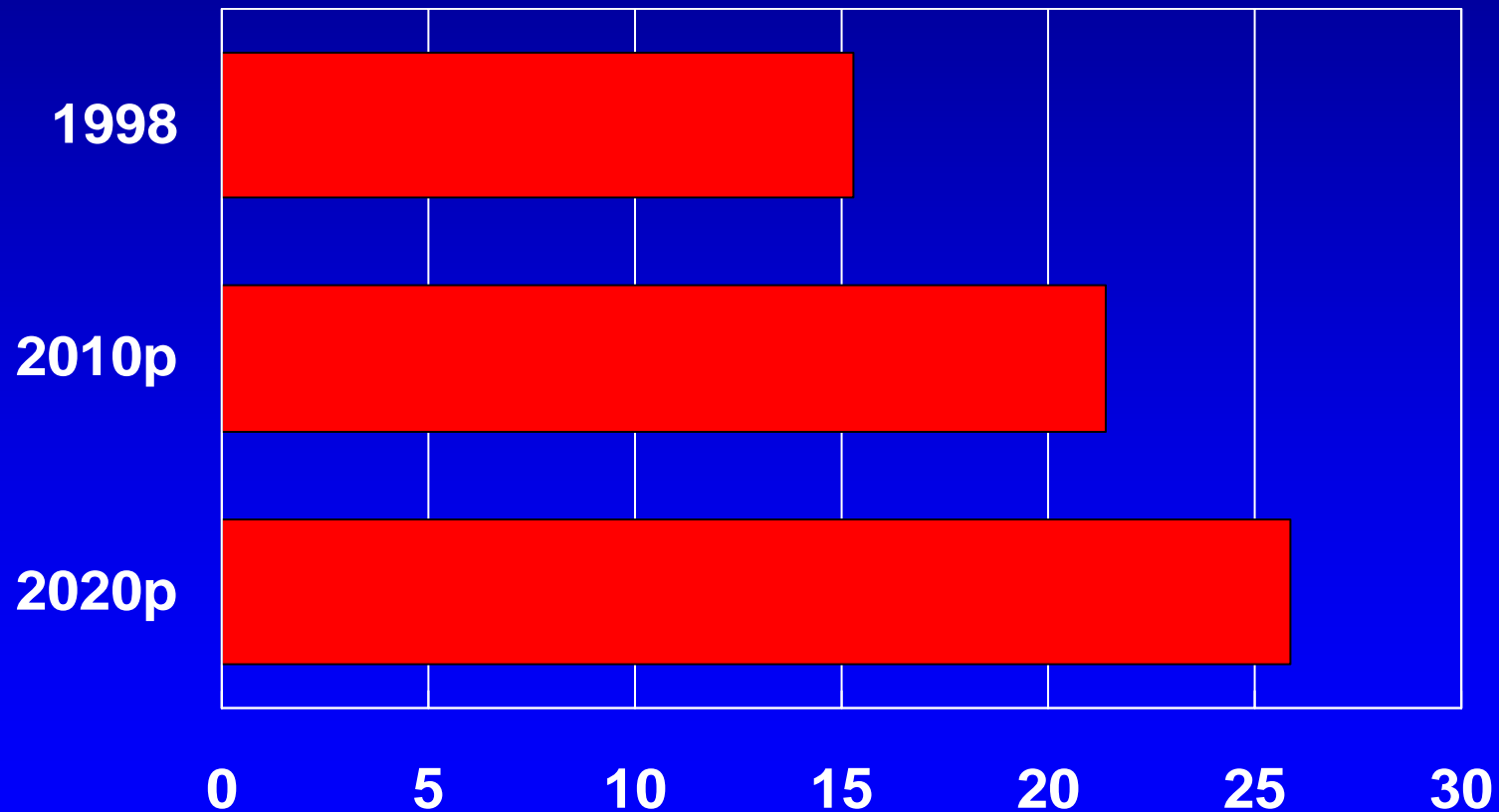
EXOTICS



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...And Will Get Worse Unless We Do Something About It

Billions of Tons of Freight Transported in the U.S.



p – projected Source: U.S. DOT - Freight Analysis Framework

Sound Policy Demands That RRs Be a Major Part of the Solution

- Cost effectiveness
- Fuel efficiency
- Congestion and highway costs
- Environment
- Safety

“If improvements are not made in the freight-rail system, the nation’s freight transportation system will weaken and shippers, highway users, and communities will pay the social, economic, and environmental costs.”

