May 4, 2004

Before Texas Senate Committee on Infrastructure Development and Security

Consideration of Interim Charge 1: Implementation of HB 3588

Good Morning, I am Dennis Kearns, Legislative Counsel for the Burlington Northern Santa Fe Railway Company. I have been a staff attorney representing the railroad before state governments and legislatures since 1979 and here in Austin since 1988. BNSF was created in 1995 with the merger of the Burlington Northern Railroad of Fort Worth and the Atchison, Topeka & Santa Fe Railway of Chicago. BNSF is headquartered in Texas with over 3,000 employees on its Fort Worth campus. BNSF has over 6,381 employees in Texas out of 36,500 employees overall in the 28 state system. In 2003 BNSF moved over 475 million tons of freight in Texas garnering $1 billion in revenue. In Texas BNSF has over 2,751 miles of track and 2,010 miles of trackage rights, 22 rail yards and 5 intermodal hubs. In Texas 70% of our outbound traffic is intermodal and chemical and 70% of our inbound traffic is coal, intermodal and agricultural products.

In discussing future infrastructure development in Texas, especially in the context of the new funding devices found in HB 3588, it should be noted that railroads are one of America's most capital intensive industries. With great internal capital demands, there is little extra for investment in new systems such as Trans Texas Corridor. Railroads on average plow back almost 20% of revenue into their systems, compared to less than 5% for most consumer industries. BNSF has spent $16 billion since 1996 on capital improvements, an average of $2 billion a year or $5.5 million a day. Where does the money go? We own and maintain our right of way, not to mention the property tax paid on track and underlying land. In 28 states and 2 Canadian provinces we operate over 32,500 miles of track. In 2003 we spent $926 million on track-related improvements including 749 miles of new rail; 12,400 miles of resurfaced track and 2.4 million new ties under the track. We have over 5,377 locomotives. New road locomotives cost $1.3 million each. In 2003 we spent $270 million on new locomotives to replace aging equipment and meet growing demands from new business. In addition to locomotives there are 87,549 freight cars in our fleet; the cost of each averages around $100,000.

Spending $2 billion a year out of $9.4 billion in revenue on capital improvements is only part of the story. Expenses to run the railroad are about $7.7 billion annually ($3B in wages, $1B in fuel). Overall BNSF assets are carried on the books at around $25 billion. The assets produce $9.4 billion in revenue annually but only $816 million makes it to the bottom line for a return on assets of around 3% compared to 7.8% for WalMart and higher for other consumer stocks. Wall Street is not excited about railroads' return on investment. Increasingly railroads are forced to look elsewhere for much needed capital to enhance capacity and keep up with freight goods' movement demand.

Projected growth in freight goods' movement from 2000 to 2020 shows exponential growth in volumes as America's consumer economy and growing population put ever-increasing demands on transportation infrastructure. Our ports are expected to see growth of 300% as more consumer goods are imported from the Pacific Rim. Trucks' growth is pegged at 62% and rails at 44%. Every mode is at capacity now so we need to plan for the expected growth. America's and Texas' transportation systems should facilitate rather than constrain future economic growth.

BNSF is willing to leverage its capital through public private partnerships to make public expenditures for modal growth go further and do more. Railroads have partnered with public agencies in Los Angeles (Alameda Corridor), Kansas City (Sheffield and Argentine flyovers) and now Chicago (proposed CREATE project) to fund rail infrastructure improvements and expedite freight goods' movement. While some railroad capital can be pledged to such projects (if justified from a railroad benefit perspective), generally public benefits are predominant.

In Texas HB 3588 offers the opportunity for railroads to participate in infrastructure projects either through capital contributions (either in-kind or monetary) or more likely through a "pay as you go" approach somewhat akin to toll roads for railroads. Both Los Angeles and Kansas City projects mentioned above involved bonds that were underwritten with expectation of revenue from railroad use based on traffic projections. The rail traffic projections were based on historical patterns of use as well as realistic growth projections. Railroad's pay to use the infrastructure and expedited movements help quality of service and lure more business to the more efficient route. The public benefits by better vehicular traffic flows under or over railroads and less freight goods moving over highways.

Partnering in planning for leveraging of public dollars is critical. For example, the choice of routes for Trans Texas Corridors should compliment not detract from existing rail infrastructure. If public monies are spent on a rail route then "public" use should be considered for other railroads over the improved route. Publicly subsidized right of way should not unfairly compete with privately financed railroads. Railroads have had to contend with truck competition over publicly subsidized highways for years. Public expenditures for highways in 2000 approached $125 billion nationwide while only $9.8 billion was spent on rail related projects. It is understood that our modal partners in the trucking industry pay fuel and other taxes for their "use" of the highways. Yet, going forward, BNSF feels that modal equity requires a more careful look at where public dollars can be leveraged to gain the greatest public benefit. BNSF transportation experts in Fort Worth stand ready to assist in the analysis and planning for Texas future goods' movement needs. We look forward to a continued good working relationship with TXDOT on Trans Texas Corridor planning as well as the many incremental approaches that can be taken in the meantime.