Michigan RAIL UPDATE

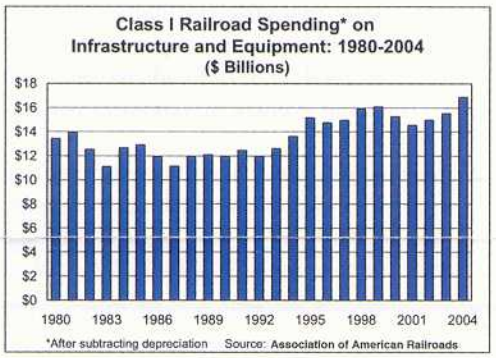
A publication of the Michigan Railroads Association

FALL 2005

Public-Private Partnerships For Freight Rail Infrastructure Projects Needed to Help Alleviate Congestion

U.S. freight railroads move vast amounts of just about every type of cargo, connecting businesses with each other across North America and overseas over a rail network spanning more than 140,000 route miles. Railroads account for 42 percent of U.S. intercity ton-miles but because of their cost-effectiveness they haul this traffic for less than 10 percent of intercity freight revenue.

From 1990 through 2004, U.S. freight railroads reinvested $340 billion on infrastructure and equipment, creating a rail network second to none worldwide. After depreciation, freight railroads today typically spend $15 billion—equal, on average, to some 45 percent of their operating revenue—to provide the high quality assets needed for safe, efficient operation. This extraordinary level of funding indicates the remarkable diligence with which railroads have been approaching capacity and infrastructure issues.



U.S. freight railroads are, with minor exceptions, privately owned and operated. They receive very little government financial assistance for their infrastructure construction and maintenance. Instead, railroads must finance their infrastructure investment needs through their own earnings and from outside capital providers.

Due to a finite amount of capital, railroads are forced to focus their limited investment dollars on projects that promise a direct financial benefit to the investing railroads. While these projects may well provide substantial public benefits—such as reduced highway congestion, cleaner air, improved safety and enhanced mobility—from a railroad's and capital provider's point of view, these are secondary to the project's financial return. This kind of imposed discipline by the financial

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Safety and Security In Transporting Hazardous Materials

From the President

Robert Chaprnka

Approximately 1.7 million carloads of hazardous materials (hazmat) are transported by rail throughout the United States each year—meaning that thousands of carloads of hazmat are in transit by rail every day—and 99.998 percent of these shipments reach their final destination without a release caused by an accident.

Freight railroads are constantly working to ensure the continued saftey of hazmat transport.

No one disputes that efforts should be made to increase hazmat safety and security where practical. However, extreme care must be taken to strike a reasoned balance between measures to improve hazmat safety and security, on the one hand, and the need to ensure the free flow of goods that is vital to our economic competitiveness and quality of life on the other.

Freight railroads are constantly working to ensure the continued safety of hazmat transport which include the following:

- Railroads have developed an industry comprehensive Risk Analysis and Security Management Plan which is continually being updated. Railroads work literally side-by-side with government security to evaluate intelligence.
- Railroads assist communities in development and evaluating emergency response plans and provide training for emergency responders.
- Trains containing specific amounts of the most hazardous materials are subject to

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markets is necessary and appropriate in a market economy, but it discourages investments that would yield significant public benefits but only limited financial benefits to the railroad's stockholders.

A way to help states and localities improve rail networks that generate public benefits is through a more pronounced use of public-private financing partnerships for rail infrastructure improvement projects. Partnerships are not "subsidies" to railroads. Rather, they are an acknowledgement that private entities should pay for private benefits and public entities should pay for public benefits.

The partnership concept extends to short line railroads. Without outside help, many of these smaller density carriers could not upgrade their lines to handle the heavier rail cars that have become the industry standard and are needed to offer economical freight rail service. Without upgrades these lines could end up being abandoned. If this happened countless communities could be cut off from the rail network, resulting in severe economic harm and a sharp increase in truck traffic on local roads.

