

U.S. RAIL CAPACITY INVESTMENT: OUTLOOK AND POLICY OPTIONS

Based upon: “Maintaining a Track Record of Success”
Study for Soybean Transportation Coalition

Presented to: Ag Transportation Summit, July 30, 2013

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STUDY CONCLUSIONS

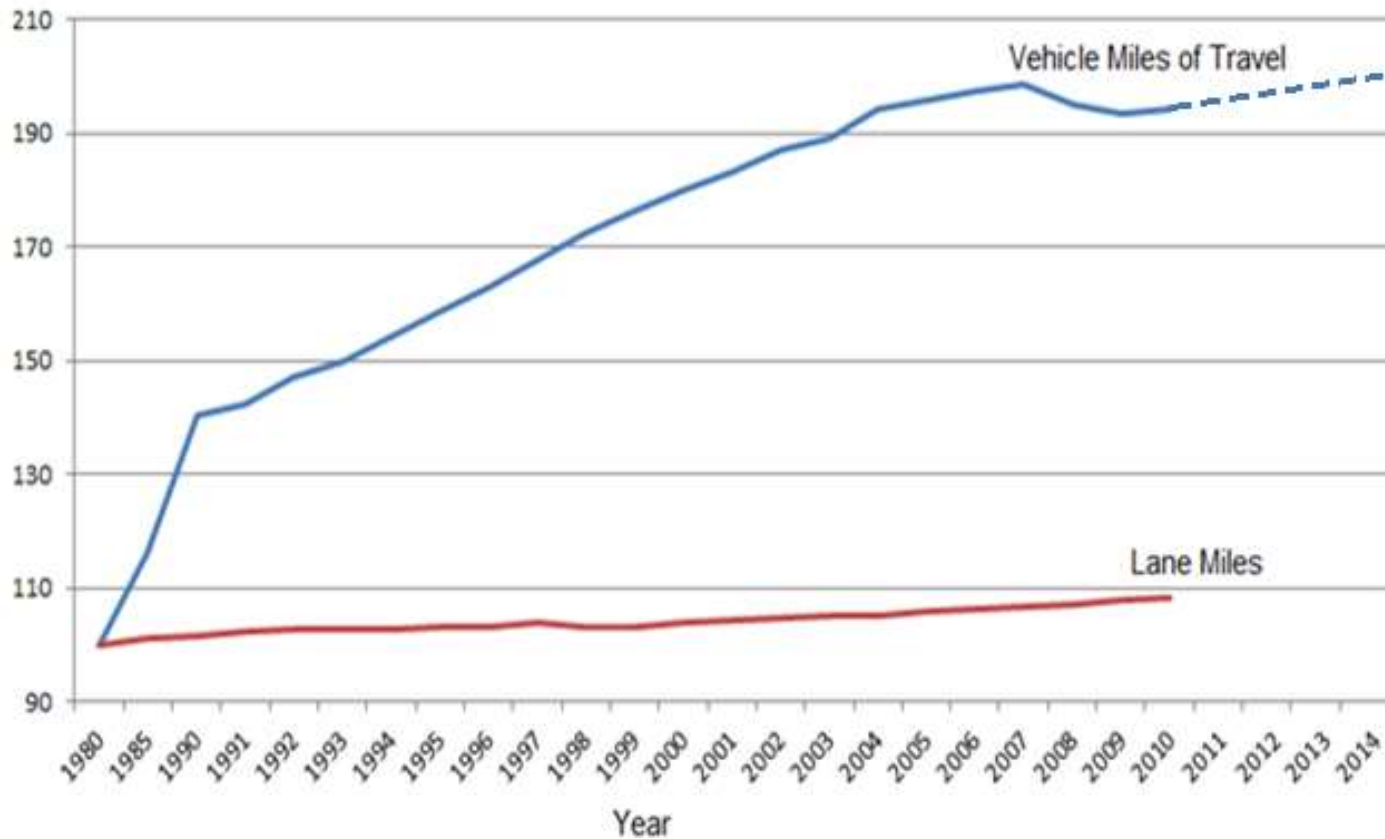
1. U.S. freight will expand but more slowly than GDP
2. Rail freight growth may be starting to outpace truck freight growth
3. Agriculture use of rail will increase due to ethanol blend wall & expanding exports
4. U.S. rail capacity is nearing a maximum
5. Federal incentives could assist in growing capacity and improve sustainability. Significant benefit-to-cost ratio.

Highway Capacity Hit a Maximum in 2007; Next Peak Expected in 2014 (EIA-DOE)

