



## **CSX Seeking Public Aid Amid Its Growing Profit**

By Lindsay Peterson  
October 11, 2007

Times have never been better for America's major railroads. Profits are rising. Stock prices are up. And so are subsidies from taxpayers.

State governments are giving freight rail companies millions to build new tracks, bridges and tunnels. Since 2005, Florida officials have approved plans to give CSX Transportation and other railroad companies more than half a billion dollars through 2010.

That's not all the rail companies want. They're lobbying Congress this year for a federal tax credit worth more than \$1 billion a year to pay for track improvements.

The money isn't for safety measures at public crossings. Government has paid railroads billions over the years to build, repair and maintain crossing signals at public roads. This money is for business expansion in areas the public never uses.

In pitches to state and federal transportation officials, rail companies have honed the message that gas-guzzling tractor-trailers are crowding the highways. They say that moving more freight by trains, which are more fuel efficient, will clear the roads, save shippers money and aid the fight against global warming.

They also say demand is rising for the things their trains carry, from Kentucky coal to Chinese-made cameras. Keeping up over the next 30 years will cost them \$148 billion - \$52 billion of which they need from taxpayers.

But critics of the railroad companies say it's the industry's fault that they're running out of tracks. Over the years, they say, the companies have ripped up thousands of miles of tracks so they could cut costs and raise shipping rates. Now they want taxpayers to help them build new rails.

Frank Wilner of the United Transportation Union questioned whether the companies would build any new tracks, suggesting they'd use the money for things such as routine

maintenance. "It's simple economics," he said. "It's not in their economic interest to increase their capacity, and they don't do things that are not in their economic interest."

### **Shifting Costs**

Bob Szabo, head of a shippers group called Consumers United for Rail Equity, said the country needs more tracks. But he questioned whether the government should help rail companies build new ones after they removed so much, then profited when capacity became tight.

One company, Jacksonville-based CSX Corp., which reduced its tracks from 27,000 miles in 1980 to 21,000 now, has announced it is doing so well that it plans to buy back \$3 billion worth of stock.

"If they have enough extra money to do that," Szabo asked, "why are they asking for tax credits?"

CSX spokesman Gary Sease answered that it's part of the company's "balanced approach to creating shareholder value." That approach, he said in a written response, includes spending more than \$4 billion over the past two years on capital improvements, such as tracks, equipment and facilities.

Last year "we invested more in our transportation network than we made in net income," Sease said. "After many years, we expect to meet our cost of capital soon, but that has not yet occurred."

Wilner, who spent 18 years working for the American Association of Railroads, said the companies make more than enough to build and upgrade their own tracks.

They want government money so they can "maximize profit and shift as many of the costs to the taxpayers as possible," he said. His union represents rail and mass transportation workers.

Szabo said railroads are taking advantage of lingering attitudes from the mid-1970s, when they did need help.

In those days, more than 40 rail companies competed for business across the United States. Many faced bankruptcy, and in 1980, the struggling industry persuaded Congress to lift antitrust rules that limited mergers. Over the years, companies abandoned or sold off unprofitable routes. And as they removed tracks nationwide, their numbers shrank to seven, with four now dominant: Union Pacific and Burlington Northern Santa Fe in the West and CSX and Norfolk Southern in the East.

CSX controls most of the freight rail lines in Florida.

The companies now hold new monopolies, said Rep. James Oberstar, D-Minn., in a recent hearing on rail competition. Shippers in many areas, particularly in the upper

Midwest, have only one railroad to choose from, and in some cases, railroad rates are so high, they have "little to do with the actual cost of service," said Oberstar, chairman of the House Committee on Transportation and Infrastructure.

### **Captive To Rail**

The industry has a name for these rail users: "captive shippers." Many of them ship coal and chemicals, and they're dependent on rail because their loads are too heavy or dangerous for trucks. One of these shippers is Seminole Electric Cooperative, which is based in Tampa and provides power to about 1.6 million people and businesses across Florida.

Seminole relies on CSX to haul coal from southern Illinois and western Kentucky to its power plant south of Jacksonville. "They are the only railroad that can deliver that solid fuel," said Jack Reid, Seminole's director of fuel supply.