Freight Railroads Offer Huge Public Benefits

- Freight railroads are **environmentally friendly**. According to the EPA, a typical truck emits three times more nitrogen oxides and particulates per ton-mile than a locomotive.
- On average, railroads are three or more times more **fuel efficient** than trucks, and rail fuel efficiency is improving all the time. In 2004, U.S. railroads moved a ton of freight an average of 410 miles per gallon of fuel.
- Freight railroads significantly **reduce highway congestion** which costs us more than $63 billion per year. One intermodal train can take up to 280 trucks (equivalent to more than 1,100 cars) off our highways; a train carrying other types of freight can take up to 500 trucks off our highways.
- Freight railroads have major **safety advantages**. Railroads are associated with one-fourth the fatalities of intercity motor carriers per ton-mile of freight moved.
- Freight railroads are **cost-effective.** On average, it cost 26 percent less to move a ton-mile of freight by rail in 2004 than it did in 1981, and 60 percent less in inflation-adjusted terms. These rate reductions help rail customers control the prices of their products, saving them—and, ultimately all of us—billions of dollars each year and enhancing our competitiveness here and abroad.

Continued Over-Reliance on Highways Is Unlikely To Succeed

- According to U.S. Department of Transportation (DOT) data, total highway vehicle-miles traveled rose some 90 percent from 1980 to 2003. Over this same period, total U.S. public roadway mileage rose less than 5 percent. Clearly, growth in highway mileage has substantially lagged growth in highway travel demand.

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special speed limits, passing restrictions, and inspection requirements.

- Railroads participate in a variety of resource and development efforts to enhance tank car and hazmat safety.
- Railroads comply with U.S. Department of Transportation regulations requiring the implementation of approved hazardous materials plans.

Despite these efforts, a number of proposals throughout the U.S. have been made that would impose restrictions on rail movements of hazardous materials in one way or another. This past May a federal appeals court's unanimous decision voided a Washington, D.C. local ordinance that would have required hazmats be rerouted around Washington, D.C. The court agreed with what the Department of Homeland Security, the Department Justice, the Department of Transportation and the Surface Transportation Board have been saying all along: that rerouting hazmat material compromises safety and shifts the inherent risk to other communities.

Proposals to impose restrictions of hazmats are advanced with good intentions but the end result would likely be an increase in exposure. Freight railroads strongly oppose them for the following reasons:

- Forced rerouting of hazardous materials by rail could foreclose transportation routes that are optimal in terms of overall safety, security and efficiency.
- Forced rerouting would not eliminate risks, but would simply shift them from one place to another—a divisive and inappropriate result.
- Restrictions on hazmat movements by rail would likely lead to many more movements by truck, but there is a much greater chance of release due to an accident when hazmat is carried by truck than when it is carried by rail.
- A robust national economy requires integrated, effective national transport networks. These could not exist if certain routes were summarily declared off-limits to certain types of goods by government.
- Because rail transportation is inherently interstate in nature, the safe rail transport of any commodity, including hazardous materials, requires uniform standards that apply nationwide.

Railroads are working closely with the chemical industry, U.S. Department of Transportation and Department of Homeland Security to address the transportation security of hazmats. This approach is far more likely to result in actual safety benefits than a patchwork of state and local laws in which consequences, both intended and unintended, are not well considered.

MOVING MICHIGAN

Tuscola & Saginaw Bay Railway Co., Inc.

Headquarters: Owosso, Michigan
Chairman/CEO: Jim Shepherd
President Dennis Gallison
Employees: 38
Miles of Track: 400
Major Commodities: Sand, Plastics, Cement, Chemicals, Agricultural Products, Fertilizer

Jim Shepherd Chairman/CEO

Dennis Gallison President

Partnerships with the rail and trucking companies have been fueling the growth of both industries throughout the country over the past 25 years. These partnerships, commonly referred to as intermodal, combine the best attributes of different transportation modes to yield a more efficient, cost-effective total origin to destination freight transportation movement. Intermodal utilizes the best attributes of trucks and trains with trains making the long haul and trucks making the short haul usually ending at the shipper's doorstep. Shippers get lower transportation costs, roads receive much less wear and tear, motorists have less clogged highways, scarce fuel is saved as trains can ship the same amount of freight as a truck with three times less fuel resulting in substantially reduced air emissions.

Loading sand on rail cars in Wexford County.

