

**BEFORE THE  
SURFACE TRANSPORTATION BOARD**

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**STB Ex Parte No. 646 (Sub – No. 2)**

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**SIMPLIFIED STANDARDS FOR RAIL RATE CASES—TAXES IN REVENUE  
SHORTFALL ALLOCATION METHOD**

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**SUBMISSION OF THE ASSOCIATION OF AMERICAN RAILROADS  
IN RESPONSE TO THE SURFACE TRANSPORTATION BOARD'S  
ORDER OF JANUARY 30, 2009**

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Date: February 19, 2009

**BEFORE THE  
SURFACE TRANSPORTATION BOARD**

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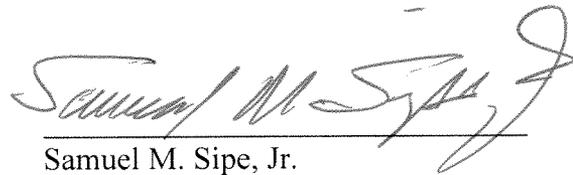
The Association of American Railroads (AAR) hereby responds to the decision of the Surface Transportation Board served January 30, 2009, in which the Board ordered AAR to file supplemental evidence so that the Board has a full record on which to base its methodology to calculate a railroad-specific average state tax rate for use in the Revenue Shortfall Allocation Method (RSAM).

The Board specifically directed the AAR, in submitting the evidence and calculations necessary to establish carrier-specific average state tax rates for each Class I railroad, to include state corporate income tax rates and the number of miles operated by each carrier in each state it operates in for each of the years 2002-2007. The Board also proposed that the AAR use information from the railroads' respective R-1 Schedule 702 (Miles of Road at Close of Year—By States and Territories (Single Track)) to calculate the route-mile portion of the average state tax rate equation. Specifically, the Board proposed that AAR use column (g) of Schedule 702, which is the total miles operated, including both “line owned” and “line operated under trackage

rights.” The Board also directed the AAR to calculate carrier-specific state tax rates, for each of the years 2002-2007 and to submit all work papers supporting those calculations to the Board.

Pursuant to the Board’s decision, the AAR submits the requested supplemental evidence (including explanatory material) in the attached Verified Statement of John T. Gray, Senior Vice President – Policy and Economics of the Association of American Railroads. A copy of the work papers is being provided to the Board.

Respectfully submitted,



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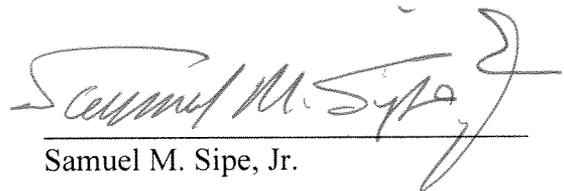
**CERTIFICATE OF SERVICE**

I hereby certify that on this 19th day of February, 2009, a copy of the foregoing  
Submission of the Association of American Railroads was served by first class mail on the  
following:

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**BEFORE THE  
SURFACE TRANSPORTATION BOARD**

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**EX PARTE NO. 646 (Sub-No. 2)**

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**SIMPLIFIED STANDARDS FOR RAIL RATE CASES—TAXES IN REVENUE  
SHORTFALL ALLOCATION METHOD**

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**VERIFIED STATEMENT OF**

**JOHN T. GRAY**

**SENIOR VICE PRESIDENT — POLICY AND ECONOMICS  
ASSOCIATION OF AMERICAN RAILROADS**

**February 19, 2009**

## **Verified Statement of**

**John T. Gray**

### **Introduction**

My name is John T. Gray. I am Senior Vice President — Policy and Economics for the Association of American Railroads (AAR), with offices located at 50 F Street, N.W., Washington, D.C. 20001. Among other responsibilities, my duties include the collection, analysis, and presentation of economic data related to railroads and their economic environment. One of my principal duties is conducting and supervising economic, financial, statistical and cost studies dealing with various aspects of the rail industry.

The AAR is the trade association of the Nation's major railroads, as well as the railroads of Canada and Mexico. The AAR's United States railroad members, which include all of the Class I railroads, account for about 95 percent of our Nation's total railroad freight operating revenue.

When appropriate, the AAR represents the railroad industry before government bodies, including participation in economic regulatory proceedings before the Surface Transportation Board ("STB" or "Board"). In particular, the AAR has participated in all of the STB proceedings in Ex Parte No. 646, including sub-dockets thereto.

In this verified statement, I respond to the Board's decision served January 30, 2009 directing the AAR to file supplemental evidence necessary to establish carrier-specific average state tax rates for each Class I railroad. State corporate income tax rates are to be weighted for each railroad using the number of miles of roadway operated in

each state as found in the Schedule 702, column (g) of the railroad's Annual Report Form R-1.

## **Sources**

The two major sources for these calculations are Annual Report Form R-1 and a table provided by the Tax Foundation<sup>1</sup>. The Class I railroads provided additional information regarding tax rates, either to confirm the Tax Foundation rates or to document exceptions that apply to railroads operating in specific states. These exceptions are detailed below.

## **Annual Report Form R-1**

The STB directed the AAR to weight state tax rates using miles operated in each state for each railroad. As the STB noted, mileage operated in each state can be found in column (g) of Schedule 702 of the Annual Report Form R-1 submitted by each Class I railroad to the Board. The data are publicly available, and in recent years the Board has posted the R-1 reports on its web site. Additionally, many of the Class I railroads post the R-1 in the investor's section of their own web sites. I have used the mileages of Schedule 702, column (g) as the basis for calculating the weighted average tax rate for each railroad. Table 1 below shows the miles used for 2007. Mileages for other years are included in the work papers.

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<sup>1</sup> The Tax Foundation is a nonpartisan research and educational group based in Washington, DC.