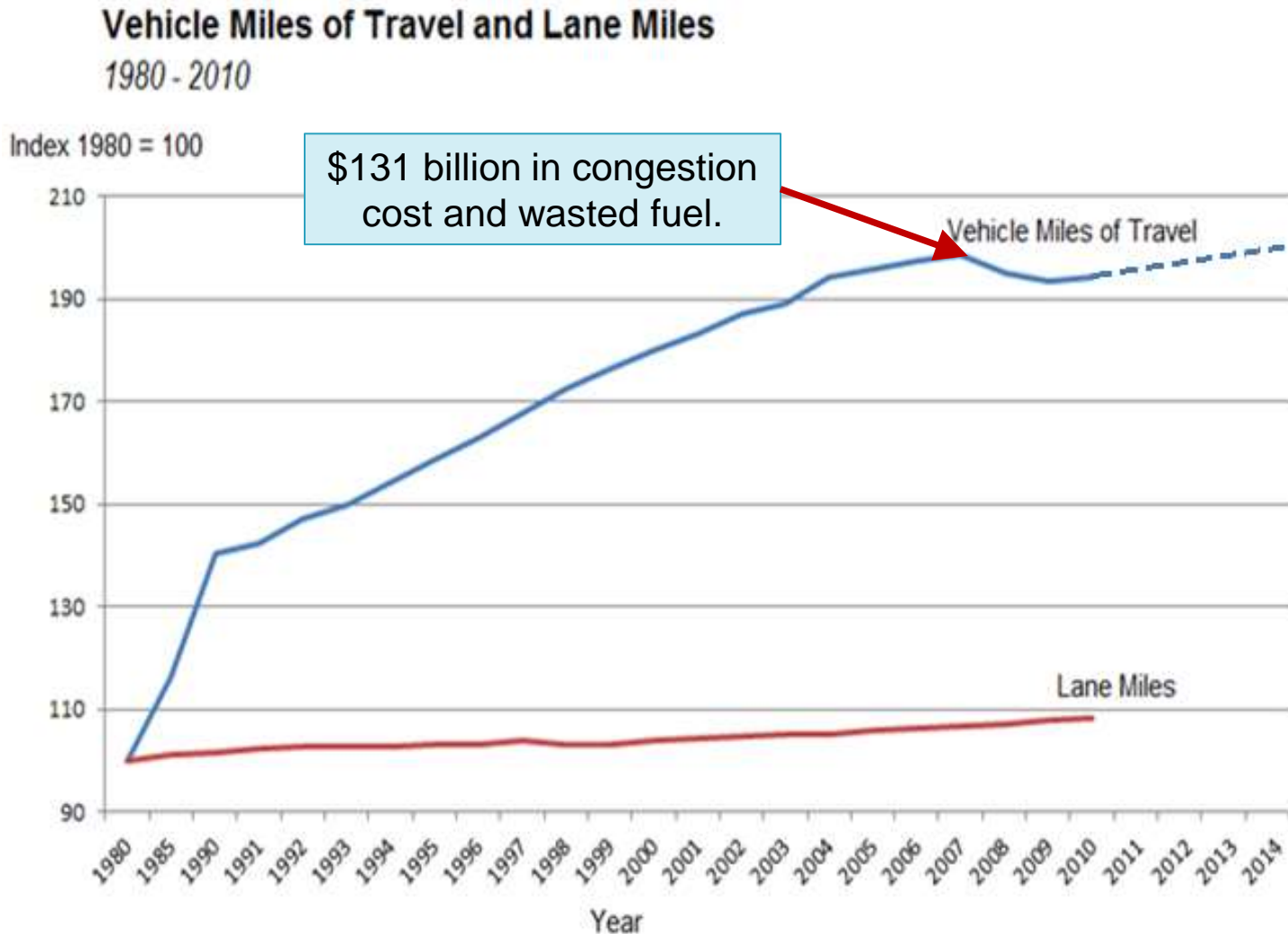
Vehicle Miles of Travel and Lane Miles

1980 - 2010

Index 1980 = 100



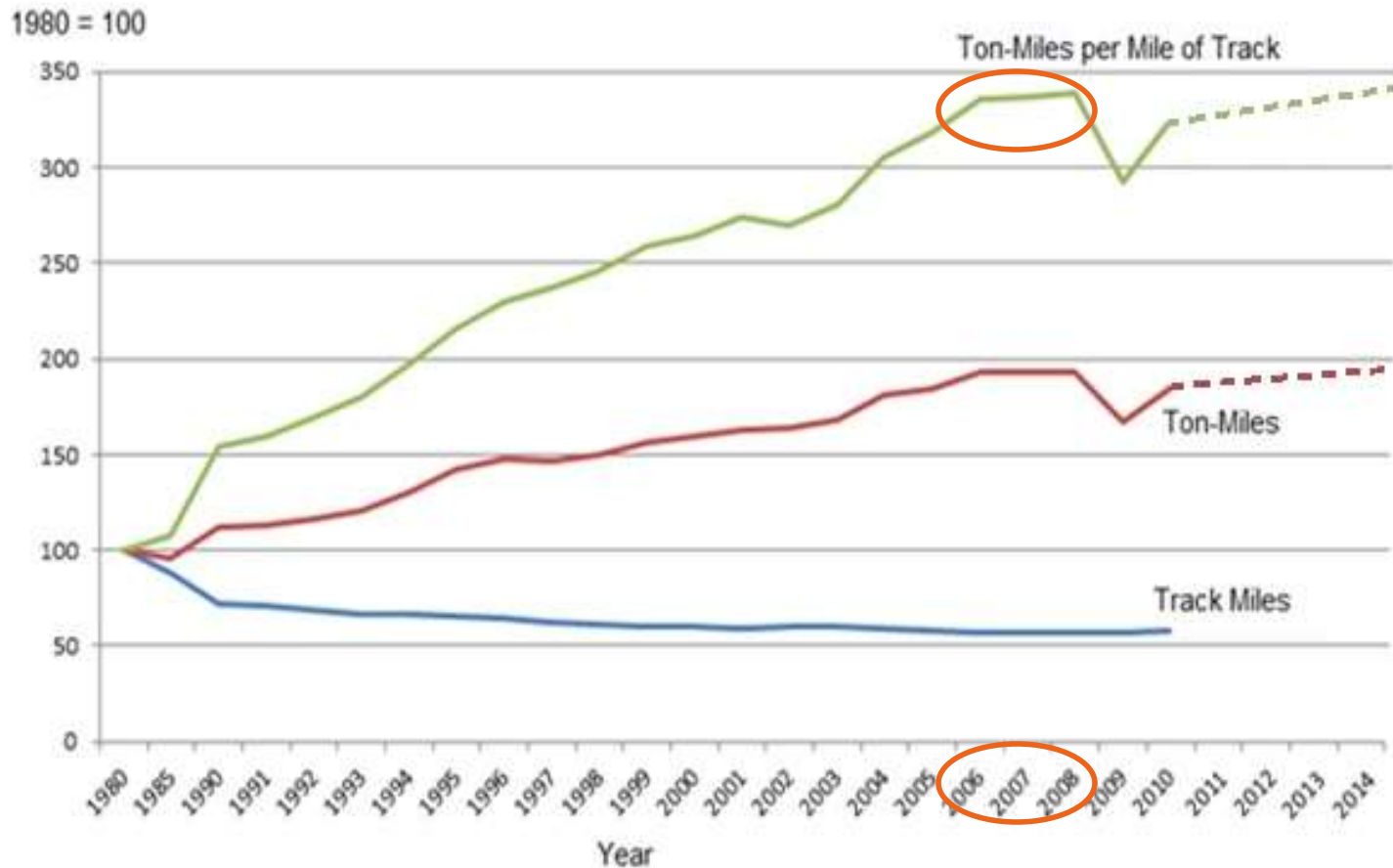
Highway Capacity Hit a Maximum in 2007; Next Peak Expected in 2014 (EIA-DOE)