> *"Our story is basic. Dependable integrated transportation benefiting our growing customer base, the State of Michigan and the TSB."*

The Tuscola and Saginaw Bay Railway (TSB) has capitalized on the use of intermodal transportation to grow their railroad, which stretches from Ann Arbor to Petoskey, Michigan. Several of TSB's major shippers utilize some form of intermodal transportation to get products to the end user. For example:

- The TSB, a major shipper of foundry sand, has expanded their sand market substantially establishing rail/truck operations providing sand to several non-rail served foundries in other states.
- The TSB has become an integral part of new shortline service from Michigan to the Ohio River barge market for export of agricultural products and for finished lumber to the Midwest and western United States.
- The TSB has established a fertilizer operation in Ashley, Michigan where raw product is brought in by rail, trucked to an off-rail facility where it is blended to certain specifications and then trucked back to Ashley where it is shipped by rail throughout the United States for use in aerial spraying applications.
- The TSB has grown their plastics business by over 100% in the past year and doubled their trans-load capacity in Clare, Michigan. The Clare facility has grown into a successful railroad plastics distribution terminal serving many communities throughout northern Michigan.

"We take pride in providing transportation solutions," says Dennis Gallison, newly appointed president of TSB. "We place a high priority on building partnerships with trucking companies in providing the best possible transportation services. Our story is basic. Dependable integrated transportation benefiting our growing customer base, the State of Michigan and the TSB."

The TSB has a diversified commodity mix including industrial sand, cement, plastic, auto parts, lumber, agricultural products, drilling clay, and propane among others.

The Tuscola and Saginaw Bay Railway provides an important component in keeping the agricultural and manufacturing sectors healthy in Michigan.

TUSCOLA & SAGINAW BAY
TSB
RAILWAY CO., INC.

School Bus Drivers Receive Rail Safety Training

Over 18,000 school bus drivers transport hundreds of thousands of school children daily in Michigan. Michigan Operation Lifesaver (MOL), a non-profit partnership of the Michigan Department of Transportation, law enforcement officers, employees of the nation's railroad industry and others, along with the Michigan Association of Pupil Transportation (MAPT), began a program in 2003 training transportation supervisors and school bus trainers on school bus/railroad safety. It is the goal of MOL and MAPT to have an Operation Lifesaver presenter trained in every school district. Al Bard, MOL state coordinator, said, "It is important to ensure that each school bus driver clearly understands the importance of crossing the tracks safely. The best way to do that is to ensure that school bus drivers have adequate and consistent training." Since 2003, 311 transportation supervisors and school bus trainers have been certified as MOL presenters who are conducting bus driver training sessions to ensure the safe transport of children to and from school.

Poster being distributed this fall by MOL and MAPT to school bus operations throughout the state.

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- A primary reason for this lag is that building more highways is incredibly expensive and time-consuming. It can cost $10 million (and often much more) and well over a decade just to add a lane to a mile of urban highway, compared to $1 to $2 million and relatively little time for a typical mile of rail mainline. In fact, given budget constraints, it is a virtual certainty that we will not be able to build our way out of highway gridlock.
- Overcrowded highways act as a restrictive "inefficiency tax" on our economy, costing more than $63 billion per year. Absent corrective action, this "tax" is likely to rise in the years ahead. According to DOT projections, total highway freight tonnage is expected to grow 77 percent by the year 2020; passenger travel is likewise expected to rise sharply. Freight railroads can reduce gridlock, enhance mobility, and reduce the pressure to build costly new highways.

Examples Show That Rail-Related Public-Private Partnerships Work

- The best known existing public-private partnership involving freight railroads is the Alameda Corridor, a $2 billion, 20 mile rail expressway connecting the Ports of Los Angeles and Long Beach with rail yards near downtown Los Angeles.
- In June 2003, the State of Illinois, the City of Chicago, and the major freight and passenger railroads serving Chicago announced the Chicago Region Environmental and Transportation Efficiency Program, a $1.5 billion program to modernize and improve Chicago's highway and rail transportation networks.
- The FAST Corridor Project (Freight Action Strategy for Seattle, Tacoma and Everett) is an innovative partnership composed of transportation agencies, ports, cities, railroads, economic development organizations, trucking, and business groups working to streamline freight movements through the Puget Sound region of Washington State.
- The just-completed $14 million rehabilitation of the Shellpot Bridge over the Christina River is the result of a unique public-private partnership involving the State of Delaware and a major railroad.

Public-private partnerships for freight railroad infrastructure improvement projects are desirable when the purpose of the project is to provide public benefits or meet public needs. These types of projects have proven their effectiveness in other states and ought to be considered in Michigan when appropriate.

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