**Table No. 1  
State Miles Operated - 2007**

State	BNSF	CNGT	CSXT	KCS	NS	SOO	UP	Total	
Alabama	244	41	1,014	0	1,371	0	0	2,670	AL
Arizona	595	0	0	0	0	0	686	1,281	AZ
Arkansas	1,047	0	0	162	0	0	1,332	2,541	AR
California	2,130	0	0	0	0	0	3,312	5,442	CA
Colorado	1,399	0	0	0	0	0	1,523	2,922	CO
Connecticut	0	0	68	0	0	0	0	68	CT
Delaware	0	0	44	0	203	0	0	247	DE
Dist. of Columbia	0	0	20	0	13	0	0	33	DC
Florida	0	0	1,651	0	149	0	0	1,800	FL
Georgia	0	0	1,621	0	1,800	0	0	3,421	GA
Idaho	123	0	0	0	0	0	849	972	ID
Illinois	1,552	1,518	924	182	1,260	363	2,237	8,036	IL
Indiana	0	81	1,693	0	1,541	197	4	3,516	IN
Iowa	673	605	0	0	44	0	1,439	2,761	IA
Kansas	1,709	0	0	18	2	0	2,208	3,937	KS
Kentucky	99	107	1,644	0	431	0	12	2,293	KY
Louisiana	348	263	43	737	81	0	1,141	2,613	LA
Maine	0	0	0	0	0	0	0	0	ME
Maryland	0	0	559	0	269	0	0	828	MD
Massachusetts	0	0	434	0	0	0	0	434	MA
Michigan	0	1,016	569	0	644	342	0	2,571	MI
Minnesota	1,686	435	0	0	0	1,240	665	4,026	MN
Mississippi	179	851	94	610	211	0	0	1,945	MS
Missouri	1,759	0	13	394	409	0	1,528	4,103	MO
Montana	1,927	0	0	0	0	0	125	2,052	MT
Nebraska	1,534	0	0	0	0	0	1,071	2,605	NE
Nevada	805	0	0	0	0	0	1,194	1,999	NV
New Hampshire	0	0	0	0	0	0	0	0	NH
New Jersey	0	0	648	0	933	0	0	1,581	NJ
New Mexico	1,394	0	0	0	0	0	643	2,037	NM
New York	0	0	1,292	0	791	0	0	2,083	NY
North Carolina	0	0	1,121	0	1,301	0	0	2,422	NC
North Dakota	1,732	0	0	0	0	482	0	2,214	ND
Ohio	0	7	1,912	0	2,233	30	0	4,182	OH
Oklahoma	1,412	0	0	151	0	0	1,175	2,738	OK
Oregon	386	0	0	0	0	0	1,054	1,440	OR
Pennsylvania	0	155	1,055	0	2,339	0	0	3,549	PA
Rhode Island	0	0	0	0	0	0	0	0	RI
South Carolina	0	0	1,266	0	783	0	0	2,049	SC
South Dakota	926	0	0	0	0	6	0	932	SD
Tennessee	144	145	1,010	5	848	0	18	2,170	TN
Texas	4,940	0	0	892	0	0	6,344	12,176	TX
Utah	433	0	0	0	0	0	1,302	1,735	UT
Vermont	0	0	0	0	0	0	0	0	VT
Virginia	0	0	1,047	0	2,100	0	0	3,147	VA
Washington	1,679	0	0	0	0	0	532	2,211	WA
West Virginia	0	0	1,312	0	833	0	0	2,145	WV
Wisconsin	273	1,514	0	0	0	607	932	3,326	WI
Wyoming	966	0	0	0	0	0	879	1,845	WY
Total U.S.	32,094	6,738	21,054	3,151	20,589	3,267	32,205	119,098	

Note: There is no Class I railroad mileage in Alaska or Hawaii.  
Mileages are from Annual Report Form R-1, Schedule 702, Column (g).

## Tax Rates

The state tax rates used in the computation were initially retrieved from the web site of the Tax Foundation.<sup>2</sup> The rates listed were then reviewed by the AAR and the Class I railroads for accuracy. Changes were made for the following reasons:

1. Some states, for example, impose franchise taxes that are not reported as income taxes by the railroads per the requirements of Generally Accepted Accounting Practices (GAAP). Instead, those taxes are treated as franchise fees or similar items, and are reported as an operating expense (Schedule 410, Line 615). In those cases, the state income tax rates reported by the Tax Foundation have been changed to zero.<sup>3</sup> The states where this occurs are Connecticut, Michigan, New Jersey, and New York. This also happens for one railroad for one year in Texas. Texas also had a franchise tax system prior to 2007 as is discussed in paragraph 5, below.
2. In Massachusetts, railroads pay a “Utility Franchise Tax” on income, and this rate is lower than the corporate income tax rate. This tax amount is reported as an income tax in the R-1.
3. In a few years, for a few states, the Tax Foundation had not changed its data when the state made a change in the tax rate (AL, IN, KY, ND, TN, WV). In addition, sometimes a state might have two income taxes, or a tax surcharge, that was noted by the Tax Foundation but not shown in its

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<sup>2</sup> See Tax Foundation web site at <http://www.taxfoundation.org/> . State corporate tax rates are listed by the foundation web site at <http://www.taxfoundation.org/publications/show/230.html> .

<sup>3</sup> This means higher revenue causes some increased taxes in operating expenses in cases where a franchise fee is a percentage of revenue, and the Board’s Uniform Rail Costing System may not account for the increase until it is updated with new annual report data. Franchise fees appear in the Other Taxes line of URCS Worktable A2 Part 4, and that Worktable is used by Worktable D8 Part 2.

table (DC, IL, KS). There were also some cases (AZ, DC, PA) where the Tax Foundation's tax rate was rounded. In these cases, evidence from state tax web sites was used to justify changing the Tax Foundation figure. The specific changes and web sites are documented in the work papers.