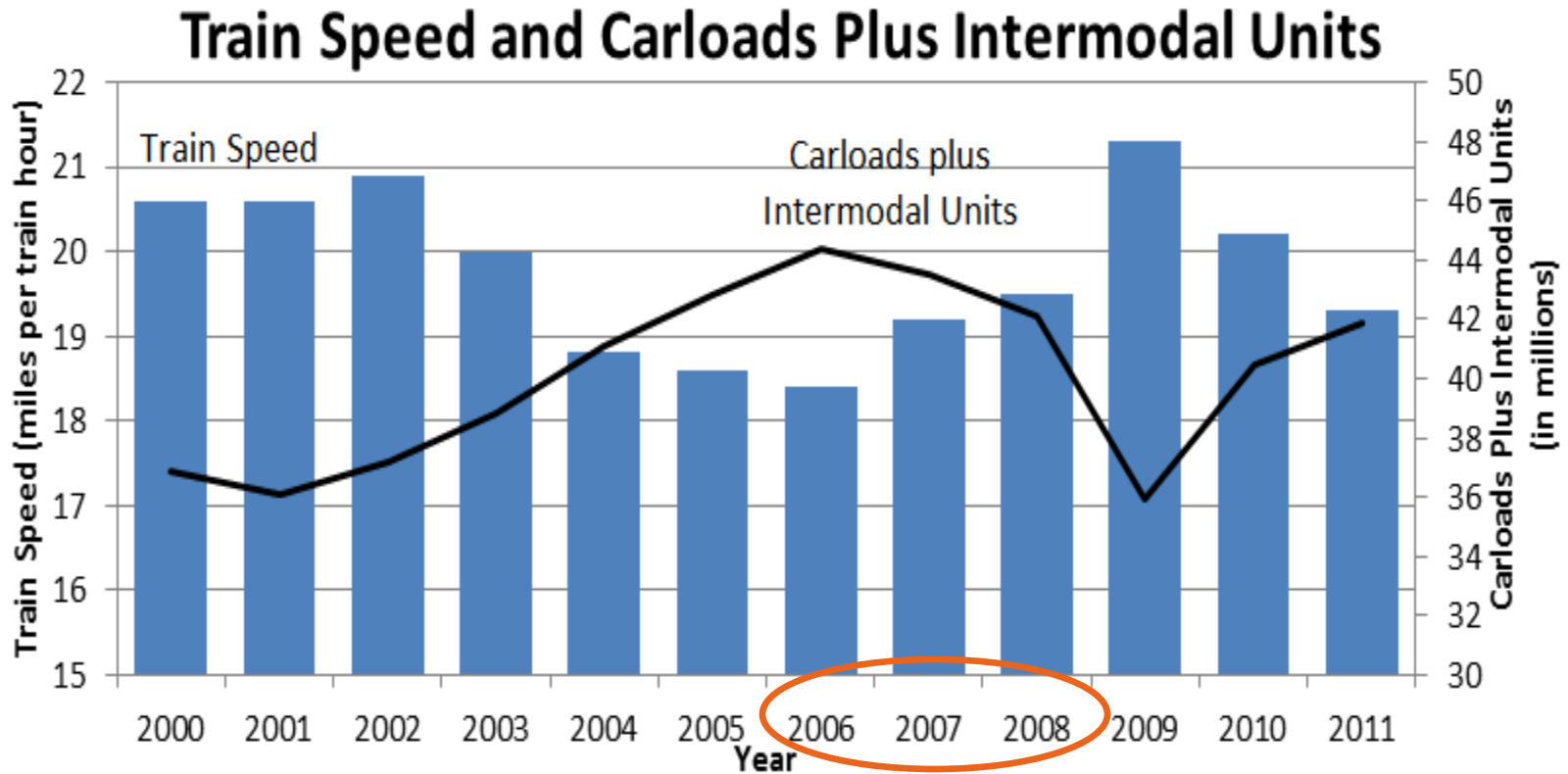
Rail Ton-Miles Hit a Maximum in 2008; Next Peak Expected: 2014?

Rail Freight Ton-Miles and Track Miles

Class I Railroads, 1980 - 2010



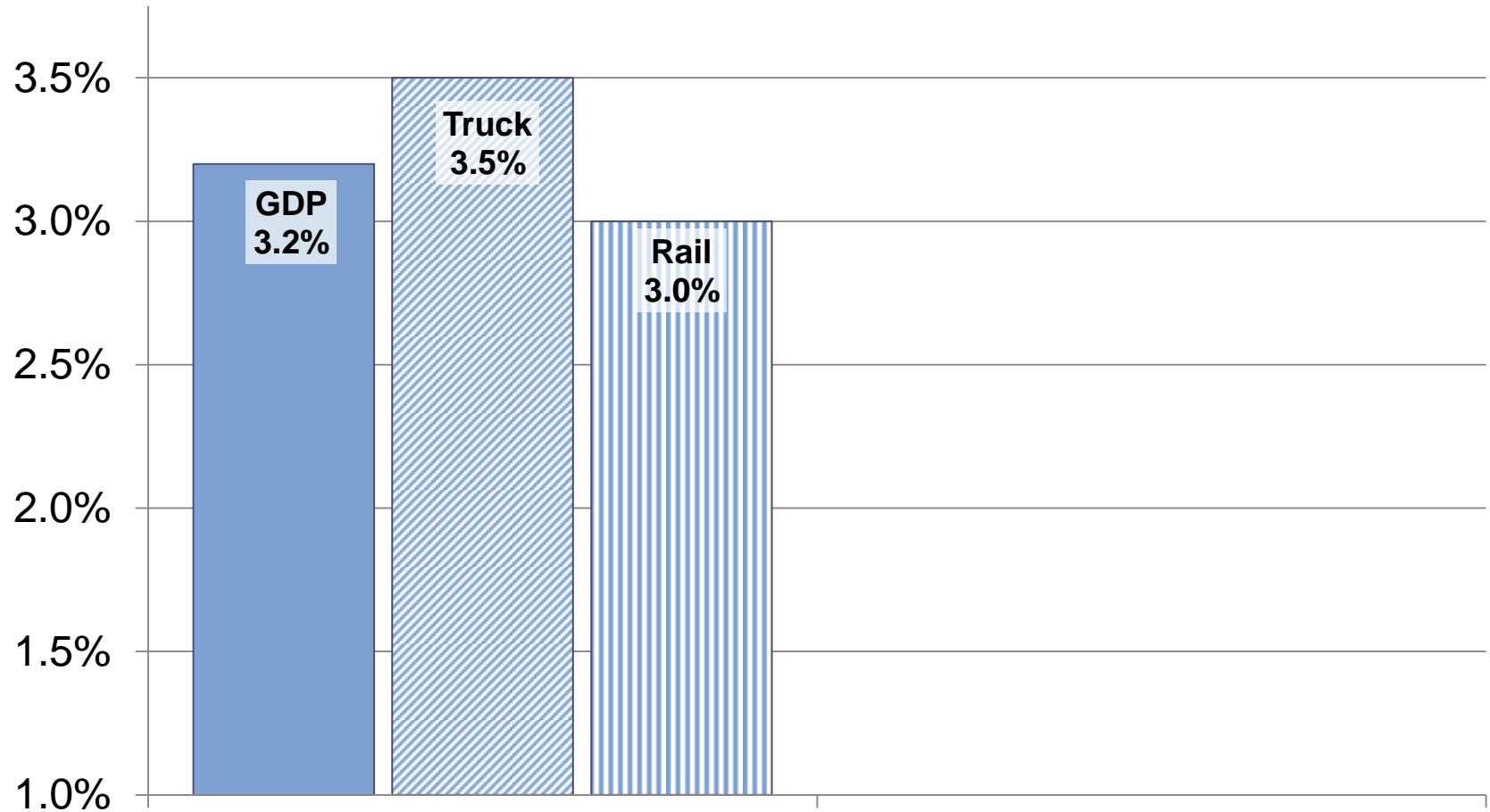
When Rail Capacity Hits a Maximum, Adding More Cars Can Slow Train Speeds



