**Statement of**

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**Before the**

**U.S. Senate**
**Committee on Commerce, Science, and Transportation**

**Hearing on**

**"Freight Rail Transportation: Enhancing Safety, Efficiency, and Commerce"**

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Introduction

My name is David A. Brown. I was appointed Chief Operating Officer of Genesee & Wyoming Inc. in October, 2012, and I have management oversight responsibility of the 116 railroads owned by G&W. Thank you for the opportunity to take part in this hearing today, and to briefly review the important role of regional and short line freight railroads in enhancing safety, efficiency and commerce across the United States.

As background, G&W is a global railroad holding company that owns short line and regional freight railroads in the United States, Canada, Australia, the Netherlands and Belgium. In the United States, we own two Class II regional railroads and 105 Class III short line railroads located in 39 states. These railroads, which range from as few as two to as many as 670 track miles, are each locally managed companies intensely focused on providing their on-line customers with safe, flexible, and efficient freight service. Based on the diversity of G&W short line holdings, we believe we are able to offer a relevant perspective on safety and efficiency of the short line industry.

The typical U.S. short line railroad has light traffic density, interchanging freight from the one or two major customers on its line with a connecting Class I railroad. U.S. short line railroads thus serve a fundamental and essential purpose: To provide the critical "First Mile / Last Mile" of service connecting their communities and customers to the national rail freight network.

In my comments today, I would like to address four areas for consideration by this Committee within the focus of this hearing: Short line and regional railroad safety, the infrastructure challenges facing short line railroads, the uncertainty created for short line and regional railroads associated with the Positive Train Control mandate enacted through the 2008

Rail Safety Improvement Act, and finally, the importance of short line and regional freight railroads as part of the national rail freight network.

Short Line and Regional Railroad Safety

As with any heavy industry, and indeed any mode of transportation, safety must be in the forefront of all efforts in railroad operations. At the same time, short line operations must provide a high level of local service that is critical to their customers' viability. Providing this local service is physically intense, creating risks of human harm and physical damage if not done properly and with care.

Like the rail industry as a whole, G&W-owned railroads have dramatically improved their safety performance over the past decade. We have become an industry leader in safety through an intense, multi-faceted approach starting with the orientation of every new employee, continuing with both classroom and on-the-job training, coaching and support from both line managers and fellow employees, and continuous analysis of how to improve the safety of operations. Two examples of investments at G&W to support this approach are:

1. The implementation of a DuPont safety training program for railroad employees, which focuses on the relentless identification and elimination of unsafe behaviors and unsafe conditions in the work environment. This program was developed by DuPont, a recognized safety leader, and adopted to the railroad industry. The program is critical to instilling a culture of safety with all employees, and participation has been expanded to include customers and members of the G&W Board of Directors.

2. G&W constructed, equipped and staffed a state-of-the-art training center in Jacksonville, Florida, which includes a locomotive simulator and fully functioning air brake "rack" to aid in train handling and safety training. Numerous classes, both for hourly employees and field managers, are conducted by senior managers with a passion for safety and professionalism. We plan to link these

classes with remote field locations via internet tele-video conferencing, allowing for more frequent and responsive training to meet specific needs.

These examples highlight the culture of safety that is pervasive at G&W-owned railroads, emphasizing that everyone should go home to their families after a day of work in the same condition as when they arrived. As a result of this intense safety culture, 101 of 113 G&W-owned railroads completed 2014 with zero reportable injuries, which yields a consolidated injury frequency rate that is safer than any Class I railroad and nearly six times safer than the short line industry average. Our real target, however, is for every G&W-owned railroad to stay injury free, every day. We believe the same attention to detail that is required to eliminate injuries translates to every area of operations, resulting in efficient, well run freight service for customers. In fact, in biennial satisfaction surveys of every G&W railroad customer worldwide, in which we have consistently outperformed the trucking and overall railroad industries, the attributes of our employees rated highest by customers in every survey are "commitment to safety" and "professionalism".

Finally, for the good of the short line industry and our Nation, G&W also supports the Short Line Safety Institute being established cooperatively by the American Short Line and Regional Railroad Association (ASLRRA) and the Federal Railroad Administration. This effort will take the lessons learned in our industry on the importance of establishing and reinforcing a culture of safety on short line and regional railroads and help bring this understanding to all Class II and III operations in a cooperative, open-learning way.

Infrastructure Challenges facing Short Line Railroads

The vast majority of the almost 550 short line railroads in the United States were created though Class I railroads disposition of light-density branch and secondary lines. By their nature, these lines were generally not as well maintained as the core main lines of the Class I operations, and typically went through a period of declining revenues and investments prior to being sold or leased to a short line railroad. When sold the condition of these lines often necessitates slower-speed operations and weight limitations on the freight cars handled over the lines.

A recent, high-profile example of a Class I disposition is the new Class II Rapid City, Pierre & Eastern Railroad (RCPE). The RCPE has 670 miles of former Class I track. At the time of the sale, RCPE faced a record grain harvest on top of an existing railroad backlog. RCPE management quickly expanded its startup plan to add the employees, locomotives and grain cars to move the harvest offline to its three Class I connections.

Only a very small portion of South Dakota grain is needed in-state; our role on the RCPE is to be an efficient, safe, and reliable means for the farmers in the state to reach their distant markets by working with our Class I connections. This is typical of many short line and regional railroads. According to ASLRRA, 86 percent of all short line shipments are interchanged with a Class I railroad, demonstrating the interdependence between short line railroads and the Class I carriers. This demonstrates the true network nature of Class I, II and III railroads.