4. For Ohio, a corporate income tax is being phased out and replaced with a tax similar to a franchise fee. In that case, the corporate tax rate was reduced using the state phase out formula (80% for 2005, 60% for 2006, and 40% for 2007). The new tax being phased in is not computed because it is reported as a fee in operating expenses. (See item 1, above)
5. Prior to 2007 the Texas franchise tax had two components, a franchise tax component and an earned surplus component, with taxpayers paying the greater of the two. GAAP treated the franchise tax as an operating expense, while the earned surplus tax was treated as an income tax. For Texas in 2006, one railroad paid the state franchise tax and reported this amount as an operating expense. Therefore the Texas tax rate for that railroad for 2006 changed to zero. The other railroads paid the earned surplus tax and reported their 2006 Texas taxes as income tax.
6. For Texas in 2007, railroads were taxed using a 1 percent tax rate on 70 percent of gross receipts, and the taxes were reported as income taxes. In this case, AAR calculated a carrier specific tax rate for each Class I railroad operating in Texas. The calculation assumes that the ratio of Operating Revenue to Net Income Before Taxes is the same in all locations where a carrier operates. The tax rate is calculated using Texas

Taxes divided by Net Income Before Tax, where Texas Taxes are equal to 70 percent of operating revenue from the R-1 (Schedule 210, Line 13) multiplied by the 1 percent tax rate. Net Income Before Tax is also from the R-1 (Schedule 210, Line 46). The assumption that the ratio of Operating Revenue to Net Income Before Taxes is constant eliminates the need to make any revenue or cost allocations to Texas, since the result obtained (using the constant ratio) is the same using all revenue or a portion of revenue.

Table 2 below lists the tax rates used for all years. Rates that differ from the Tax Foundation have been shaded and outlined. Justification for the changes, noted above, is included in the work papers.

**Table No. 2  
State Corporate Tax Rates**

<b>State</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>Comment</b>
Alabama	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	Corrects old rate.
Arizona	6.968%	6.968%	6.968%	6.968%	6.968%	6.968%	Clarified 6.97%
Arkansas	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	
California	8.840%	8.840%	8.840%	8.840%	8.840%	8.840%	
Colorado	4.630%	4.630%	4.630%	4.630%	4.630%	4.630%	
Connecticut	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	Sch. 410
Delaware	8.700%	8.700%	8.700%	8.700%	8.700%	8.700%	
Dist. of Col.	9.975%	9.975%	9.975%	9.975%	9.975%	9.975%	Add surcharge
Florida	5.500%	5.500%	5.500%	5.500%	5.500%	5.500%	
Georgia	6.000%	6.000%	6.000%	6.000%	6.000%	6.000%	
Idaho	7.600%	7.600%	7.600%	7.600%	7.600%	7.600%	
Illinois	7.300%	7.300%	7.300%	7.300%	7.300%	7.300%	4.8% + 2.5%
Indiana	8.500%	8.500%	8.500%	8.500%	8.500%	3.400%	Corrects old rate.
Iowa	12.000%	12.000%	12.000%	12.000%	12.000%	12.000%	
Kansas	7.350%	7.350%	7.350%	7.350%	7.350%	7.350%	4.0% + 3.35%
Kentucky	6.000%	7.000%	7.000%	8.250%	8.250%	8.250%	Corrects old rate.
Louisiana	8.000%	8.000%	8.000%	8.000%	8.000%	8.000%	
Maryland	7.000%	7.000%	7.000%	7.000%	7.000%	7.000%	
Massachusetts	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	Utility rate
Michigan	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	Sch. 410
Minnesota	9.800%	9.800%	9.800%	9.800%	9.800%	9.800%	
Mississippi	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	
Missouri	6.250%	6.250%	6.250%	6.250%	6.250%	6.250%	
Montana	6.750%	6.750%	6.750%	6.750%	6.750%	6.750%	
Nebraska	7.810%	7.810%	7.810%	7.810%	7.810%	7.810%	
Nevada	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	- None
New Jersey	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	Sch. 410
New Mexico	7.600%	7.600%	7.600%	7.600%	7.600%	7.600%	
New York	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	Sch. 410
North Carolina	6.900%	6.900%	6.900%	6.900%	6.900%	6.900%	
North Dakota	6.500%	7.000%	7.000%	7.000%	10.500%	10.500%	Corrects old rate.
Ohio	3.400%	5.100%	6.800%	8.500%	8.500%	8.500%	Phase out
Oklahoma	6.000%	6.000%	6.000%	6.000%	6.000%	6.000%	
Oregon	6.600%	6.600%	6.600%	6.600%	6.600%	6.600%	
Pennsylvania	9.990%	9.990%	9.990%	9.990%	9.990%	9.990%	Clarified 10.0
South Carolina	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	
South Dakota	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	- None
Tennessee	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	Corrects old rate.
Texas	*	4.500%	0.000%	0.000%	0.000%	0.000%	See note.
Utah	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	
Virginia	6.000%	6.000%	6.000%	6.000%	6.000%	6.000%	
Washington	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	- None
West Virginia	8.750%	9.000%	9.000%	9.000%	9.000%	9.000%	Corrects old rate.
Wisconsin	7.900%	7.900%	7.900%	7.900%	7.900%	7.900%	
Wyoming	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	- None

Note for Texas: \* = calculated, 2006 treated different by one railroad, no tax for 2002-2005.  
Note: No Class I mileage in AK, HI, ME, NH, RI, VT.

