Statement Of

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President

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Hearing On

Sitting On Our Assets: Rehabilitating And Improving Our Nation’s Rail Infrastructure

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I am William Callison and serve as President of the Wheeling and Lake Erie Railroad. The Wheeling is an approximately 850 mile railroad including main line, branch line and certain operating rights. We run from Toledo and Lima, Ohio through Cleveland, Akron, and Canton, Ohio, down to Mingo Jct. on the Ohio River to Pittsburgh and Connellsville, Pennsylvania, and onto Hagerstown, Maryland. We currently ship approximately 100,000 annual carloads, the majority of which is steel products, aggregates, coal, chemicals and plastics. We currently have 325 employees.

Today the Wheeling and Lake Erie is a successful regional railroad, but it was not always so. The track was an underperforming line of the Norfolk Southern and as such received little investment under its ownership. The track was first purchased in 1990 and the new railroad has doubled its revenues in the last 15 years and has grown from 245 to 325 employees. Virtually all of today's short line railroads operate at a profit on a P&L basis. Our challenge is earning enough after operating expenses to sufficiently reinvest in our infrastructure. Railroads are one, if not the most capital intensive industries in the country. Short line railroading is even more so because we must make up for years of deferred maintenance expense. We must earn that revenue both from relatively small customers who do not ship in the large volumes enjoyed by the Class I railroads, as well as from competing with Class Is for rail traffic with large rail shippers such as Arcelor Mittal and US Steel.

The RRIF loan program is ideally suited to meet the challenge of upgrading infrastructure and does so at no cost to the federal government. It provides debt financing to short lines with long terms and relatively low interest rates that our businesses could never secure in the private market. It allows us to rehabilitate track and purchase equipment that we otherwise could not afford, or in the case of track rehabilitation would have to accomplish over a very long period of time.

The Wheeling & Lake Erie has two RRIF loans and I have been asked to appear here today to discuss those loans and the process we went through to secure them. The story of our RRIF loans can be fairly described as the good, the bad and the ugly.

The "good" is the results of those loans. We have a $25 million RRIF track rehabilitation loan that allowed us to take approximately 120 miles of track from 25 mph (with numerous 10 mph "slow orders") to 40 mph. The higher speeds allow us to turn crews, locomotives and cars much faster which makes us safer, more efficient and reliable and also lowers our operating costs. The new rail and ties makes for safer operations with substantially less chance of derailment.

We also have a $14 million loan which allowed us to purchase 150 open top hoppers during a tight equipment market. This car supply was key to allow us to fulfill several large customer contracts. Under any circumstances these loans would have been very important to the financial success of our company. As it turns out they became critically important to our ability to weather the near depression the country experienced in 2008 and 2009. During that period the railroad's carloads declined by 50,000 carloads and our annual revenues declined by $20 million. The operating costs and lower principal and interest payments made possible by these 25 year loans allowed us to get through this period without laying off a single employee or missing a single quarterly debt payment.

The “bad” was the length of time it took to secure these loans. We turned in the first loan application in January 2003 and it was not approved until July 2004, a full 18 months from start to finish. We turned in the second loan application in December 2005 and it was not approved until November 2006, a full 10 months from start to finish. This under a statute that requires the government to complete its process in 90 days. I understand the government’s need to thoroughly analyze a company’s financial situation and its ability to repay but I do not understand why it must take so long.

The “ugly” was what that took place at the end of the process for the second loan. The second loan application was made December 2005 with the understanding that loans were being approved within 90 days. We had placed an order for the 150 open top hoppers with expected delivery of 25 car lots to begin in April 2006. The cars were delivered on time but since the loan approval did not occur until November 2006, bridge loans for $7.7 Million had to be obtained in order to take delivery of the cars. Interest expenses totaled $53,500. Damage to our relationship to the car builder and customers resulted, including a frustrating and needless expense to WLE had the RRIF loan been approved in a timely matter.

I have worked in the railroad industry for thirty years and I am familiar with the Federal Railroad Administration and its people. They are both our regulators and can be our partners in such important areas as safety and standards. It is an agency that understands our industry and is dedicated to making it better. It is therefore very hard for me to understand why this RRIF program has such a tortured history.

Having thought about it in preparation for this hearing let me offer a number of possibilities. Clearly I think there are too many cooks in the kitchen. Once the FRA and its Independent Financial Analyst has determined that the loan meets the statutory requirements and that the collateral value is as described, there should be no reason for the Office of Management of Budget or the Credit Council to revisit the analysis process. This results in lengthy delays and involves individuals who have very little understanding of railroad operations or economics.

The period for hiring the “Independent Financial Analyst” appears from the government’s perspective to sit outside the statute’s 90-day requirement and I believe that interpretation has allowed them to prolong the period. Likewise, in both Republican and Democratic Administrations the OMB appears to believe that they sit completely outside the 90-day requirement. It appears the FRA itself has not been given adequate resources to process these loans. They appear to be thinly staffed and those that do work on these loans are often reassigned to other tasks deemed more pressing by whoever is in charge at the time.

In conclusion, this RRIF program has the potential to enhance the safety, efficiency and reliability of the regional and short line infrastructure and equipment, much to the benefit of many important rail customers, large and small. With a little diligence and oversight the program’s problems can and should be fixed. I appreciate the opportunity to appear before you today and will be happy to answer any questions.