Transportation Challenges: Financing Capacity

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92nd Annual Meeting, Railroad Treasury/Finance Division

Phoenix, Arizona—November 7, 2005
Transportation Supply

Transportation Capacity is Vital to Growing Economy –
the Soviet Example

Historic U.S. Pattern –
Supply Preceded and Shaped Demand

Current Pattern –
Demand for Transportation Exceeds Available Supply
Responding to Crises
The Growing Capacity/Congestion Problems

TTI Annual Studies Document Worsening Problem

Congestion caused: 3.7 billion hours of travel delay and 23 billion gallons of wasted fuel consumption

Travel during peak hours takes 40% longer than during off peak; it took 13% longer in 1982
Growing Capacity/Congestion Problem

More than 2/3s of all travel during peak periods occurs in congested conditions compared to 1/3 in 1982.

Roughly 60% of major roads are congested at the peak.

Length of congested period has grown from 4.5 to 7 hours.

Travel time reliability is greatly reduced.

And it will get worse.
Growing Capacity/Congestion Problem

By 2025

Population will increase by 26%

GDP will approximately double

Total passenger travel will rise 72%

Truck tonnage will grow 75% by 2020
Investment in the Transportation Infrastructure is inadequate to meet growing demand

Require 5000 additional lane miles of freeways and major roads annually just to stay even

Major transportation projects take 10-15 years from conception to completion

More than 50% of spending went to system preservation
Traffic Congestion Problem is Multimodal

Ports dealing with larger vessels and rapidly expanding international trade

Rail capacity problem is of more recent vintage

Economic regulation fostered excess capacity, especially for the railroads
Railroads strove for years to eliminate excess infrastructure and labor force.

But continuous increase in traffic begins to absorb excess capacity.

Capacity-constrained rail network is more vulnerable to stochastic events such as hurricanes and derailments.
Growth and Decline of Railroad Mileage
Railroad Employment 1939-2003 (in thousands)
The Genesis of the RR
Capacity Problem

Improved earnings but railroads still are not revenue adequate at least as defined by the STB

Railroads often “punished” by Wall Street for making capital investments

Railroads often found that infrastructure investments failed to generate sufficient income

Rail infrastructure is long-lived while demand increases can be short-lived
Railroad ROI 1970-2003
Short term Capacity Problems

- Expanding Economy Led to Surge in Imports
- Large Grain Harvests in 2003 and 2004
- Growth in Export Coal Market
- Crew Shortages due to Wave of Retirements
- Equipment Shortages due to Reduced Purchases
- Cutbacks in Capital Spending Programs
- Tight Capacity in Trucking Industry due to Driver Shortages, Higher Fuel Costs, HOS Rules, etc.
Carrier Responses to Recent Capacity Problem

More Cars and Locomotives Bought and Leased

Accelerated Hiring and Training of Train Crews

Some Infrastructure Expansion Efforts

Price Rationing of Available Capacity

Railroads Choosing who they will Serve and the Common Carrier Obligation
Long-Term Rail Capacity Constraint Factors

Demand for Freight Rail Transport Projected to Grow by 60%-70% over Next Two Decades

Railroads’ Inability to Earn Cost of Capital

Pressure from Wall Street to Reduce Capital Costs and Improve ROI

Long-Term Contracts Limit Railroad Pricing Flexibility

Railroads tend to Bid Long Term Contract Rates Down to Long Run Marginal Costs
Approaches to the Transportation Congestion Problem

- Build more Physical Infrastructure
- Adopt technological innovations
- Make better use of existing facilities
- Promote shipper and traveler behavioral changes
- All have potential but all limits
Infrastructure Capacity

SAFETEA-LU – 2 years late and $90 billion short

$286.5 billion over 6 years is 38% more than was provided for in TEA-21 back in 1998 but far short of $375 billion estimated need

Contains a rail title but far from intermodal legislation

Expands the RIFF program to $35 billion and makes shippers eligible
Rail Capacity Investment

Railroads Support Limited Public Sector Role
Public/Private Partnerships (Alameda Corridor, CREATE)
Railroad Trust Fund Concept

Investment Tax Credits
- Short Lines and the 286K lb. Car Problem
- Class I Access and Limited Fiscal Capacity
Need to Focus on Freight Issues and Intermodal Solutions

Need to Increase the visibility of freight issues

Need to deal with limitations on Federal funding that dedicates $ to a single mode or non-freight purposes

Need A National Transportation Policy that is intermodal in perspective
Thank You, Any Questions?

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