

# One Railroad's View of State Rail Planning

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The Railroad Revitalization and Regulatory Reform Act of 1976 encourages and, in some ways, requires the development of a whole new set of relations between states and railroads. This paper examines these relations as they exist today and presents opinions on the directions they should take to be of greatest benefit to both the states and the railroads. State rail planning under the Railroad Revitalization and Regulatory Reform Act is judged to be a means by which the old adversary relations between states and railroads can change to the considerable advantage of states, railroads, and the general public.

The Railroad Revitalization and Regulatory Reform (4R) Act encourages and, in some ways, requires the development of a whole new set of relations between states and railroads. I shall examine these new relations and present some opinions about the directions they should take to be of greatest benefit to states and to railroads. First, a few basics essential to an understanding of a railroad's view of the state's role in rail transport, such as matters of economics, industry problems, and the relations between railroads and state government before and after the 4R Act, are necessary. I shall then discuss the areas where states can and should, for their own self-interests, help the railroad industry. Finally, I shall deal with the status of rail planning today, at least in the West, and suggest some areas that hold promise for the future.

Railroads are in the private sector of the economy, and I believe they should stay there. The world is full of examples of the burdens nationalized railways place on taxpayers. Belonging to the private sector means that competition is a part of our business life. We have competition among modes, competition among carriers, competition for capital, competition for industrial property and siting, and competition in several other areas.

Competition is all pervasive in our business world. The entire railroad industry does have serious problems, but there are great differences in the financial health and physical development among carriers. Here in the East, where most of the railroad bankruptcies occurred, the Chessie System and the Norfolk and Western Railway Company are quite strong. There are two strong and very competitive systems in the South. The West is a mixture. There are, depending on how you make these judgments, five quite profitable, generally very well maintained large railroads. There are a dozen smaller lines ranging from very successful, profitable, and well maintained to run down and bankrupt.

My own railroad, the Santa Fe System, has been constantly and continuously improved by large spending programs overlaying a heavy and continuous maintenance program, so that today the railroad is at a higher state of physical development than at any time in the past. Some other railroads can also make this same claim. It is largely because of our competitive environment and because of the differences in the financial condition and the physical development of various companies that the industry has such difficulty in presenting unified positions on matters of importance to it and to the public. For this reason, I shall present a railroad's view, not the railroad view.

There are many strong and profitable railroads; one wonders, then, why there is an industry problem. At the risk of oversimplification, the problem is twofold. First, the industry is starving for traffic; second, in order to stay in business, we must constantly and con-

tinuously invest increasing amounts of capital on which we earn unsatisfactory rates of return. In some manner, all industry problems relate to these two conditions.

Is it important that we have a railroad industry? Of all of the forms of overland transportation, railroads use less energy, less land, less capital, and fewer people and cause less pollution per unit of transportation than any of the competing modes. This is an important birth-right, without which the industry would have gone the way of the stagecoach long ago. It is only because of these inherent strengths and advantages that the railroad has survived 80 years of punitive regulation and discriminatory public policy.

## STATE AND RAILROAD RELATIONS

### Areas of Prejudice and Competition

What have the state and railroad relations been? Before the 4R Act, states and railroads were basically adversaries. Our fundamental relation was that of the regulator and the regulatee. States regulated rates, often keeping intrastate rates unreasonably low. Working conditions were often legislated to levels the unions would not be able to achieve through collective bargaining. Further, taxes were sometimes intentionally discriminatory. States generally promoted other forms of transportation—highways, airports, waterways. They built roads that eliminated rail development from industrial properties and opposed abandonment of uneconomic lines and uneconomic services. In short, railroads have not found states to be particularly sympathetic or helpful. This explains the apprehension of some railroad managements toward the courtship now beginning. But, in my opinion, the 4R Act has formed a basis for improving state and railroad relations.

In which areas can state and rail relations be improved and on what basis? Some areas entail planning, others regulations. States should reconsider policies that force cross-subsidizing services under common carrier requirement, and they should not burden carriers with unreasonably low rates. Nor should they legislate changes for safer working conditions when safety is not the real issue.

Taxation is a particularly vexing problem. Railroads carry a heavy burden of property taxes that other modes do not, and some states have intentionally set higher tax rates on railroad property than on other industrial land. Other states unintentionally discriminate by assessments that do not reflect the actual value of the property. This whole matter needs significant revision in view of the California School Tax Case. Our tax counsel tells us that the decision in that case will in all likelihood cause a shift of school tax funding from property taxes to the general tax funds and, therefore, may bring a reduction in all property taxes including railroad property taxes. Whether or not this occurs, state rail planning should address the inherent inequities and unfairnesses of burdening only the railroads with property taxes on rights-of-way.

