

A Summary of Feedback Provided by the Freight Advisory Committee at the September 16, 2015 Meeting #2

The Wisconsin Department of Transportation (WisDOT) held its second Freight Advisory Committee (FAC) meeting on September 16, 2015, at the Hill Farms State Transportation Building in Madison. The role of the FAC is to provide executive-level input and guidance from freight transportation professionals in the private sector, and from partners across other levels of government and governmental agencies.

Following a welcome by WisDOT Secretary Mark Gottlieb, attendees were presented with a summary of the first FAC meeting, including the results of a tabletop exercise that asked in-depth questions on intermodal freight transportation in Wisconsin. Two morning panel sessions followed. The first session brought together several state legislators and AASHTO's Intermodal Policy Program Manager to discuss the challenges of transportation funding at the state and federal levels, as well as legislative accomplishments (such as Implements of Husbandry legislation). The second session examined Wisconsin's local connections to the global economy, which included targeted discussion of infrastructure needs at port/harbor facilities and along local roads. Further background on the FAC, including more detailed meeting minutes, can be found at <http://wisconsindot.gov/Pages/doing-bus/freight/fac.aspx>.

FAC members then assembled into small groups for in-depth discussion of freight rail service/access and capacity/options.

Methodology for the Tabletop Exercise

As part of the tabletop exercise conducted during the meeting, members were divided into seven groups and asked to examine freight rail access and service issues. As with the exercise from the first FAC meeting, each table was assigned a facilitator, with a separate note taker capturing the discussion. The sequence of the questioning was designed to ease attendees into first discussing the factors behind freight rail service and access before asking them to address the two most crucial questions for WisDOT freight planners:

- What should be the role of WisDOT, if any, in improving freight rail access and freight rail service?
- What improvements in freight rail access and service should WisDOT expect from the private sector, and what barriers are there to making those improvements?

The following narrative was compiled from the notes taken at each table, and from supplementary notes provided by note-takers and facilitators. For all questions, FAC members were asked to distinguish general factors from those more specific to Wisconsin. Each group examined the following five questions:

Question 1: What factors drive rail access/service and competition/options?

Attendees agreed that demand drives service; without sufficient demand, service won't be provided. But that demand is limited by rail car availability, lack of access to rail service, and Class I business models, which is usually designed for multi-car, long-haul shipments. As a result, some Wisconsin

businesses may need to seek alternative transportation options to accommodate their full range of business and shipping needs.

In general, FAC members raised concerns over capacity of Class I railroads. Consolidation of rail companies and paring back of rail lines have left little capacity available when “surge” markets (crude-by-rail, frac sand) emerge. Intermodal and transload facilities are also concentrated, making service difficult unless you are near those facilities. Concentrations and capacity constraints lead to lack of car availability, challenging businesses to identify other shipping options that may be more costly. Federal regulations were also identified as a concern, including the implementation rules for Positive Train Control (PTC).

Rail companies noted that service thresholds dictate whether or not a siding or spur line can be retained. Cited by some of the FAC members, for a Class I railroad to consider making an additional stop on their rail lines, 100 carloads per mile per year are required in order to reach the minimal demand needed to make service viable and profitable. The capital-intensive nature of railroads was noted as a reason for such high thresholds.

| FAC Issue Identification | Potential WisDOT Strategic Response |
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| Consolidation of rail companies and paring back of rail lines have left little capacity available when “surge” markets (crude-by-rail, frac sand) emerge. | Explore opportunities to preserve abandoned rail lines serving, or near, businesses with rail demand. Hold a summit with key stakeholders including all Wisconsin RTCs to discuss opportunities to preserve regional service. |
| Rail companies noted that service thresholds dictate whether or not a siding or spur line can be retained. | Compare service thresholds (100 carload per mile, per year) in Wisconsin with other states, identify differences and explore efficiency gain potential for threshold reduction. |
| Concentrations and capacity constraints lead to lack of car availability. | Evaluate funding sources for potential to invest in rolling stock. |

Question 2: What business sectors are most reliant on rail access/service, and what are the origins and destinations of the goods being shipped?