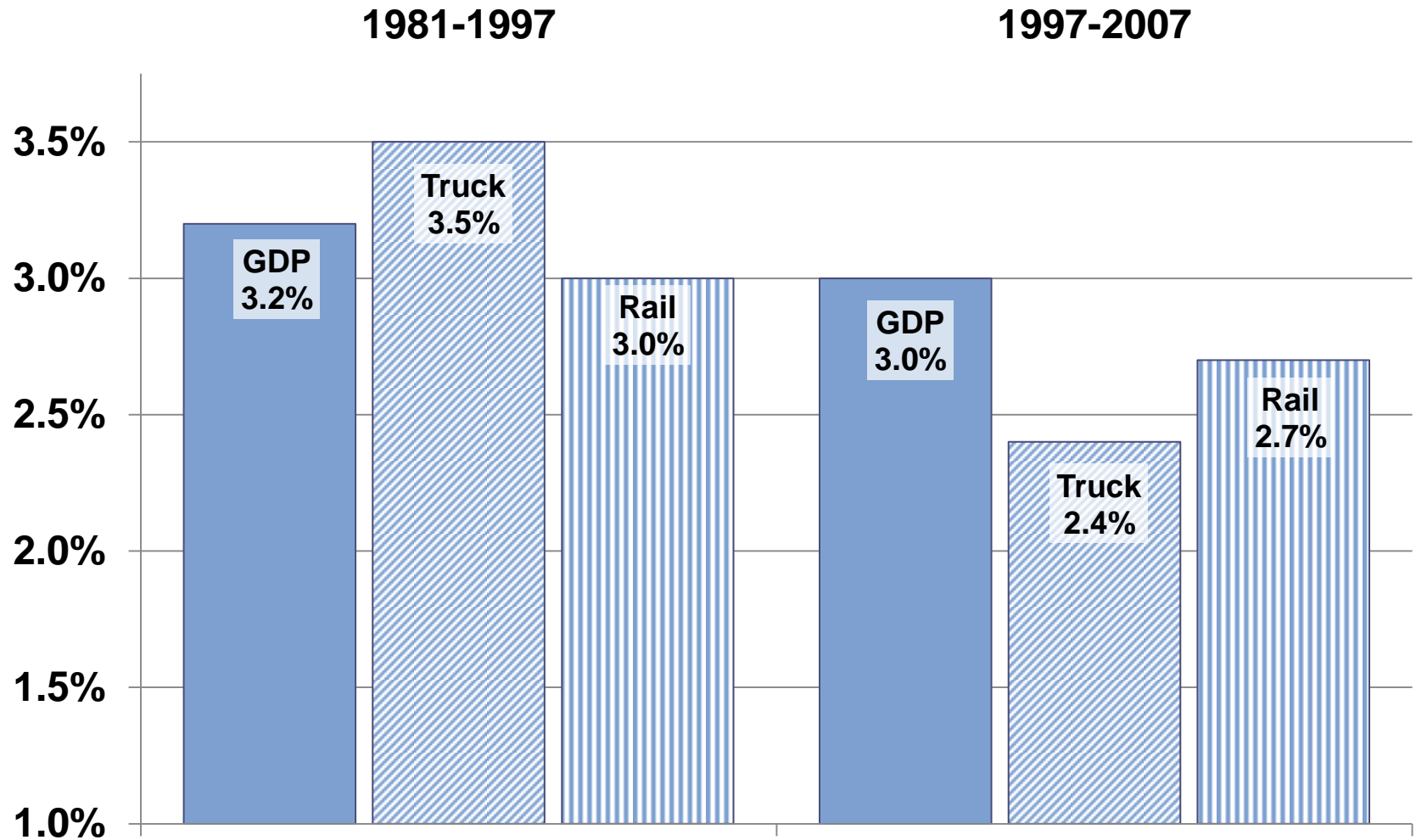
Source: Association of American Railroads