The problem of starving for traffic is largely the result of inequitable economic regulation. Here states can be very helpful. The motor carrier industry is heavily subsidized from the general tax funds, including the highway trust fund, and is cross-subsidized by the automobile. According to many state rail planners, the

Interstate system is suffering rapid deterioration from the increased weights and excessive speeds, particularly in the wetter states. Harsh, in another paper in this Record, refers to this problem on the Illinois county road system. Coleman has also spoken of increasing weights and widths by 1985 and permitting more double and triple operations. All of these proposed changes will seriously affect railroad traffic and must be considered when proposing legislation and advising legislators. Some states are doing little or nothing to enforce speed limits, to say nothing of the weight and economic regulations. Railroads do not fear competing with the legitimate common carrier truck companies, but the unregulated carriers hurt us badly. The illegal trucking industry can kill the railroad industry.

The most unfair competitors of all are the waterway carriers. They pay nothing for the building and operation of waterway systems and receive direct and indirect subsidies far out of proportion to their value. State planners must consider carefully the effects on their local railways of extensions in the waterway system (and many are being proposed by the Corps of Engineers), of continued operation without user charges, of increased waterway capacity as proposed in the rebuilding of locks and dams—all at taxpayer expense. In all of these areas states are involved and railroads are affected.

#### Areas of Improvement and Cooperation

Probably, the best hope of the railroad industry to improve its traffic volume is the return of the country to coal generation of electricity. Stories about railroads not being able to handle the additional traffic are nonsense, but, if the heavier movements are syphoned off to other modes, particularly to coal slurry and barge lines, badly needed rail traffic will be lost.

The branch-line abandonment problem gets the largest share of state and rail attention. Some specific issues being raised in Santa Fe states concern section 802 5(a) of the 4R Act and the supporting regulations that require railroads to identify lines they want to abandon and lines potentially subject to abandonment. The former requirement presents no problem. The latter is a sensitive issue, because industrial development on a branch line that has been labeled marginal might consequently cease. On the other hand, some western state planners express very little interest in taking over and operating branch lines that are clearly losers but are interested in spending state time, money, and effort in helping marginal lines. Obviously, this situation requires a high degree of state and rail cooperation.

There are many local problem areas where state railroad relations can be improved. Probably the best understood and longest of these associations is the highway grade crossing protection and separation matter.

Industrial development is another area where states and railroads can help one another. Because railroads cannot usually build lines to serve new or existing industries, they must locate industries on their lines. State and local zoning ordinances should encourage industrial development, and highway construction must not sever potential industrial land from areas where cooperation is possible. Urban renewal projects can also

help railroads out of congested areas. In short, improved and enlightened state rail planning can be the basis for creating conditions wherein the railroads' natural competitive advantages can be permitted to function to the public's considerable advantage.

#### Current Activities Toward Cooperation

There has been a series of conferences to help us to understand one another's problems. I am sure they will continue.

Over a year ago, the Association of American Railroads (AAR) formed a state rail planning steering committee, which meets every three or four months and has accomplished a number of things. It has suggested that a formal organization of railroad people be established in each state to work with state planners. It has also put together a recommended data package each railroad should furnish to each state.

State railroad advisory committees have been formed and are functioning in many states including Kansas, Oklahoma, New Mexico, Colorado, and Arizona (among the 11 Santa Fe states). In a few states, railroads have furnished supplementary information to the AAR rail data package. Also, railroads are helping to educate and inform state planners on railroad transportation, maintenance, and economics.

Most states are now involved in preparing state rail planning work statements. Seven states have asked the steering committee to review their work statements prior to submission. A few states have decided not to involve the railroads at all. To the extent that railroads want help, they will be assisted.

#### CONCLUSION

I mentioned that state rail planning is much more extensive than dealing with the branch-line problem, although this problem is important to certain northeastern and midwestern states; but there are many states where it is minor or nonexistent. State rail planning should deal with those issues that will create a climate in which the railroads' inherent advantages can be exploited for the public good.

Positive benefits from state and railroad planning can accrue to the states, railroads, and, of course, the general public. By becoming involved in rail planning as part of their other traditional transportation planning, states must aim at a higher, more complete, more comprehensive level. State planning people must gain a better understanding of railroad problems and opportunities, of their competitive situation, and of the financial realities that this industry faces. Railroad managements, also, must better understand the political, social, environmental, and economic needs of the states.

State rail planning under the 4R Act can be the means by which the old adversary relationship of states and railroads changes to one of cooperation and understanding, to the benefit of states, railroads, and the people.

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