However, if a short line cannot handle the same weight of freight car as its Class I connection, the utility of the short line service to its customers suffers. The speed and weight limitations on short line routes are most often due to aged rail and bridge structures. Limiting car weights and train speeds can ensure safe operations over these lines, but that does not address the lost economics caused by lighter freight shipments and slower service speeds faced by the customers dependent on these short lines.

Since 2004, the federal government has provided a tremendous boost via the Short Line Tax Credit to help short line and regional railroads improve their lines, replace their rail, and upgrade their bridges, all to serve their customers with more competitive freight services. The credit allows Class II or III railroads to invest more of what they earn into improving their own railroad infrastructure. A railroad must spend a dollar for every 50 cents in credit, so the credit maximizes private investment in capital improvements. The total available credit is capped at the equivalent of $3,500 per mile per railroad.

According to ASLRRA, since 2005 the credit has spurred over $1.5 billion of private investment in railroad infrastructure. The national Railroad Tie Association estimates that the credit has allowed short lines to purchase and install more than 750,000 railroad ties per year over and above their normalized purchases. All of the new rail, ties, ballast and bridges afforded by the credit directly benefit customers such as the South Dakota farmer shipping wheat to market, the Florida paper manufacturer and the Ohio steel manufacturer serving customers in the Midwest, and the California carrot distributor shipping to eastern markets. All of these customers, now served by G&W-owned railroads, and thousands more across our country directly benefit from the increased private infrastructure investments made through the Short Line Tax Credit.

The credit was extended on December 19 of last year after action in Congress, including the direct support of 251 House and 51 Senate co-sponsors of bills calling for the extension of the credit. The Senate count included 15 members of this Committee. Unfortunately, what was extended on December 19, 2014 expired on December 31, 2014. I strongly encourage you to help thousands of short line served companies across the nation and reinstate this credit as soon as possible so as to continue to encourage investment during 2015 in short line and regional railroad infrastructure improvements. These investments will directly improve the ability short line and regional rail to serve their customers, providing a vital link to the national rail freight network.

Uncertainty Created for Short Line Railroads with the Positive Train Control Mandate

Perhaps the only certainty with Positive Train Control (PTC) is the inability of the industry to meet the December 31, 2015 full implementation deadline mandated by the 2008 Rail Safety Improvement Act. While a vast amount of attention and resources has been expended to development and implementation of PTC on the Class I railroads, there is tremendous uncertainty on how this mandate will affect short line and regional railroads, and we are less than a mere 12 months from the current deadline for implementation. This level of uncertainty is due to several factors:

- The vast majority of focus on PTC implementation has been done by the Class I carriers and their suppliers, without consideration to the financial and physical constraints of short line railroads. Little attention has been given to how these new PTC systems will interface with connecting short line operations (referred to as "interoperability"). For example, many short line locomotives are older and cannot be rationally equipped with a functional PTC system, as the cost to equip is more than the entire locomotive is worth.

- The majority of short lines that will be required to implement PTC are doing so because of a physical interaction with a Class I carrier. This could be, for example, operating over a short distance of the Class I PTC-equipped line to enter its yard to interchange traffic, or an at-grade "diamond" crossing of the short line and Class I PTC-equipped tracks. While the Federal Railroad Administration created PTC exemptions for certain short line operating situations, short line railroads have no clear guidance on how to meaningfully apply these exemptions to actual situations.

- In addition to the significant costs associated with purchasing and installing PTC on short line locomotives, the technology being used for PTC requires on-going technical support and maintenance that is largely unavailable on short line railroads. The expense and difficulty in acquiring this support could be significant.

To resolve these issues will require a fair and reasoned approach by all parties, and clearly there is not enough time between now and December 31 of this year for this to happen. For these reasons, I encourage members of this Committee to develop a fixed period of extension of the existing PTC deadline, and to clarify the expectations of short line railroads as they relate to Class I operations and Class I PTC-implementation requirements.

Importance of Short Line Railroads as part of the National Rail Freight Network

The freight railroad network is both unique and an important element of the competitive future of the Nation. It is difficult to imagine another industry of so many diverse ownerships working closely together to provide generally seamless and competitive services to a such a wide variety of different customers. Nor an industry that holds itself open as "common carriers" that maintains at its own expense and liability so much infrastructure. The network works through the learned experiences of many, many years of successes and failures: from the bankruptcy and collapse of almost the entire Northeastern rail system in the 1970s to the birth and growth of hundreds of short line railroads over the last 30 years.

From a short line perspective, it is amazing how focused one becomes on superior customer service when your railroad only has a few customers to serve, and those few customers must provide the cash to meet your payroll. Our part of the overall rail freight industry is highly capable of providing that "First Mile / Last Mile" of service safely and efficiently. To that end, I ask the Members of this Committee to consider the following:

- Appreciate and understand the significant role short line and regional railroads play as part of the U.S. rail freight network.

- Support extension of the Short Line Tax Credit, and allow the continuation of expanded reinvestment of private capital back into the short line and regional railroads across the country.

- Understand that the economics and financial resources of short line and regional railroads are limited and recognize that the burdens of regulations and mandates like PTC fall heavily on the smaller railroads.

Going forward, G&W and, I am sure, the other regional and short line railroads of our country are ready to tackle the future issues and land future opportunities, and along the way help grow our economy and improve our environment. Thank you for giving me this opportunity to present this information today.

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