How GDP Growth Affects Truck and Rail Growth

1981-1997

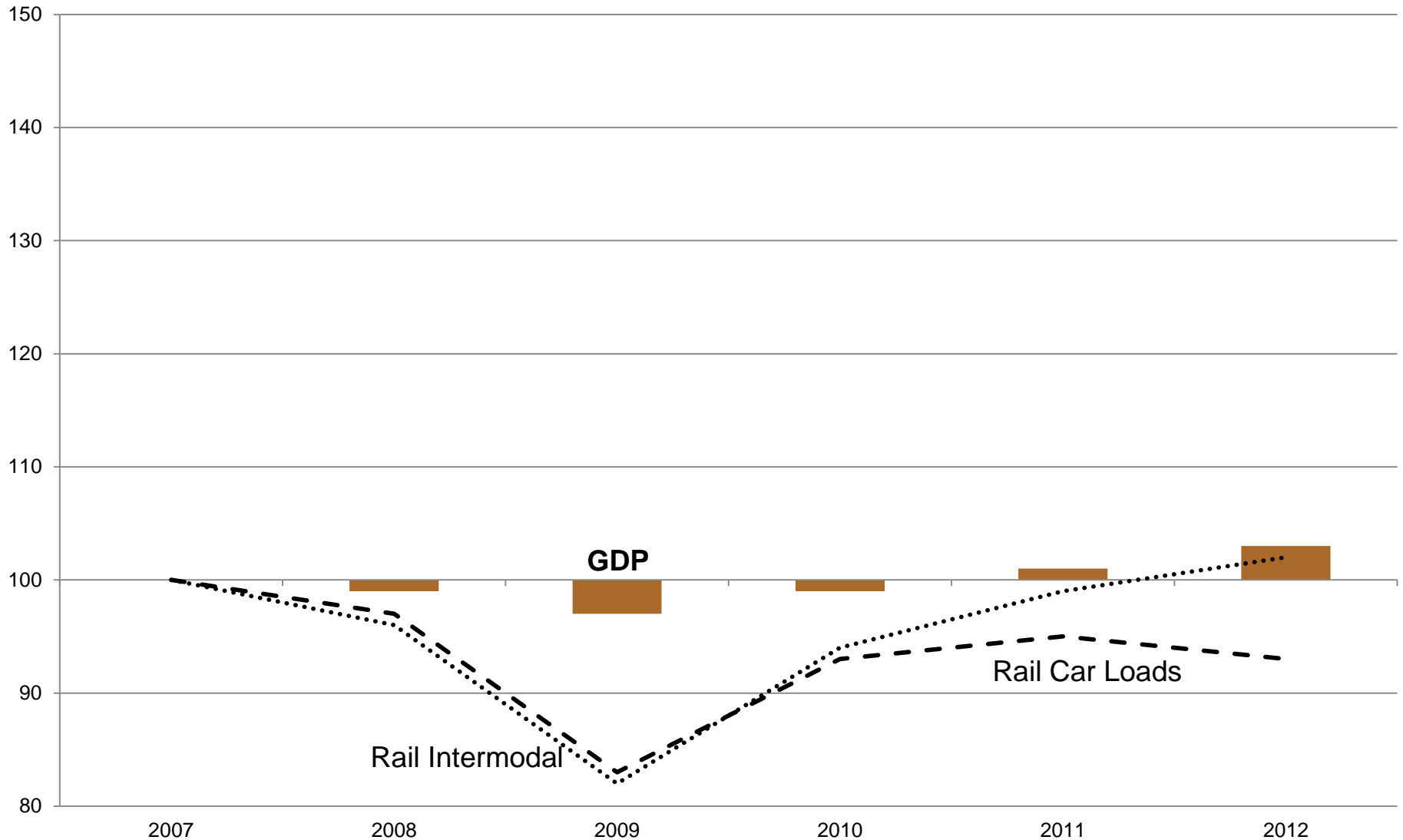


How GDP Growth Affects Truck and Rail Growth



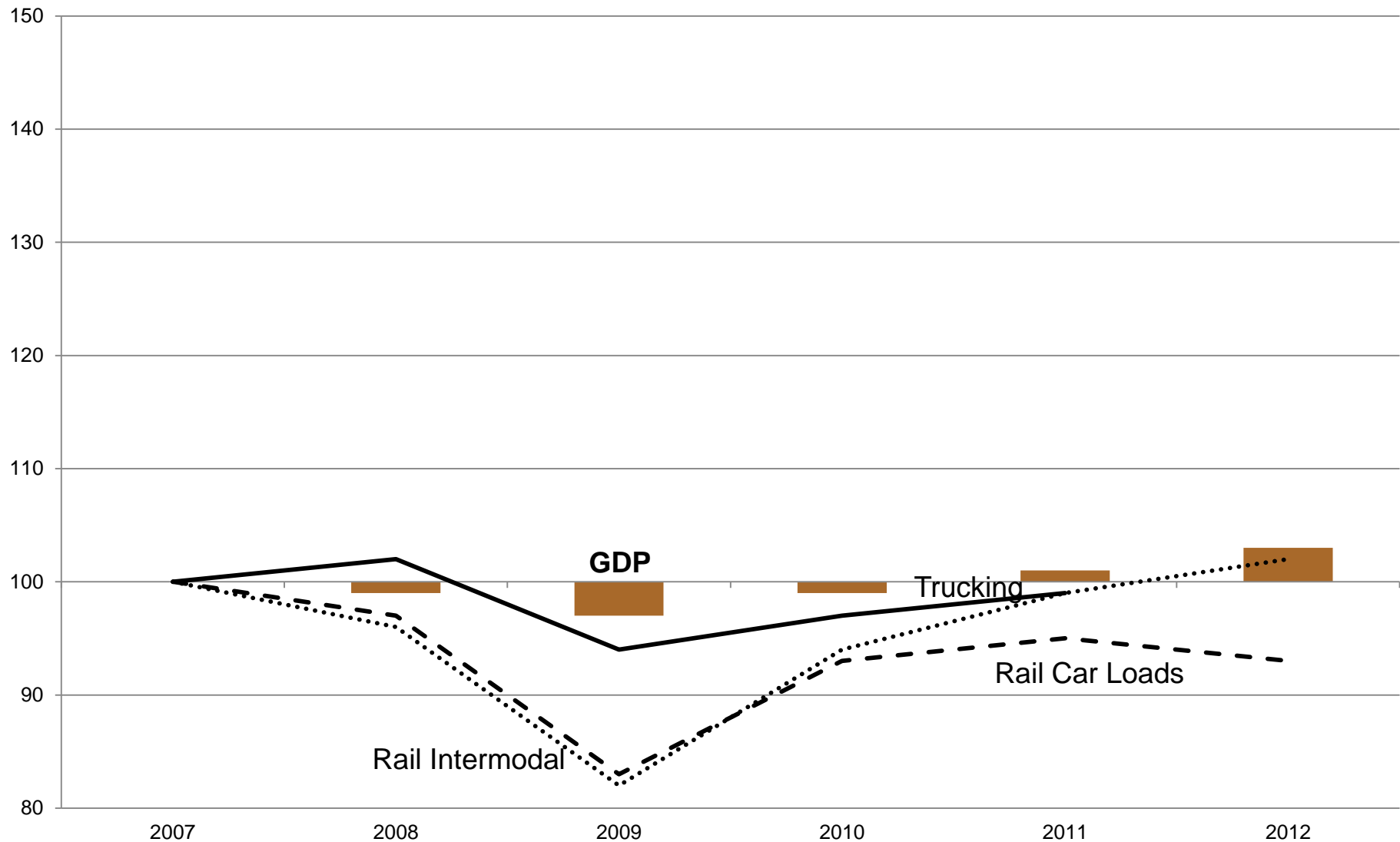
U.S. Economy Links to Transportation Sector, 2007-12

(Index: 2007=100)