## Calculation

The weighted average state income tax rate for each railroad was calculated using the mileages<sup>4</sup>, as found in Table 1 and our work papers, and tax rates shown in Table 2. Attachment A contains the calculations for 2007, and similar calculations for 2002 through 2006 are in the work papers. Table 3 below summarizes our calculations. A check of the numbers revealed that a simple average of all of the years and all of the railroads is 6.238 percent. The highest rate is 8.346 percent, and the lowest is 4.728 percent.<sup>5</sup>

**Table No. 3  
Summary of  
Average State Tax Rates**

Railroad	Rate for Year as Percentage						%
	2002	2003	2004	2005	2006	2007	
BNSF	5.487	5.471	5.238	5.196	5.183	5.650	
CNGT	6.512	6.582	6.738	6.703	6.701	6.684	
CSXT	5.960	6.362	6.312	6.101	5.941	5.702	
KCS	5.791	5.805	5.839	4.728	5.992	6.494	
NS	6.213	6.583	6.589	6.376	6.194	5.986	
SOO	7.890	8.346	7.828	7.635	7.591	7.501	
UP	5.443	5.405	5.406	5.393	6.275	6.163	

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<sup>4</sup> While we agree that state mileage is a reasonable way to average the tax rates, it should be noted that there may be some cases where a railroad does not have mileage in a state yet pays state taxes.

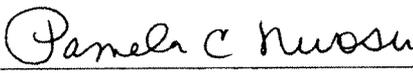
<sup>5</sup> The Soo Line always has the highest average rate, but it operates about a third of its mileage in Minnesota – and that state has one of the higher tax rates. The 2005 rate for KCS appears to be an “outlier”, but its mileage in Texas caused much of the variation, and the difference is logical. In 2005, KCS added mileage for Texas (The Texas-Mexican Railway Company), which has no income tax, and subtracted mileage for Alabama, which had a 6.5 percent rate – this caused the drop in the average from 2004.

WASHINGTON, D.C.     )  
  ) SS.

I, John T. Gray, being duly sworn, state that I have read the  
\_\_\_\_\_  
foregoing statement, that I know its contents, and that those contents  
are true as stated.

  
\_\_\_\_\_  
JOHN T. GRAY

Subscribed and sworn to before me this 1<sup>st</sup> day of  
February 2009.

  
\_\_\_\_\_  
Notary Public

My Commission expires:

**Pamela C. Nwosu**  
**Notary Public, District of Columbia**  
**My Commission Expires 2/14/2012**



# BNSF Average State Tax Rate for 2007

Attachment A

State	Income		Pct Miles	Pct Miles x Tax Rate
	Miles BNSF	Tax Rate		
Alabama	244	6.500%	0.76027%	0.04942%
Arizona	595	6.968%	1.85393%	0.12918%
Arkansas	1,047	6.500%	3.26229%	0.21205%
California	2,130	8.840%	6.63675%	0.58669%
Colorado	1,399	4.630%	4.35907%	0.20182%
Connecticut	0	0.000%	0.00000%	0.00000%
Delaware	0	8.700%	0.00000%	0.00000%
Dist. of Columbia	0	9.975%	0.00000%	0.00000%
Florida	0	5.500%	0.00000%	0.00000%
Georgia	0	6.000%	0.00000%	0.00000%
Idaho	123	7.600%	0.38325%	0.02913%
Illinois	1,552	7.300%	4.83579%	0.35301%
Indiana	0	8.500%	0.00000%	0.00000%
Iowa	673	12.000%	2.09697%	0.25164%
Kansas	1,709	7.350%	5.32498%	0.39139%
Kentucky	99	6.000%	0.30847%	0.01851%
Louisiana	348	8.000%	1.08431%	0.08675%
Maine	0	0.000% *	0.00000%	0.00000%
Maryland	0	7.000%	0.00000%	0.00000%
Massachusetts	0	6.500%	0.00000%	0.00000%
Michigan	0	0.000%	0.00000%	0.00000%
Minnesota	1,686	9.800%	5.25332%	0.51483%
Mississippi	179	5.000%	0.55774%	0.02789%
Missouri	1,759	6.250%	5.48078%	0.34255%
Montana	1,927	6.750%	6.00424%	0.40529%
Nebraska	1,534	7.810%	4.77971%	0.37330%
Nevada	805	0.000%	2.50826%	0.00000%
New Hampshire	0	0.000% *	0.00000%	0.00000%
New Jersey	0	0.000%	0.00000%	0.00000%
New Mexico	1,394	7.600%	4.34349%	0.33011%
New York	0	0.000%	0.00000%	0.00000%
North Carolina	0	6.900%	0.00000%	0.00000%
North Dakota	1,732	6.500%	5.39665%	0.35078%
Ohio	0	3.400%	0.00000%	0.00000%
Oklahoma	1,412	6.000%	4.39958%	0.26397%
Oregon	386	6.600%	1.20272%	0.07938%
Pennsylvania	0	9.990%	0.00000%	0.00000%
Rhode Island	0	0.000% *	0.00000%	0.00000%
South Carolina	0	5.000%	0.00000%	0.00000%
South Dakota	926	0.000%	2.88527%	0.00000%
Tennessee	144	6.500%	0.44868%	0.02916%
Texas	4,940	3.173% *	15.39229%	0.48846%
Utah	433	5.000%	1.34916%	0.06746%
Vermont	0	0.000% *	0.00000%	0.00000%
Virginia	0	6.000%	0.00000%	0.00000%
Washington	1,679	0.000%	5.23151%	0.00000%
West Virginia	0	8.750%	0.00000%	0.00000%
Wisconsin	273	7.900%	0.85063%	0.06720%
Wyoming	966	0.000%	3.00991%	0.00000%
Total U.S.	32,094		100.00000%	<b>5.6499%</b>

There is no Class I railroad mileage in Alaska, Hawaii, Maine, New Hampshire, Rhode Island, and Vermont.

Mileages are from Annual Report Form R-1, Schedule 702, Column (g).

Tax rates are from the web site of the Tax Foundation, Washington, DC

AAR and railroads have reviewed Tax Foundation numbers and made corrections if necessary.

Rate for Texas is calculated, and may vary by railroad.

No rounding until final number.

