

APPENDIX I-19: TREND ANALYSIS – RAILROAD ABANDONMENT AND PRESERVATION – STATE OWNERSHIP STRATEGIES

Trend Statement

California faces significant transportation capacity challenges to meet current goods movement demand and to expand the state’s central role in both national and global trade. Growing congestion on the rails and parallel highways is forcing California to consider preservation of the secondary or branch line rail networks as well as public assistance and support of rail service expansion. Statewide environmental and sustainability policies rely on the continued existence of railroad-based goods movement services as a reliable and cost-effective alternative to the movement of goods on highways.

Background

Many states believe that freight rail service is vital to their economy and have made freight rail service, especially the preservation and retention of lower density branch lines, a significant part of their economic development and transportation programs. Additionally, rail service can act as a catalyst for redeveloping urban corridors and underutilized rail-served brownfields as “integrated logistics centers” – concentrations of rail-served warehousing, distribution, and manufacturing – with efficient rail and truck service. More than 30 states across the nation have recognized the key role that freight rail plays in economic development. Many states have grant programs designed to allow freight railroads, both Class I and short lines, to undertake projects that have both public and private (railroad) benefits that would not be realized without a public – private partnership approach. These projects can be for expanded capacity, thus reducing congestion and improving environmental impacts, or for rehabilitation of short line tracks in order to maintain and support competitive and environmentally friendly freight services that otherwise would have to depend on only highway truck traffic for their freight movements.

Examples of some of the more successful public-private partnerships (P3s) grant programs that facilitate investment in rail freight infrastructure includes the ConnectOregon program in Oregon, the Strategic Intermodal System in Florida, the Rail Transportation Assistance Program in Pennsylvania, and the Passenger and Freight Rail Assistance Program in New York. Washington State Department of Transportation has grant program, the Freight Rail Assistance Program and a loan program, the Freight Rail Investment Bank program All of these programs focus on a series of common themes: to work with privately held freight railroads to realize long term infrastructure improvements to improve access, to provide environment and competitive options for communities in the state, and to ensure a structured competitive approach so that projects with the highest public benefits are funded, and to match financial requirements of the railroads for funding the projects.

Applying a P3 grant approach with existing railroads can yield greater success than the state taking ownership of freight rail lines, or providing direct operating subsidies for freight railroads.

It provides an incentive for efficient management of the railroads by private industry, while supporting long term investments in California infrastructure improvements. It will not burden the state with the expense and complexity of owning and managing freight railroads.

In California, the Section 190 Grade Separation program is typically funded at \$15 million per year and distributed among 3 to 4 projects each fiscal year. The funds are provided to local agencies to grade-separate at-grade crossings or to improve grade-separated crossing. The California Public Utilities Commission has jurisdiction over the safety of highway-rail crossings in California.

The 2013 California State Rail Plan (the Rail Plan) recognizes goods movement by rail as an important tool for addressing highway congestion. This document details the state's investment strategy for passenger rail on a corridor-by-corridor basis and summarizes the state's freight rail needs by the type of railroads (Class 1, regional, and short line).

Deferred Maintenance on Short Line Railroads

Many of the California short line railroads were previously owned and operated by Class I railroads. Often these lines received little or no routine maintenance before disposition by the larger railroads, due to the low volumes and revenues this lines provided the larger railroads. This resulted in many short line routes facing significant deferred maintenance on their lines. This deferred maintenance is often reflected in the need for new for new rail and crossties, and for upgraded bridge structures.

In order to use these obsolete rails, crossties and bridges safely, short line railroads must place weight limits on many short lines in California. These weight limits mean customers served on these lines cannot ship or receive rail cars that are the standard used by the Class I rail network across the country. Unable to utilize rail shipments to the typical network capacity, these customers are placed at a competitive disadvantage. In 2014, over 60 percent of short line railroads across the country own and operate rail cars below the Class I railroad standard weight limit, putting them, at times, at a competitive disadvantage with trucks, and thereby adding to congestion on our roadways along with the associated corresponding negative externalities.ⁱ

Freight System Implications

For the last thirty years Class I Railroads - the five United States (U.S.)-based line haul freight rail companies with operating revenue of greater than \$398.7 million as of 2010 - have been focused on improving service productivity, reliability, and return on their investments. To improve productivity and profitability and maximize available capacity, the railroads have invested in double-stack cars, larger hopper and tank cars, and higher boxcars and auto-rack cars, which in turn require investment in high-clearance tunnels, higher weight-capacity track, and stronger bridges. The elevated cost of these improvements has prohibited the railroads from upgrading any but the highest volume and most profitable lines. To become more efficient, they also have consolidated their services into critical high-density, higher-profit corridors, and have curtailed or eliminated their services in lower volume markets. They have focused growth on long-distance trans-continental trips with longer trains carrying containerized goods from ports

to the hinterlands. They have shifted regional and short haul rail trips to regional and short line railroads which have purchased the lines or entered into service agreements with the Class Is to provide rail service that is not cost-effective for the Class Is. Many of these smaller railroads have been aggregated into national holding companies that are subject to the same shareholder pressures as the Class Is. The December 2012 consolidation of RailAmerica by Genesee and Wyoming Railroad combined the two largest short line and regional rail operators in North America. The combined company now operates 112 railroads in 37 U.S. states, Australia, the Netherlands and Belgium. Their operations include more than 15,000 miles of owned and leased track with an additional 2,500 miles under track access arrangements.