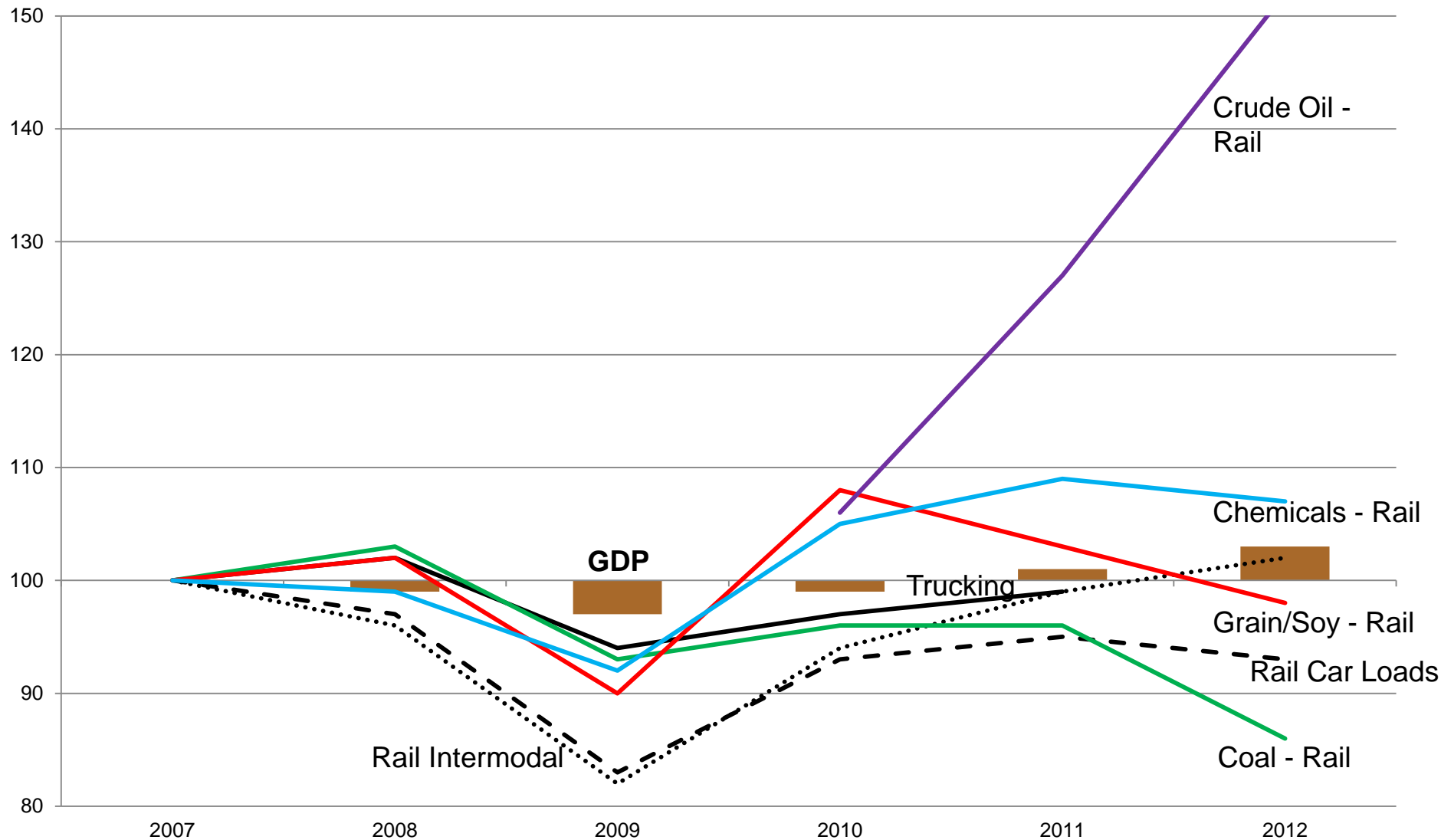
U.S. Economy Links to Transportation Sector, 2007-12

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U.S. Economy Links to Transportation Sector, 2007-12

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Study Forecast of Rail Ton-Mile Growth to 2035 (Avg. Annual %)

GDP Growth of 2.5%

Impact on Rail Growth
2.2%

Study Forecast of Rail Ton-Mile Growth to 2035 (Avg. Annual %)

	<u>Impact on Rail Growth</u>
GDP Growth of 2.5%	2.2%
Coal Decline (early years of period)	-0.55%
Crude Oil Expansion (early years)	+0.15%
Intermodal Growth	+0.25%



<u>Net Annual Rail Ton-Mile Growth</u>	2.05%
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Estimate of Annual Rail Infrastructure Investment Gap

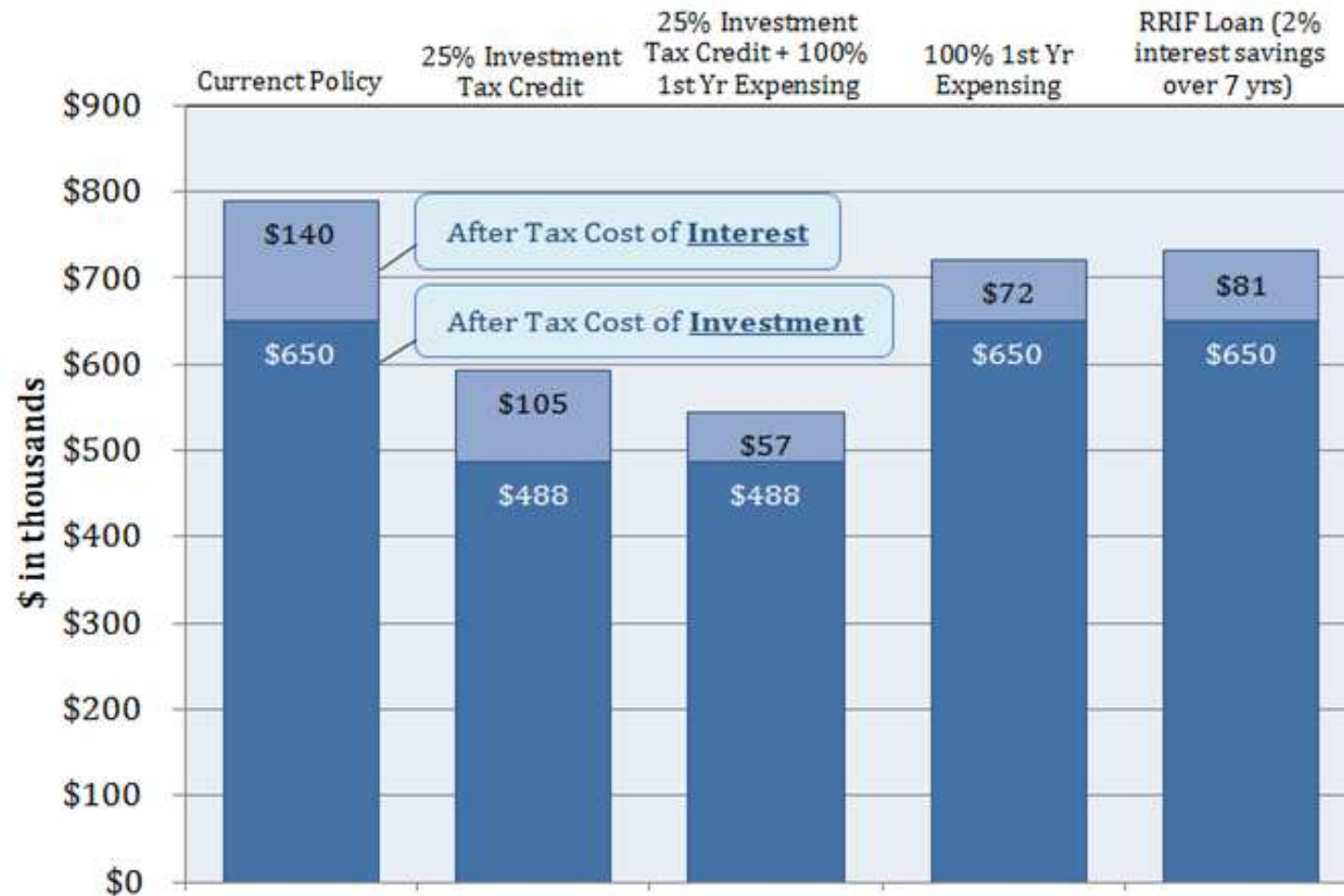
(Based upon 2010 dollars)