**BNSF Tax Rate for Texas for 2007**

**Corporate Activities Tax**

Operating Revenue	15,909,200	from R-1 Schedule 210 Line 13
Net Inc. Bef. Tax	3,509,311	from R-1 Schedule 210 Line 46
Taxable Receipts	11,136,440	70% of Operating Revenue
Tax Rate	1.000%	Texas Margins Tax on 70% of Gross Receipts
State Taxes	111,364	Tax Rate x Taxable Receipts
Effective Tax Rate	3.173%	State Taxes divided by Taxable Earnings

Notes

This calculation assumes that the ratio of NIBT to Operating Revenue will be the same in every state.

## CNGT Average State Tax Rate for 2007

Attachment A

State	Income			
	Miles CNGT	Tax Rate	Pct Miles	Pct Miles x Tax Rate
Alabama	41	6.500%	0.60849%	0.03955%
Arizona	0	6.968%	0.00000%	0.00000%
Arkansas	0	6.500%	0.00000%	0.00000%
California	0	8.840%	0.00000%	0.00000%
Colorado	0	4.630%	0.00000%	0.00000%
Connecticut	0	0.000%	0.00000%	0.00000%
Delaware	0	8.700%	0.00000%	0.00000%
Dist. of Columbia	0	9.975%	0.00000%	0.00000%
Florida	0	5.500%	0.00000%	0.00000%
Georgia	0	6.000%	0.00000%	0.00000%
Idaho	0	7.600%	0.00000%	0.00000%
Illinois	1,518	7.300%	22.52894%	1.64461%
Indiana	81	8.500%	1.20214%	0.10218%
Iowa	605	12.000%	8.97893%	1.07747%
Kansas	0	7.350%	0.00000%	0.00000%
Kentucky	107	6.000%	1.58801%	0.09528%
Louisiana	263	8.000%	3.90324%	0.31226%
Maine	0	0.000% *	0.00000%	0.00000%
Maryland	0	7.000%	0.00000%	0.00000%
Massachusetts	0	6.500%	0.00000%	0.00000%
Michigan	1,016	0.000%	15.07866%	0.00000%
Minnesota	435	9.800%	6.45592%	0.63268%
Mississippi	851	5.000%	12.62986%	0.63149%
Missouri	0	6.250%	0.00000%	0.00000%
Montana	0	6.750%	0.00000%	0.00000%
Nebraska	0	7.810%	0.00000%	0.00000%
Nevada	0	0.000%	0.00000%	0.00000%
New Hampshire	0	0.000% *	0.00000%	0.00000%
New Jersey	0	0.000%	0.00000%	0.00000%
New Mexico	0	7.600%	0.00000%	0.00000%
New York	0	0.000%	0.00000%	0.00000%
North Carolina	0	6.900%	0.00000%	0.00000%
North Dakota	0	6.500%	0.00000%	0.00000%
Ohio	7	3.400%	0.10389%	0.00353%
Oklahoma	0	6.000%	0.00000%	0.00000%
Oregon	0	6.600%	0.00000%	0.00000%
Pennsylvania	155	9.990%	2.30039%	0.22981%
Rhode Island	0	0.000% *	0.00000%	0.00000%
South Carolina	0	5.000%	0.00000%	0.00000%
South Dakota	0	0.000%	0.00000%	0.00000%
Tennessee	145	6.500%	2.15197%	0.13988%
Texas	0	2.340% *	0.00000%	0.00000%
Utah	0	5.000%	0.00000%	0.00000%
Vermont	0	0.000% *	0.00000%	0.00000%
Virginia	0	6.000%	0.00000%	0.00000%
Washington	0	0.000%	0.00000%	0.00000%
West Virginia	0	8.750%	0.00000%	0.00000%
Wisconsin	1,514	7.900%	22.46958%	1.77510%
Wyoming	0	0.000%	0.00000%	0.00000%
<b>Total U.S.</b>	<b>6,738</b>		<b>100.00000%</b>	<b>6.68385%</b>

There is no Class I railroad mileage in Alaska, Hawaii, Maine, New Hampshire, Rhode Island, and Vermont. Mileages are from Annual Report Form R-1, Schedule 702, Column (g). Tax rates are from the web site of the Tax Foundation, Washington, DC. AAR and railroads have reviewed Tax Foundation numbers and made corrections if necessary. Rate for Texas is calculated, and may vary by railroad. No rounding until final number.

