Good afternoon Council Members. Thank you for the opportunity to come and talk with you and share information to assist you in the important task that has been bestowed upon you.

My name is Sean Craig. I am the Assistant Vice-President for Tax Compliance & Audits for CSX Transportation and the Chairman of the Tax Committee of the Georgia Railroad Association. I am here today to talk with you today about the vital role played by the entire rail industry (both the 2 Class I railroads and the numerous shortline roads) to the people of Georgia and the entire Georgia economy. First, I would like to share with you some facts and figures that demonstrate this critical role. Railroads operate in Georgia over approximately 5,000 miles of track that pass through virtually all corners of the state. We employ over 7,200 Georgia citizens and provide those citizens with an average annual wage of over $90,000. These are good jobs that provide a good wage, real benefits and the financial means to provide for a family. In addition, Georgia is home to over 15,000 retired railroaders who are beneficiaries under the Railroad Retirement Tax Act (the rail industry's version of FICA).

Railroads in Georgia move almost 200 million tons of freight annually and provide vital transportation services to over 2,000 customers around the state. Railroads move everything from the feed used in the poultry and agriculture industries, to the coal used to power electric plants, refrigerators and other appliances purchased by consumers, and virtually any other product used or consumed by Georgia residents.

While no one can dispute the important role played by railroads in making the economy move and grow, railroads also are good stewards of the environment. One freight car can replace three trucks from the very crowded and crumbling highway system. A recent transportation study estimated that a 25% shift of truck traffic to rail would reduce our national fuel consumption by over 15 billion gallons annually which is both good for the economy and the type of freeing our country from the dependence on foreign oil that we all seek.

While all of these factors make clear the important role played by railroads, the simple reality is that despite improvements in technology and a period of record prosperity, the railroad industry is the most capital intensive industry in the U.S. On average, railroads invest 17% of their revenues back into their assets. In contrast, the national average for percent of revenue reinvested in a business is around 5%. In Georgia, the two Class I railroads (CSX Transportation and Norfolk Southern) annually spend over $200 million dollars solely to maintain their existing track structures in Georgia. In addition, railroads are the only transportation industry that bears the full cost for the support of its assets. For example, the airports that the airlines use are largely funded with tax revenues. The roads used by truckers are paid for with tax dollars primarily from the fuel that we all purchase. Watercraft use waterways that are free to all and ports funded by tax dollars. In comparison, railroads pay for both the maintenance and expansion of fixed assets (track and signals most notably) and rolling stock (locomotives and freight cars). A study by Cambridge Systematics found that the rail industry will need to invest almost $150 billion dollars over the next 25 years to meet the ever increasing demands for freight transportation services.

Because of its desirable economy and geographic location, a large portion of such increased demand is going to happen right here in Georgia.

Railroads are willing to invest their fair share of the capital needed to meet these demands, but the simple truth is that even under the most optimistic projections of future financial performance, there is going to be a roughly $50 billion gap between the needs for investment and the capital available from the railroads.

Another critical capital need that the railroads are currently facing is the federal mandate to develop and implement a fully interoperable positive train control system by 2015. This system, which is much like an autopilot system designed to prevent accidents caused by human error in the operation of the trains, is very expensive. The current estimate is that the national cost for the system (which is currently being born almost solely by the Class I railroads but will later impact and cost the shortlines as well) s between $10 and $15 billion dollars. This cost is an unfunded mandate from the federal government. While railroads always seek new, safer ways to operate trains, the simple reality is that even the federal government's own estimates show that there will only be $1 of societal benefit for every $20 invested in this system. Furthermore, this mandate is being addressed at the same time as the railroads are working to find ways to plug the gap that I mentioned earlier between the capital needed for increased transportation demands and the resources available from our operations.

All of this background leads me to two key issues that the rail industry would respectfully request that the Council consider. The first is a tax credit for infrastructure investments made by railroads in Georgia. Last year, the industry introduced legislation in the Georgia House of Representatives that provided for such a credit. This bill is similar to legislation that the industry has been advocating at the national level for several years now, and which has broad based, bipartisan support in Washington D.C., but which has been delayed by the political realities of Washington D.C. in recent years.[1]

The Georgia bill would provide a credit that the railroads could use to offset corporate income taxes. The credit would be calculated based on the amount of investment in new capital in Georgia. While we understand that current fiscal conditions are tough, but as Mr. Chairman stated earlier, one of the guiding principles for this Council is a pro-growth platform. Few ideas that have, or will be, presented to this Council would be as supportive of growth in Georgia as a tax credit for new investments in the rail industry. It is estimated that for every $1 billion invested into the rail industry, 20,000 new jobs are created directly and in supporting related industries. Additionally, as we look to the future and in addition to the increased demands for freight transportation caused by demographic shifts, the expansion of the Panama Canal is going

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[1] There is a different tax credit provided at the federal level to the shortline railroads solely. It is a $3,500 per mile credit for track maintenance costs incurred by shortlines. This credit is provided for in section 45G of the Internal Revenue Code and is solely available to the shortline railroads and not the Class I railroads.

to bring with it new and increased demands for port services and for transportation services to get those containers in from the ports and to the people. While Georgia is well positioned with a strong port in Savannah, a tax credit for new railroad investment in Georgia would only further strengthen this already strong and important part of the Georgia economy.

The second issue that I would like to briefly discuss is the state sales tax imposed on purchases of diesel fuel used to power our locomotives. While this tax only generates approximately $15 million in annual tax collections, Georgia is rather unique in being one of only a small handful of states that impose such a sales tax on diesel fuel purchased to power locomotives. The rail industry has been working with your elected officials to seek relief from such tax because:

1) It largely benefits our trucking competitors by helping to fund road improvements,

2) The imposition of the tax in only a few states can produce business decisions that not always the most efficient and productive as businesses plan to minimize such tax costs.

3) Such tax dollars take money away from capital investment needs and projects.

4) Similar taxes have been successfully challenged in other states (Louisiana, Missouri, and Minnesota) by the railroads that serve the Western portion of the country.

Therefore, we would ask this Council to consider supporting an exemption from state sales tax for diesel fuel purchases by railroads.

I would like to conclude by again thanking this Council for the opportunity to speak today about the important topic of how to reform the Georgia tax system in a manner that supports growth and continued opportunities and jobs for Georgia citizens. On behalf of the entire rail industry we applaud both this Council and the Georgia government leadership for recognizing and addressing this critical issue and appreciate being given a chance to share our ideas for how the railroads industry can work to help keep the Georgia economy strong and vibrant.