Additional Investment to Grow Infrastructure	\$4.5 billion
Additional Investment from Class I Railroads	\$3.0 billion
Investment Gap to Meet Rail Expansion Needs*	\$1.5 billion

*This additional investment will accommodate general traffic growth plus an annual increase of 0.2% in modal share shifting from truck to rail.

\$ 1 Mil Investment in Infrastructure After Taxes

(5% commercial interest rate; depreciation for 8 years, double declining balance)



**Investment Cost Reduction
from Current Policy:**

-25%

-31%

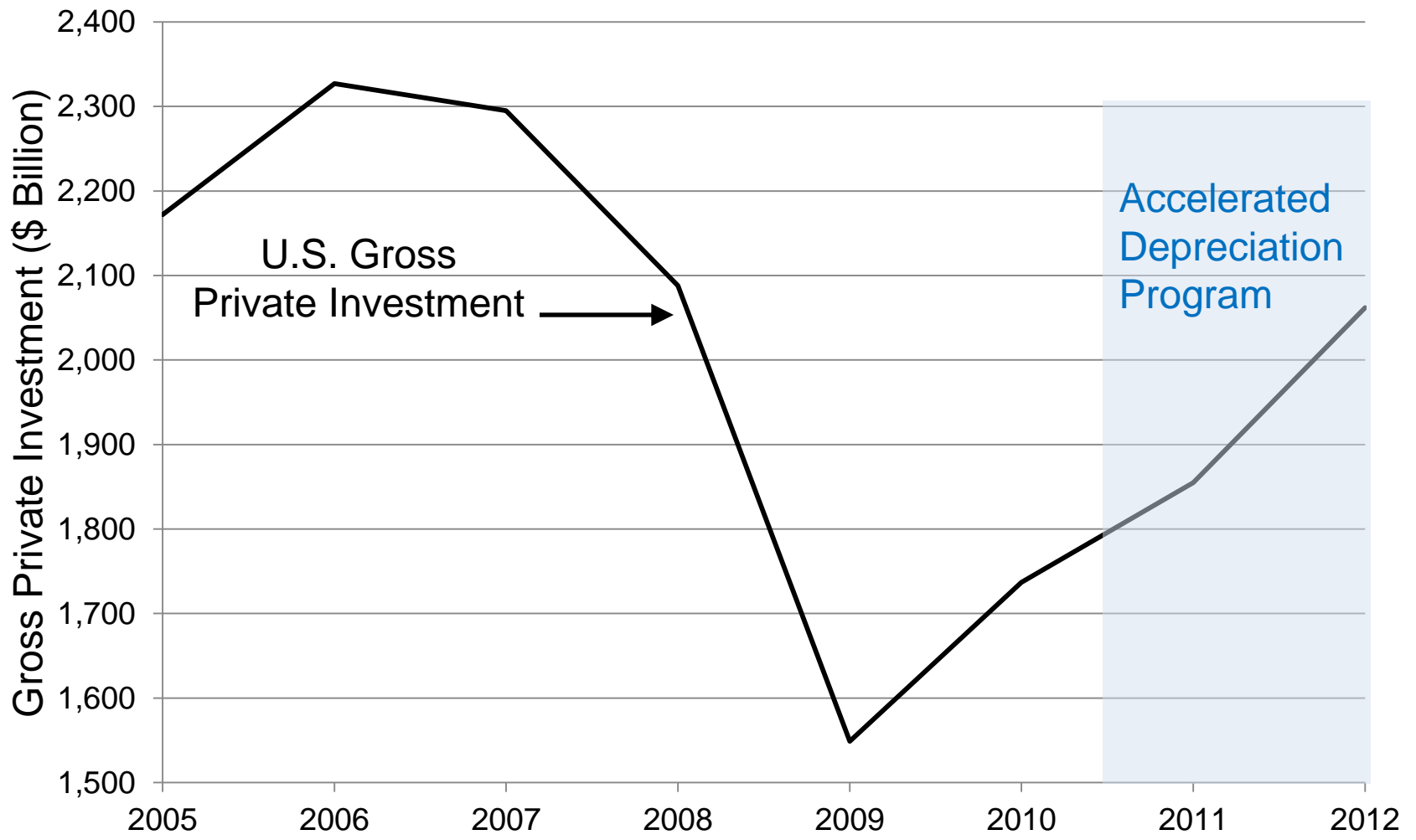
-9%

-7%

Annual Cost/Benefit of Federal Tax Credit for Rail Investment

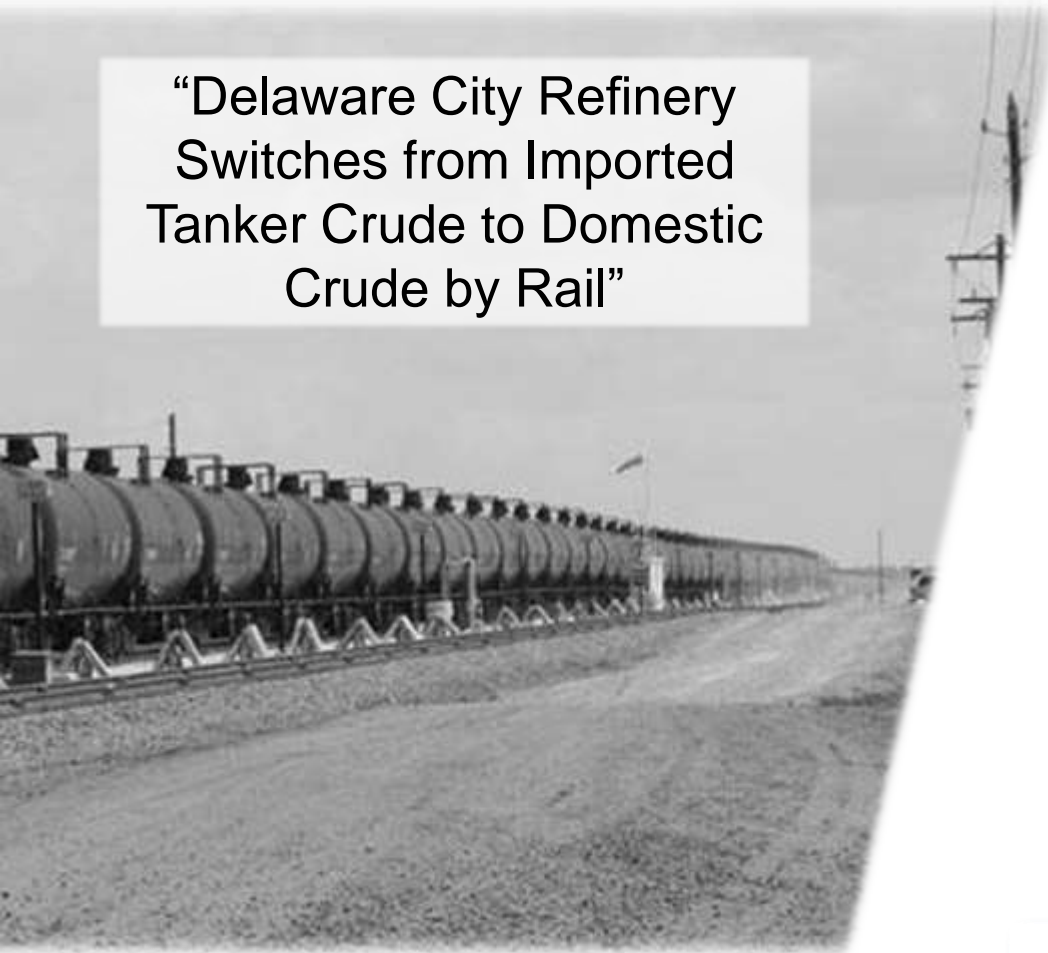
<u>Cost to Government</u> (lost tax revenue):	\$981 million
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<u>Benefits:</u>	
Soybean Sector (lower rates; higher speed handling)	\$98 million
Other Sectors (general rate reduction)	\$635 million
Gain from a shift of truck traffic to rail (cost savings)	\$268 million
Highway maintenance cost savings	\$700 million
Reduced highway congestion	\$595 million
Added construction jobs	30,000 jobs