Seminole pays what it considers to be a fair rate, based on a contract with CSX signed years ago, Reid said. But that contract is up next year. "We've had discussions with CSX," he said. "We know there is going to be an increase, and we believe it is going to be a significant increase."

He said the company talked to other captive shippers whose rates have nearly doubled. "Ours may not be that substantial, but it's going to be significant." And it will be passed directly to Seminole's customers, including electric cooperatives that serve people in Hillsborough, Pasco and Polk counties.

The larger problem for Florida Department of Transportation officials, however, is the cost of trucks on the state's increasingly congested highways.

Helping railroads carry more freight eases the strain on roads, DOT rail administrator Ed Lee said. Quoting statistics used by the railroads, he said trains are better for the environment because they're three times more fuel efficient than trucks.

Concerns about highway congestion go back nearly 10 years to a collection of reports tying Florida's economic growth to its transportation system. One in particular, from a task force headed by a CSX executive, laid the foundation for a special "intermodal" fund that now spreads money not only to the highways, but to ports, airports and the railroads.

Since 2005, DOT has approved giving Florida rail companies more than half a billion dollars for about 20 projects. Most of the money has been set aside for CSX to buy 61 miles of CSX tracks in the Orlando area for commuter rail and pay for upgrades on other CSX tracks into a hub planned for Polk County.

Lee analyzes each project to determine whether the public is getting its money's worth. He looks at projections on new jobs, the number of trucks taken off the highways and reductions in shipping costs and road maintenance.

He said he's assessed about 15 and approved all of them. His worksheets on a group of projects worth \$70 million show public benefits of nearly \$5 billion. The calculations are based on information from railroads.

Most states provide money to help freight rail companies improve their tracks, according to a 2005 survey by the Virginia Department of Rail and Public Transportation - though about 15 don't, including Alabama, Arkansas and Texas.

"There's not enough to go around for that," Alabama's rail manager Craig Thomas said.

Some states, including Illinois, provide only loans. And many others help only the smaller railroads.

Several states, however, have set up multimillion-dollar programs to help both big and small companies expand and upgrade their rails. New York's Department of Transportation allocates about \$31 million every two years, the Virginia report said. Washington state's two-year rail budget is about \$14 million.

Like Florida, most states try to determine whether their projects are a good deal for the public. Some of them require proof.

Through a program started two years ago, Virginia officials plan to monitor rail projects for 15 years after they're finished. "These are not grants, they are contracts," Virginia's chief of rail transportation, Kevin Paige, said. If rail companies don't deliver on promised benefits, he said, "there will be penalties."

Asked if Florida does the same, Lee said "not yet." The benefits of most projects are being phased in, he said. "We will, however, be monitoring benefit results over time."

The federal tax credit rail companies are seeking from Congress would give them a break worth 25 percent of what they spend on track improvements.

The companies now spend \$15 billion to \$17 billion every year on tracks and equipment but receive only a fraction of that amount in government help. Meanwhile, "taxpayers foot most of the bill for airports, highway and ports," CSX's Sease said.

U.S. Sen. Bill Nelson, D-Fla., has signed on as co-sponsor of the tax bill in the Senate. Democratic U.S. Rep. Kendrick Meek, from Miami, is a House sponsor. Since 2005, Nelson has received \$19,000 from railroad political action committees. Meek has received \$18,000. In 2004, Nelson spent a weekend worth \$3,072 at CSX's Greenbrier resort in West Virginia. A Nelson spokesman has said Nelson visited Greenbrier at CSX's request, to present a legislative overview at a company meeting.

Meek defended his support of the bill, saying legislation that "creates jobs, helps Florida citizens, lessens traffic and lessens dependence on foreign oil is exactly the kind of incentive Congress should be promoting."

Rail industry critics say they aren't opposed to giving railroads more money, but not until they start giving shippers more choices. "The railroads have this mentality that they can control the market," Seminole Electric's Reid said.

Szabo and Wilner are backing a bill that would give shippers more protections. It would, for instance, reduce the control that major railroads have over smaller rail companies. It would also make changes at the Surface Transportation Board, which is responsible for monitoring the rail industry.

Challenging a railroad's rates before the transportation board can take years and cost millions, said Reid. "It's a very complex process, very difficult," he said. "The board has been very pro-railroad."

Reporter Lindsay Peterson can be reached at (813) 259-7834 or lpeterson