Freight Railroad Capacity and Investment

ASSOCIATION OF AMERICAN RAILROADS | **APRIL 2014**

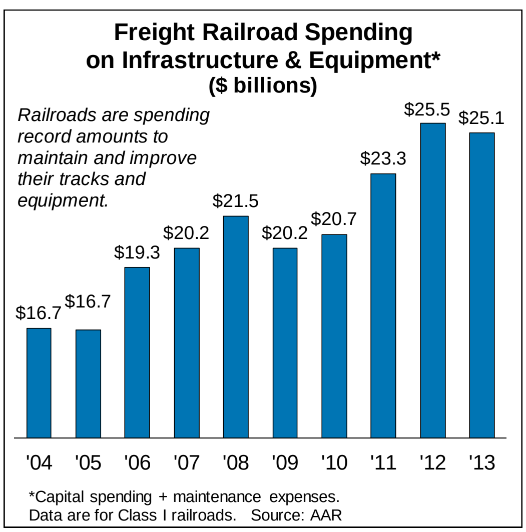
Summary

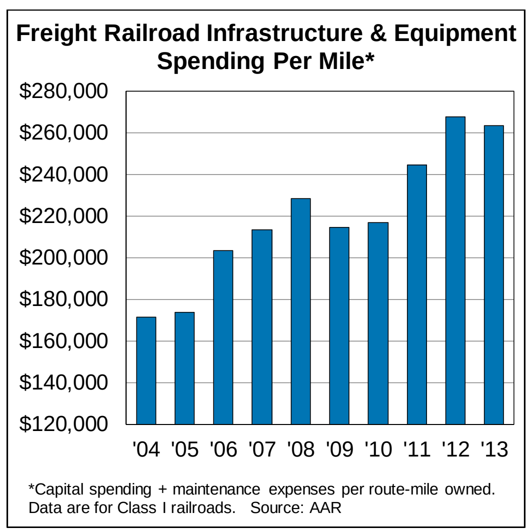
America's demand for safe, affordable, and environmentally responsible freight transportation will grow in the years ahead. Railroads are the best way to meet this demand. Almost entirely privately owned and operated, **America's freight railroads have reinvested $550 billion since 1980 — including more than $25 billion in both 2012 and 2013, more than ever before — to create a freight rail network that is second to none.** Policymakers can help ensure that America has adequate rail capacity in the years ahead by **retaining the current balanced regulatory structure** that protects shippers and consumers while giving railroads the opportunity to earn what they need to keep their networks in top condition. Policymakers should also support **public-private partnerships** with railroads to solve transportation problems, **retain existing truck size and weight limits**; and enact sound and equitable **corporate tax reform** that enhances economic development and promotes job growth.

Expanding Rail Capacity To Meet Tomorrow's Transportation Needs

Unlike trucks, barges, and airlines, America's privately-owned freight railroads operate almost exclusively on infrastructure that they own, build, maintain, and pay for themselves.

- From 1980 to 2013, **America's freight railroads reinvested $550 billion** — of their own funds, not government funds — on capital expenditures and maintenance expenses related to locomotives, freight cars, tracks, bridges, tunnels and other infrastructure and equipment. That's more than **40 cents out of every revenue dollar**, invested right back into a rail network that keeps our economy moving.





- In recent years, **railroads have been reinvesting more than ever before** — including more than $25 billion in both 2012 and 2013. Railroads know that if America's future transportation demand is to be met, they must have the capacity to handle it.

- **Improved freight railroad earnings in recent years are good news** because they allow railroads to more readily afford the massive investments they need to keep their track and equipment in top condition, improve service, and add new capacity needed for the future. As the Congressional Budget Office has noted, "Profits are key to increasing capacity because they provide both the incentives and the means [for railroads] to make new investments."

- The average U.S. manufacturer historically spends about **3 percent** of revenue on capital expenditures. The comparable figure for U.S. freight railroads is nearly **17 percent**, or more than five times higher.

Capital Spending as % of Revenue*

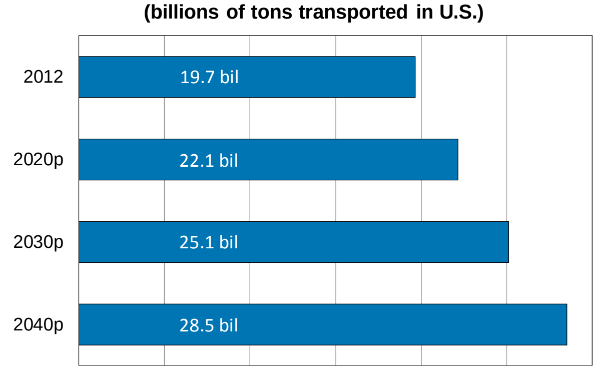
Average all manufacturing	**3%**
Food	2%
Petroleum & coal products	2%
Machinery	2%
Motor vehicles & parts	3%
Wood producs	3%
Fabricated metal products	3%
Chemicals	3%
Plastics & rubber products	4%
Paper	4%
Computer & electr. products	4%
Nonmetallic minerals	5%
Class I Railroads	**17%**

*Avg. 2002-2011 Source: Census Bureau, AAR

Moving More Freight by Rail is Good Public Policy

As America's economy grows, the need to move more freight will grow too. Recent forecasts from the Federal Highway Administration found that total U.S. freight shipments will rise from an estimated 19.7 billion tons in 2012 to 28.5 billion tons in 2040 — a 45 percent increase. Railroads are the best way to meet this demand, and they're getting ready today to meet the challenge. Railroads will continue to reinvest huge amounts back into their systems, but if the United States is to have the socially optimal amount of rail capacity, policymakers must help. Steps they can take include:

Demand For Freight Transportation To Rise Sharply
(billions of tons transported in U.S.)



p - projected Source: FHWA Office of Freight Management and Operations, Freight Analysis Framework version 3.5

- **Keep reasonable regulation**. Today's balanced rail regulatory system protects rail customers against unreasonable railroad conduct and unreasonable railroad pricing while allowing railroads to largely decide for themselves how to manage their operations. Excessive regulation would prevent railroads from making the massive investments required to meet our nation's freight transportation needs.

- **Engage in public-private partnerships**. Public-private partnerships allow governments to expand the use of rail while paying only for the public benefits of a project. Freight railroads pay for the benefits they receive. It's a win-win for all involved.

- **Retain existing truck size and weight limits**. The taxes and fees heavy trucks pay are already far less than the cost of the damage heavy trucks cause. This multi-billion dollar underpayment would become even greater if truck size and weight limits were increased.

- **Implement corporate tax reform**. Reducing the corporate tax rate would enhance U.S. economic development and promote job growth.