# CSXT Average State Tax Rate for 2007

State	Income		Pct Miles	Pct Miles x Tax Rate
	Miles CSX	Tax Rate		
Alabama	1,014	6.500%	4.81619%	0.31305%
Arizona	0	6.968%	0.00000%	0.00000%
Arkansas	0	6.500%	0.00000%	0.00000%
California	0	8.840%	0.00000%	0.00000%
Colorado	0	4.630%	0.00000%	0.00000%
Connecticut	68	0.000%	0.32298%	0.00000%
Delaware	44	8.700%	0.20899%	0.01818%
Dist. of Columbia	20	9.975%	0.09499%	0.00948%
Florida	1,651	5.500%	7.84174%	0.43130%
Georgia	1,621	6.000%	7.69925%	0.46195%
Idaho	0	7.600%	0.00000%	0.00000%
Illinois	924	7.300%	4.38871%	0.32038%
Indiana	1,693	8.500%	8.04123%	0.68350%
Iowa	0	12.000%	0.00000%	0.00000%
Kansas	0	7.350%	0.00000%	0.00000%
Kentucky	1,644	6.000%	7.80849%	0.46851%
Louisiana	43	8.000%	0.20424%	0.01634%
Maine	0	0.000% *	0.00000%	0.00000%
Maryland	559	7.000%	2.65508%	0.18586%
Massachusetts	434	6.500%	2.06137%	0.13399%
Michigan	569	0.000%	2.70257%	0.00000%
Minnesota	0	9.800%	0.00000%	0.00000%
Mississippi	94	5.000%	0.44647%	0.02232%
Missouri	13	6.250%	0.06175%	0.00386%
Montana	0	6.750%	0.00000%	0.00000%
Nebraska	0	7.810%	0.00000%	0.00000%
Nevada	0	0.000%	0.00000%	0.00000%
New Hampshire	0	0.000% *	0.00000%	0.00000%
New Jersey	648	0.000%	3.07780%	0.00000%
New Mexico	0	7.600%	0.00000%	0.00000%
New York	1,292	0.000%	6.13660%	0.00000%
North Carolina	1,121	6.900%	5.32440%	0.36738%
North Dakota	0	6.500%	0.00000%	0.00000%
Ohio	1,912	3.400%	9.08141%	0.30877%
Oklahoma	0	6.000%	0.00000%	0.00000%
Oregon	0	6.600%	0.00000%	0.00000%
Pennsylvania	1,055	9.990%	5.01092%	0.50059%
Rhode Island	0	0.000% *	0.00000%	0.00000%
South Carolina	1,266	5.000%	6.01311%	0.30066%
South Dakota	0	0.000%	0.00000%	0.00000%
Tennessee	1,010	6.500%	4.79719%	0.31182%
Texas	0	3.953% *	0.00000%	0.00000%
Utah	0	5.000%	0.00000%	0.00000%
Vermont	0	0.000% *	0.00000%	0.00000%
Virginia	1,047	6.000%	4.97293%	0.29838%
Washington	0	0.000%	0.00000%	0.00000%
West Virginia	1,312	8.750%	6.23159%	0.54526%
Wisconsin	0	7.900%	0.00000%	0.00000%
Wyoming	0	0.000%	0.00000%	0.00000%
<b>Total U.S.</b>	<b>21,054</b>		<b>100.00000%</b>	<b>5.70157%</b>

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# KCS Average State Tax Rate for 2007

State	Income			
	Miles KCS	Tax Rate	Pct Miles	Pct Miles x Tax Rate
Alabama	0	6.500%	0.00000%	0.00000%
Arizona	0	6.968%	0.00000%	0.00000%
Arkansas	162	6.500%	5.14123%	0.33418%
California	0	8.840%	0.00000%	0.00000%
Colorado	0	4.630%	0.00000%	0.00000%
Connecticut	0	0.000%	0.00000%	0.00000%
Delaware	0	8.700%	0.00000%	0.00000%
Dist. of Columbia	0	9.975%	0.00000%	0.00000%
Florida	0	5.500%	0.00000%	0.00000%
Georgia	0	6.000%	0.00000%	0.00000%
Idaho	0	7.600%	0.00000%	0.00000%
Illinois	182	7.300%	5.77594%	0.42164%
Indiana	0	8.500%	0.00000%	0.00000%
Iowa	0	12.000%	0.00000%	0.00000%
Kansas	18	7.350%	0.57125%	0.04199%
Kentucky	0	6.000%	0.00000%	0.00000%
Louisiana	737	8.000%	23.38940%	1.87115%
Maine	0	0.000% *	0.00000%	0.00000%
Maryland	0	7.000%	0.00000%	0.00000%
Massachusetts	0	6.500%	0.00000%	0.00000%
Michigan	0	0.000%	0.00000%	0.00000%
Minnesota	0	9.800%	0.00000%	0.00000%
Mississippi	610	5.000%	19.35893%	0.96795%
Missouri	394	6.250%	12.50397%	0.78150%
Montana	0	6.750%	0.00000%	0.00000%
Nebraska	0	7.810%	0.00000%	0.00000%
Nevada	0	0.000%	0.00000%	0.00000%
New Hampshire	0	0.000% *	0.00000%	0.00000%
New Jersey	0	0.000%	0.00000%	0.00000%
New Mexico	0	7.600%	0.00000%	0.00000%
New York	0	0.000%	0.00000%	0.00000%
North Carolina	0	6.900%	0.00000%	0.00000%
North Dakota	0	6.500%	0.00000%	0.00000%
Ohio	0	3.400%	0.00000%	0.00000%
Oklahoma	151	6.000%	4.79213%	0.28753%
Oregon	0	6.600%	0.00000%	0.00000%
Pennsylvania	0	9.990%	0.00000%	0.00000%
Rhode Island	0	0.000% *	0.00000%	0.00000%
South Carolina	0	5.000%	0.00000%	0.00000%
South Dakota	0	0.000%	0.00000%	0.00000%
Tennessee	5	6.500%	0.15868%	0.01031%
Texas	892	6.281% *	28.30847%	1.77807%
Utah	0	5.000%	0.00000%	0.00000%
Vermont	0	0.000% *	0.00000%	0.00000%
Virginia	0	6.000%	0.00000%	0.00000%
Washington	0	0.000%	0.00000%	0.00000%
West Virginia	0	8.750%	0.00000%	0.00000%
Wisconsin	0	7.900%	0.00000%	0.00000%
Wyoming	0	0.000%	0.00000%	0.00000%
<b>Total U.S.</b>	<b>3,151</b>		<b>100.00000%</b>	<b>6.49432%</b>

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**KCS Tax Rate for Texas for 2007**

**Corporate Activities Tax**

Operating Revenue	925,926	from R-1 Schedule 210 Line 13
Net Inc. Bef. Tax	103,191	from R-1 Schedule 210 Line 46
Taxable Receipts	648,148	70% of Operating Revenue
Tax Rate	1.000%	Texas Margins Tax on 70% of Gross Receipts
State Taxes	6,481	Tax Rate x Taxable Receipts
Effective Tax Rate	6.281%	State Taxes divided by Taxable Earnings

Notes

This calculation assumes that the ratio of NIBT to Operating Revenue will be the same in every state.