Attendees generally pointed to the large bulk commodities that have comprised much of rail freight for decades: agricultural products (both raw and processed), coal, imports, sand and aggregates, timber and paper, manufactured goods, and metals/foundry products. Attendees noted that much of the rail traffic included non-time-sensitive products, as fragile and time-sensitive products aren’t typically shipped by rail. Rail shipping is also vulnerable to the volatility of markets such as the oil sector, which can severely limit the amount of open rail capacity available for other markets.

Outbound rail shipments from Wisconsin (and destinations, where offered) include frac sand, grain (export to China, or local moves for ethanol production), grain products such as distiller’s dried grains (DDGs - exported as far as China), ethanol, heavy duty military equipment (from Oshkosh) and farm equipment (from CNH in Racine), paper products, timber and logs (both inbound and outbound, to and from Minnesota and the Michigan Upper Peninsula), dairy products (some back-and-forth with California), and scrap steel.

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| Much of the rail traffic included non-time-sensitive products and large bulk commodities that have comprised much of rail freight for decades. | Acquire Wisconsin business data on the volumes/mode share of inbound and outbound products to evaluate the potential of modal diversion to rail in an attempt to drive service demand and meet service thresholds. |
| Rail shipping is also vulnerable to the volatility of markets such as the oil sector, which can severely limit the amount of open rail capacity available for other markets. | Improve understanding of logistics/supply chain business models and decisions that determine mode changes, including price, shipping time, reliability, availability, and any other factors and evaluate response options/actions. |
| Outbound rail shipments from Wisconsin include frac sand, grain export to China, or local moves for ethanol production, and grain products such as distiller's dried grains (DDGs, exported as far as China). | Work with stakeholder groups such as Midwest International Trade Association (MITA) to assess what influences inbound/outbound trade to gain an understanding of the barriers to market and determine if domestic goods are viable for international trade, or if increases in international goods are demanded by domestic markets creating demand, or strain, on rail service. |

Question 3: Identify the private sector rail competitors and options. What do these firms do well, and where do they need improvement?

In general, rail competes with other surface transportation modes, including trucking, pipelines, and barges/vessels. Railroads favor unit trains moving goods long distances, with the freight comprised of either bulk goods or intermodal cargo going from one origin to one destination. Rail safety's track record is a positive, as is rail's ability to move large items. Railcar leasing companies are crucial to rail operations.

Trucks are essential for almost all first/last mile movements, and are rail's strongest competitors for shipments of 500 to 1,500 miles. Schneider and JB Hunt were noted as maximizing the best of rail and truck together. Ports, although ideal to move similar goods as rail, continue to be challenged to maintain facilities for longer periods of time as funding is reduced. Rail operations are adapting to more just-in-time strategies, including scheduled service. Overall customer service, service to smaller businesses, and more consistent/available delivery/pickup schedules were noted as areas where improvements were needed.

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| Trucks are essential for almost all first/last mile movements, and are rail's strongest competitors for shipments of 500 to 1,500 miles. | Support and foster local first/last mile improvement strategies. Include as a tabletop discussion item at next FAC meeting. |
| Ports will be challenged to maintain facilities for longer periods of time as funding is reduced. | Develop a comprehensive strategy to invest in water as a mode for transporting goods. Continue partnership with CFIRE on comprehensive analysis of waterborne shipping benefits and feasibility. |

In general, rail competes with other surface transportation modes, including trucking, pipelines, and barges/vessels.

Appropriate balancing of investments across all modes to maintain competition. Evaluate viability of creative connections utilizing non-traditional modes and routes.

Question 4: Should WisDOT have a role in improving rail access/service, and if so, what should that be? What should be the main goals, and who should be the main partners?

Attendees saw several general roles for government, the first being the facilitation of public-private partnerships for economic development. Attendees indicated that WisDOT should work with other agencies and with Class I railroads to help grow business along existing rail lines. Public-private partnerships should be encouraged, including input from railroads, rail customers, manufacturers, and third-party logistics companies. One important goal of these partnerships should be to get quality data on freight movement needs from businesses, and use that data to establish the viability of rail service via Class I or short-line.

Attendees also saw a general role for government to educate the public and the business sector on the role of freight and transportation options, including rail.