The most critical rail corridors in California are the Interstate (I)-5 Corridor between San Diego and Stockton, the I-80 Corridor between the San Joaquin Valley and Oakland, and the Southern California East/West Corridor (I-10 and State Route 60) from the San Pedro Bay Ports to the Inland Empire. The Highway Performance Monitoring System (HPMS) projects 2020 highway traffic on I-5 will be at level of service E and F for virtually the entire distance in California between San Diego and the San Francisco Bay. The deteriorating condition of I-5 makes it even more imperative to consider strategies to improve the ability of the rail system to absorb freight traffic; the primary issue is length of haul. The distance at which the economics become favorable for the large railroads is approximately 500 miles. Without a public subsidy or public-private partnership, short haul freight is not economically feasible for Class I railroads.”

In 2006, the San Joaquin Council of Governments completed the California Inter-Regional Intermodal System (CIRIS) study which explored the feasibility of new intermodal short line services between Bakersfield, Fresno, Stockton and Oakland. The study also noted the potential for short line service between the San Pedro Bay Ports and the Inland Empire. The CIRIS study reported that participation by Class I railroads - either as an operator or as a host for operation by someone else - would be contingent on public funding for increased capacity. This is not unlike passenger rail service in California, whose expansion has been facilitated by strategic state investments in additional track capacity, signaling, and other measures to expand total rail capacity. Unsubsidized short-haul rail shuttles in the 75-150 mile range are not likely to be commercially viable or attractive business propositions for the railroads. Furthermore, developing and operating intermodal facilities is unlikely to be a profitable stand-alone venture. Both will require public investment or other forms of financial support to succeed in a competitive environment.

In order to make the economics work for short haul intermodal rail service the Rail Plan noted the following elements must be present:

- An ongoing public investment may be necessary to maintain, market and operate the service. To be attractive to the railroads, the service must offer a comparable profit margin, augment long-distance capacity, or achieve some balance between profit and capacity.
- There must be inland intermodal freight and transload facilities that can be easily accessed and served by rail and trucks, close to where shippers have existing operations.
- Operation of night trains for shippers is crucial; it would allow for extended cutoff times and make it easier to load trains.

A multi-jurisdictional or comprehensive public-private agreement for rail freight projects in California could have great advantages to both parties and facilitate progress on many pending issues. If importers and exporters must rely on increasingly congested freeways to move their goods, both their ability to compete and the state's ability to grow will be jeopardized. If that occurs, these shippers will locate elsewhere. Short haul intermodal rail service can provide a solution that benefits the goods movement industry, and provides public benefits such as congestion mitigation, safety, fuel savings, reduced emissions and roadway preservation. In order to maintain and strengthen the position and contributions the freight rail system makes to California, the regions and the nation, the State must be an active partner with the private sector and other government entities in the funding of major freight rail improvements.

Planning Considerations

In the absence of a statewide focus on the shrinking and deteriorating rail network throughout California, abandonment of potentially essential rail links in the statewide secondary rail network may be viewed as a local matter with little statewide mobility or environmental consequence compared to the local benefits of rails-to-trails conversion. The possible expanded and/or future use of abandoned rail segments and rail corridors will require an inventory of inactive and underutilized segments.

There are many resources available should California choose to take a lead planning role in developing freight rail capacity. Examples of successful publicly-owned short haul intermodal services include Northwest Container Services (NWCS) Short Haul Intermodal Train Service and Virginia Inland Port. In 2010, the State of Oregon completed a study of state rail ownership programs in Oklahoma, Wisconsin, Washington, and New Mexico. These states represent four different state ownership models and are in various stages of funding maturity. Each case study summarizes several aspects of ownership including: administration, program funding, benefit analysis, operations, maintenance, and stakeholder involvement.

More generally, the state should evaluate and consider the possibility of establishing a P3 program for rail freight infrastructure investments. Such a program, possibly modeled on the successful programs discussed above in Oregon, Washington, Pennsylvania, Florida and New York, could both generate long term mobility and environmental public benefits, and help improvement and sustain the light density short line freight railroad network throughout the state.

Resources

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ⁱ Short Line and Regional Railroad Facts and Figures, 2014 Edition, pg. 31