– AASHTO

Freight Railroad Investment Challenge

- AASHTO concludes that freight railroad investment must grow sharply over the next 20 years just to maintain the current rail share of freight traffic.
- AASHTO, the Transportation Research Board, and others report that freight railroads are unlikely to be able to make the necessary investments on their own.

Legislative Priorities

- Oppose re-regulation efforts (S. 919/HR 2047)
- Promote infrastructure tax credits (S. 3742)
- Support responsible rail security efforts
- Support continued funding for Amtrak at a level that allows adequate investment

Tax Incentives for Railroad Capacity Expansion are a Solution



- S. 3742 introduced July 26, 2006 (Lott/Conrad)
- 25% tax credit for projects that expand rail capacity.
- Expense other infrastructure capital expenditures

S. 3742-Freight Rail Infrastructure Capacity Expansion Act of 2006

- 25% tax credit for capital investment in new freight rail infrastructure where currently none exists. Examples include:
 - New track, e.g., second main line
 - New or extended sidings
 - New intermodal facilities
 - New locomotives that increase fleet horsepower
- Credit available to shippers who invest

AAR Seeks AASHTO Support

- AASHTO 2006 Agenda for Freight Rail recognizes need for investment in freight rail infrastructure
- Recommends “changes in the tax code, such as investment credits”
- AAR appreciates SCORT efforts to highlight this policy objective

Railroad Security - Senate

- S. 2791 – Public Transportation Terrorism Prevention Act (Stevens)
 - port and rail security
- S. 2459 – Cargo Security (Collins)
- DHS Appropriations
 - cargo security appropriations
 - \$150 million for rail security

Rail Security- House

- HR 5814 – DHS Authorization Act (Title IX – Transportation Security)
- HR 5714 – Rail and Public Transportation Security Act (Thompson bill)
- HR 5441- DHS Appropriations
 - Passed House on June 6th
 - \$150 mn for rail security grants

Amtrak

- Alexander Kummant -- new President and CEO -- will assume duties September 12.
- Amtrak Reauthorization (S. 1516)
- DOT Appropriations for FY 2007
 - House: \$1.1 billion
 - Senate: \$1.4 billion
 - Administration's request: \$900 million

Public-Private Partnerships Can Help With Capacity

- Best used for projects whose main purpose is to meet public needs.
- RRs pay for their benefits and public pays for public benefits.
- Not “subsidy” to RRs.

“Relatively small public investments in the nation’s freight railroads can be leveraged into relatively large benefits for the nation’s highway infrastructure, highway users, and freight shippers.” -AASHTO

Chicago CREATE Project

- All partners moving ahead with agreed set of projects
- \$320 million to be initially programmed
 - 4 road/rail grade separations in design
 - 2 road/rail grade separations under construction
 - 4 rail/rail grade separations in design
 - 17 railroad projects under design
 - 9 railroad projects under construction

New Orleans Gateway Project

- Series of railroad and highway improvements across New Orleans
- Partners include 5 Class 1 railroads, New Orleans Public Belt, LA DOT, Regional Planning Commission
- Early stages -- feasibility study

AASHTO-AAR Partnership

- Strong partnership between our two organizations
- National Surface Transportation Policy and Revenue Study Commission
- Request to host the April field hearing in Chicago to highlight freight movement policy issues.

Questions?



www.aar.org

**DO NOT HUMP
UNDER ANY
CIRCUMSTANCES**