Attendees complimented WisDOT for their efforts in rail preservation, and requested WisDOT take a more proactive approach in several areas. First, they recommended improved education and promotion of the existing Freight Railroad Infrastructure Improvement Program (FRIIP) and Freight Railroad Preservation Program (FRPP) programs, fully marketing these rail programs and their economic development potential as a goal. Second, they also discussed development of more regional railroads (such as WSOR), encouraging Class I lines to sell their light density lines to WisDOT, which would then contract for operation. The objective for the state should be, at a minimum, preserving right-of-way. Third, WisDOT should evaluate what corridors should stay in service to ensure strategic connections are retained.

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| WisDOT should work with other agencies and with Class I railroads to help grow business along existing rail lines. | Get quality, actionable data on freight movement needs from businesses and use that data to establish the viability of rail service via Class I or a short line. |
| Recommended improved education and promotion of the existing FRIIP and FRPP programs, fully marketing these rail programs and their economic development potential as a goal- a general role for government to educate the public and the business sector. | Develop an awareness campaign and marketing strategy for all freight related grant and loan programs - freight rail programs (FRIIP and FRPP), Harbor Assistance Program, the State Infrastructure Bank (SIB), and the Transportation Economic Assistance (TEA) program. Expand education and outreach efforts to include the benefits and needs of freight in Wisconsin to the general public and stakeholders. |
| Development of more regional railroads (such as WSOR), encouraging Class I lines to sell their light density lines to WisDOT, which would then contract for operation. | Meet with short-line rail holding companies (Watco, Genesee & Wyoming, Pioneer, Anacostia) to explore business models and gauge interest in the state’s light-density lines. |

Question 5: What private sector improvements for rail access/service and competition/options can be expected? What barriers does the private sector face, and what can WisDOT do to reduce/remove those barriers?

Wisconsin faces the business challenge of generating enough traffic for Class I service or getting those lines to be operated by short line operators. Generating enough traffic for Class I service usually requires a large business demanding regular deliveries via rail. Wisconsin tends to have a larger concentration of small businesses, making regular service demands unpredictable and less desirable to Class I railroads. Two distinctly different business models are used by rail service providers, short line operators’ focus on multiple stops over shorter distances and Class I business models focus on long hauls with minimal stops.

Private sector businesses need to do a better job in expressing their need for rail service through sharing of data that would indicate the level of service needed to satisfy demand. Regular service would be a requirement for short line and Class I railroads, so businesses need to be able to demonstrate need with actionable data. Volatility in markets is a critical concern of the railroads when they determine long-term capital investments. Large capital investments will typically be located in predictable markets that minimize the risk of negative Return on Investment. Volatile markets do not offer reliable service demand. Overall, the FAC members said that the private sector business community needs to do a better job communicating their rail service needs. FAC members also saw the use of rail as an important consideration as the trucking industry faces driver shortages and other challenges.

Lack of rail service typically results in shippers relying more heavily on trucking which has its own challenges including current and projected driver shortages and pavement/bridge deterioration. The FAC also noted that when loads can’t go by rail, the truck traffic creates wear-and-tear on roadways which can be quantified as a public benefit from modal diversion to rail. The FAC members identified the wear-and-tear value as a way that WisDOT could respond to challenges on its level of investment in rail.

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| Private sector businesses need to do a better job in expressing their need for rail service through sharing of data . | Serve as an intermediary between businesses and the railroads on demonstrating service needs through actionable data. |
| The FAC members said that the private sector business community needs to do a better job communicating their rail service needs. | Develop a plan for outreach to businesses throughout the state to better identify the commodities, volumes and means of movement in the state. This data could be used to communicate low levels of market volatility and identify potentials for modal diversion to rail, ultimately communicating stable rail service demand. |
| When loads can’t go by rail, the truck traffic creates wear-and-tear on public roadways. That damage can be quantified as a measure of the public benefit from modal diversion. | Assist in educating the business community and public on freight issues and their impact on potential solutions. |

Next Steps

The next FAC meeting is tentatively scheduled for April of 2016. The anticipated discussion topics will be:

- movement of oversize/overweight freight, and
- the state's role in logistics and supply chains.

Over the next several months, WisDOT staff and executives will develop and review White Paper summaries on each of these topics, which will be shared (along with a meeting agenda) with FAC members in advance of the April meeting. These materials will be sent via e-mail and will also be found on the WisDOT FAC website: <http://wisconsindot.gov/Pages/doingbus/freight/fac.aspx>. FAC members and others with knowledge specific to these topics may be contacted to help in the development of these White Papers, and/or to serve on discussion panels at the next meeting.