

Freight Railroad Capacity and Investment

ASSOCIATION OF AMERICAN RAILROADS

OCTOBER 2018

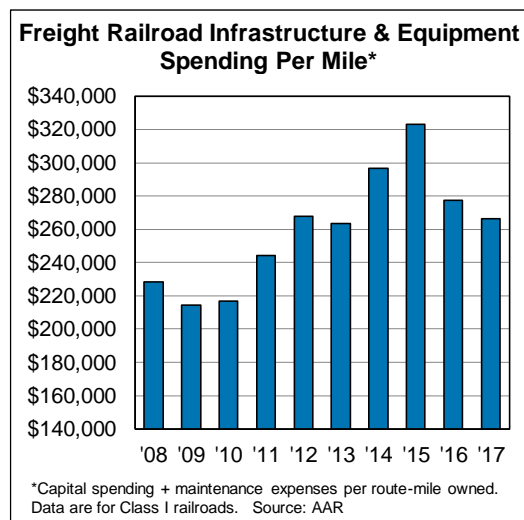
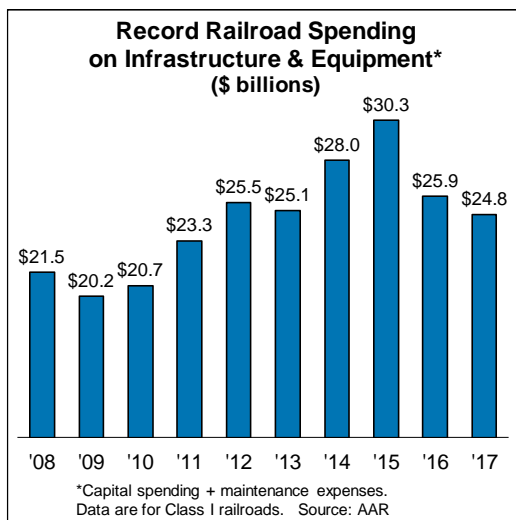
Summary

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 spent more than \$660 billion since 1980, including record amounts in recent years, to create a freight rail network that is second to none in the world.** 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 and **retain existing truck size and weight limits.**

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.

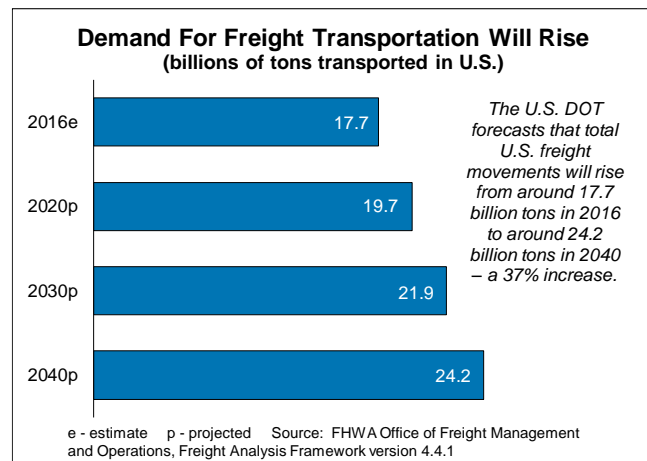
- From 1980 to 2017, **America's freight railroads spent more than \$660 billion** — of their own funds, not government funds — on capital expenditures and maintenance expenses related to locomotives, freight cars, tracks, bridges, tunnels and other infrastructure and equipment. That's more than **40 cents out of every revenue dollar**, plowed right back into a rail network that keeps our economy moving.



- In recent years, **railroads have been spending more than ever before.** Railroads know that if America’s future transportation demand is to be met, they must have the capacity to handle it. Railroads are preparing for tomorrow today.
- Improved freight rail earnings in recent years allow railroads to more readily afford the massive spending they need to keep their infrastructure and equipment in top condition, improve service, and add new capacity needed for the future. As the Congressional Budget Office once 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 in recent years has been around **19 percent**, or six times higher.

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 17.7 billion tons in 2016 to 24.2 billion tons in 2040 — a 37 percent increase. Railroads are the best way to meet this demand. Railroads will continue to plow vast amounts of money 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:



- **Keep balanced regulation.** Today’s balanced rail regulatory system protects rail customers against unreasonable railroad conduct while allowing railroads to largely decide for themselves how to manage their operations. If artificial regulatory or legislative restraints were put into place that unnecessarily and unreasonably restricted rail earnings, rail spending on infrastructure and equipment would shrink. Either taxpayers would have to make up the difference or the rail industry’s physical plant would deteriorate, needed new capacity would not be added, and rail service would become slower, less responsive, and less reliable.
- **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.