# NS Average State Tax Rate for 2007

State	Income			
	Miles NS	Tax Rate	Pct Miles	Pct Miles x Tax Rate
Alabama	1,371	6.500%	6.65890%	0.43283%
Arizona	0	6.968%	0.00000%	0.00000%
Arkansas	0	6.500%	0.00000%	0.00000%
California	0	8.840%	0.00000%	0.00000%
Colorado	0	4.630%	0.00000%	0.00000%
Connecticut	0	0.000%	0.00000%	0.00000%
Delaware	203	8.700%	0.98596%	0.08578%
Dist. of Columbia	13	9.975%	0.06314%	0.00630%
Florida	149	5.500%	0.72369%	0.03980%
Georgia	1,800	6.000%	8.74253%	0.52455%
Idaho	0	7.600%	0.00000%	0.00000%
Illinois	1,260	7.300%	6.11977%	0.44674%
Indiana	1,541	8.500%	7.48458%	0.63619%
Iowa	44	12.000%	0.21371%	0.02564%
Kansas	2	7.350%	0.00971%	0.00071%
Kentucky	431	6.000%	2.09335%	0.12560%
Louisiana	81	8.000%	0.39341%	0.03147%
Maine	0	0.000% *	0.00000%	0.00000%
Maryland	269	7.000%	1.30652%	0.09146%
Massachusetts	0	6.500%	0.00000%	0.00000%
Michigan	644	0.000%	3.12788%	0.00000%
Minnesota	0	9.800%	0.00000%	0.00000%
Mississippi	211	5.000%	1.02482%	0.05124%
Missouri	409	6.250%	1.98650%	0.12416%
Montana	0	6.750%	0.00000%	0.00000%
Nebraska	0	7.810%	0.00000%	0.00000%
Nevada	0	0.000%	0.00000%	0.00000%
New Hampshire	0	0.000% *	0.00000%	0.00000%
New Jersey	933	0.000%	4.53155%	0.00000%
New Mexico	0	7.600%	0.00000%	0.00000%
New York	791	0.000%	3.84186%	0.00000%
North Carolina	1,301	6.900%	6.31891%	0.43600%
North Dakota	0	6.500%	0.00000%	0.00000%
Ohio	2,233	3.400%	10.84560%	0.36875%
Oklahoma	0	6.000%	0.00000%	0.00000%
Oregon	0	6.600%	0.00000%	0.00000%
Pennsylvania	2,339	9.990%	11.36044%	1.13491%
Rhode Island	0	0.000% *	0.00000%	0.00000%
South Carolina	783	5.000%	3.80300%	0.19015%
South Dakota	0	0.000%	0.00000%	0.00000%
Tennessee	848	6.500%	4.11870%	0.26772%
Texas	0	3.446% *	0.00000%	0.00000%
Utah	0	5.000%	0.00000%	0.00000%
Vermont	0	0.000% *	0.00000%	0.00000%
Virginia	2,100	6.000%	10.19962%	0.61198%
Washington	0	0.000%	0.00000%	0.00000%
West Virginia	833	8.750%	4.04585%	0.35401%
Wisconsin	0	7.900%	0.00000%	0.00000%
Wyoming	0	0.000%	0.00000%	0.00000%
<b>Total U.S.</b>	<b>20,589</b>		<b>100.00000%</b>	<b>5.98600%</b>

There is no Class I railroad mileage in Alaska, Hawaii, Maine, New Hampshire, Rhode Island, and Vermont. Mileages are from Annual Report Form R-1, Schedule 702, Column (g). Tax rates are from the web site of the Tax Foundation, Washington, DC. AAR and railroads have reviewed Tax Foundation numbers and made corrections if necessary. Rate for Texas is calculated, and may vary by railroad. No rounding until final number.

# SOO Average State Tax Rate for 2007

State	Miles SOO	Income		Pct Miles x Tax Rate
		Tax Rate	Pct Miles	
Alabama	0	6.500%	0.00000%	0.00000%
Arizona	0	6.968%	0.00000%	0.00000%
Arkansas	0	6.500%	0.00000%	0.00000%
California	0	8.840%	0.00000%	0.00000%
Colorado	0	4.630%	0.00000%	0.00000%
Connecticut	0	0.000%	0.00000%	0.00000%
Delaware	0	8.700%	0.00000%	0.00000%
Dist. of Columbia	0	9.975%	0.00000%	0.00000%
Florida	0	5.500%	0.00000%	0.00000%
Georgia	0	6.000%	0.00000%	0.00000%
Idaho	0	7.600%	0.00000%	0.00000%
Illinois	363	7.300%	11.11111%	0.81111%
Indiana	197	8.500%	6.03000%	0.51255%
Iowa	0	12.000%	0.00000%	0.00000%
Kansas	0	7.350%	0.00000%	0.00000%
Kentucky	0	6.000%	0.00000%	0.00000%
Louisiana	0	8.000%	0.00000%	0.00000%
Maine	0	0.000% *	0.00000%	0.00000%
Maryland	0	7.000%	0.00000%	0.00000%
Massachusetts	0	6.500%	0.00000%	0.00000%
Michigan	342	0.000%	10.46832%	0.00000%
Minnesota	1,240	9.800%	37.95531%	3.71962%
Mississippi	0	5.000%	0.00000%	0.00000%
Missouri	0	6.250%	0.00000%	0.00000%
Montana	0	6.750%	0.00000%	0.00000%
Nebraska	0	7.810%	0.00000%	0.00000%
Nevada	0	0.000%	0.00000%	0.00000%
New Hampshire	0	0.000% *	0.00000%	0.00000%
New Jersey	0	0.000%	0.00000%	0.00000%
New Mexico	0	7.600%	0.00000%	0.00000%
New York	0	0.000%	0.00000%	0.00000%
North Carolina	0	6.900%	0.00000%	0.00000%
North Dakota	482	6.500%	14.75360%	0.95898%
Ohio	30	3.400%	0.91827%	0.03122%
Oklahoma	0	6.000%	0.00000%	0.00000%
Oregon	0	6.600%	0.00000%	0.00000%
Pennsylvania	0	9.990%	0.00000%	0.00000%
Rhode Island	0	0.000% *	0.00000%	0.00000%
South Carolina	0	5.000%	0.00000%	0.00000%
South Dakota	6	0.000%	0.18365%	0.00000%
Tennessee	0	6.500%	0.00000%	0.00000%
Texas	0	2.511% *	0.00000%	0.00000%
Utah	0	5.000%	0.00000%	0.00000%
Vermont	0	0.000% *	0.00000%	0.00000%
Virginia	0	6.000%	0.00000%	0.00000%
Washington	0	0.000%	0.00000%	0.00000%
West Virginia	0	8.750%	0.00000%	0.00000%
Wisconsin	607	7.900%	18.57974%	1.46780%
Wyoming	0	0.000%	0.00000%	0.00000%
<b>Total U.S.</b>	<b>3,267</b>		<b>100.00000%</b>	<b>7.50129%</b>