<u>Total Benefits:</u>	\$2,296 million

Caveat 1: Tax Incentives May Not be Adequate in a Poor Investment Climate



Caveat 2: Mitigating Community Impacts of Infrastructure Expansion

“Delaware City Refinery Switches from Imported Tanker Crude to Domestic Crude by Rail”



“New Infrastructure to Go Around Chicago Switching”



Caveat 3: Government Can Both Help and Hurt Infrastructure Development

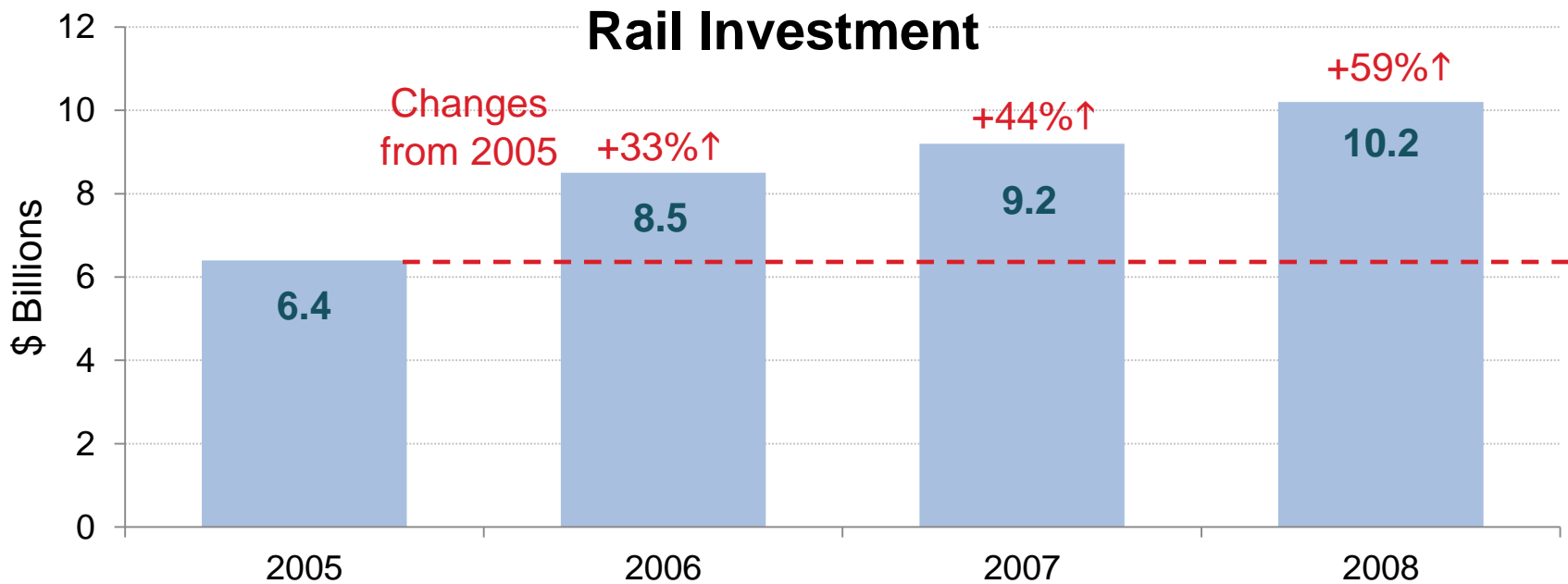
- Federal Railroad Administration's RRIF Program: Economic & Environmental Goals

Caveat 3: Government Can Both Help and Hurt Infrastructure Development

- Federal Railroad Administration's RRIF Program: Economic & Environmental Goals
- Waterways: Authorizations; Appropriations; Keeping Projects Moving

Caveat 3: Government Can Both Help and Hurt Infrastructure Development

- Federal Railroad Administration's RRIF Program: Economic & Environmental Goals
- Waterways: Authorizations; Appropriations; Keeping Projects Moving
- Rail Investment is 95+% Private Investment; Investment Decisions Move Quickly



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