There is no Class I railroad mileage in Alaska, Hawaii, Maine, New Hampshire, Rhode Island, and Vermont. Mileages are from Annual Report Form R-1, Schedule 702, Column (g). Tax rates are from the web site of the Tax Foundation, Washington, DC. AAR and railroads have reviewed Tax Foundation numbers and made corrections if necessary. Rate for Texas is calculated, and may vary by railroad. No rounding until final number.

# UP Average State Tax Rate for 2007

State	Income			
	Miles UP	Tax Rate	Pct Miles	Pct Miles x Tax Rate
Alabama	0	6.500%	0.00000%	0.00000%
Arizona	686	6.968%	2.13010%	0.14843%
Arkansas	1,332	6.500%	4.13600%	0.26884%
California	3,312	8.840%	10.28412%	0.90912%
Colorado	1,523	4.630%	4.72908%	0.21896%
Connecticut	0	0.000%	0.00000%	0.00000%
Delaware	0	8.700%	0.00000%	0.00000%
Dist. of Columbia	0	9.975%	0.00000%	0.00000%
Florida	0	5.500%	0.00000%	0.00000%
Georgia	0	6.000%	0.00000%	0.00000%
Idaho	849	7.600%	2.63624%	0.20035%
Illinois	2,237	7.300%	6.94613%	0.50707%
Indiana	4	8.500%	0.01242%	0.00106%
Iowa	1,439	12.000%	4.46825%	0.53619%
Kansas	2,208	7.350%	6.85608%	0.50392%
Kentucky	12	6.000%	0.03726%	0.00224%
Louisiana	1,141	8.000%	3.54293%	0.28343%
Maine	0	0.000% *	0.00000%	0.00000%
Maryland	0	7.000%	0.00000%	0.00000%
Massachusetts	0	6.500%	0.00000%	0.00000%
Michigan	0	0.000%	0.00000%	0.00000%
Minnesota	665	9.800%	2.06490%	0.20236%
Mississippi	0	5.000%	0.00000%	0.00000%
Missouri	1,528	6.250%	4.74460%	0.29654%
Montana	125	6.750%	0.38814%	0.02620%
Nebraska	1,071	7.810%	3.32557%	0.25973%
Nevada	1,194	0.000%	3.70750%	0.00000%
New Hampshire	0	0.000% *	0.00000%	0.00000%
New Jersey	0	0.000%	0.00000%	0.00000%
New Mexico	643	7.600%	1.99658%	0.15174%
New York	0	0.000%	0.00000%	0.00000%
North Carolina	0	6.900%	0.00000%	0.00000%
North Dakota	0	6.500%	0.00000%	0.00000%
Ohio	0	3.400%	0.00000%	0.00000%
Oklahoma	1,175	6.000%	3.64850%	0.21891%
Oregon	1,054	6.600%	3.27278%	0.21600%
Pennsylvania	0	9.990%	0.00000%	0.00000%
Rhode Island	0	0.000% *	0.00000%	0.00000%
South Carolina	0	5.000%	0.00000%	0.00000%
South Dakota	0	0.000%	0.00000%	0.00000%
Tennessee	18	6.500%	0.05589%	0.00363%
Texas	6,344	3.948% *	19.69880%	0.77764%
Utah	1,302	5.000%	4.04285%	0.20214%
Vermont	0	0.000% *	0.00000%	0.00000%
Virginia	0	6.000%	0.00000%	0.00000%
Washington	532	0.000%	1.65192%	0.00000%
West Virginia	0	8.750%	0.00000%	0.00000%
Wisconsin	932	7.900%	2.89396%	0.22862%
Wyoming	879	0.000%	2.72939%	0.00000%
<b>Total U.S.</b>	<b>32,205</b>		<b>100.00000%</b>	<b>6.16311%</b>

There is no Class I railroad mileage in Alaska, Hawaii, Maine, New Hampshire, Rhode Island, and Vermont. Mileages are from Annual Report Form R-1, Schedule 702, Column (g). Tax rates are from the web site of the Tax Foundation, Washington, DC. AAR and railroads have reviewed Tax Foundation numbers and made corrections if necessary. Rate for Texas is calculated, and may vary by railroad. No rounding until final number.

UP Tax Rate for Texas for 2007

**Corporate Activities Tax**

Operating Revenue	16,249,053	from R-1 Schedule 210 Line 13
Net Inc. Bef. Tax	2,881,305	from R-1 Schedule 210 Line 46
Taxable Receipts	11,374,337	70% of Operating Revenue
Tax Rate	1.000%	Texas Margins Tax on 70% of Gross Receipts
State Taxes	113,743	Tax Rate x Taxable Receipts
Effective Tax Rate	3.948%	State Taxes divided by Taxable Earnings

Notes

This calculation assumes that the ratio of NIBT to Operating Revenue will be the same in every state.