

# THE RAILROAD ORGANIZATION (Chap. 18)



# All Shapes, All Sizes, and All Revenue Levels

STB

Class I

Class II

Class III

AAR

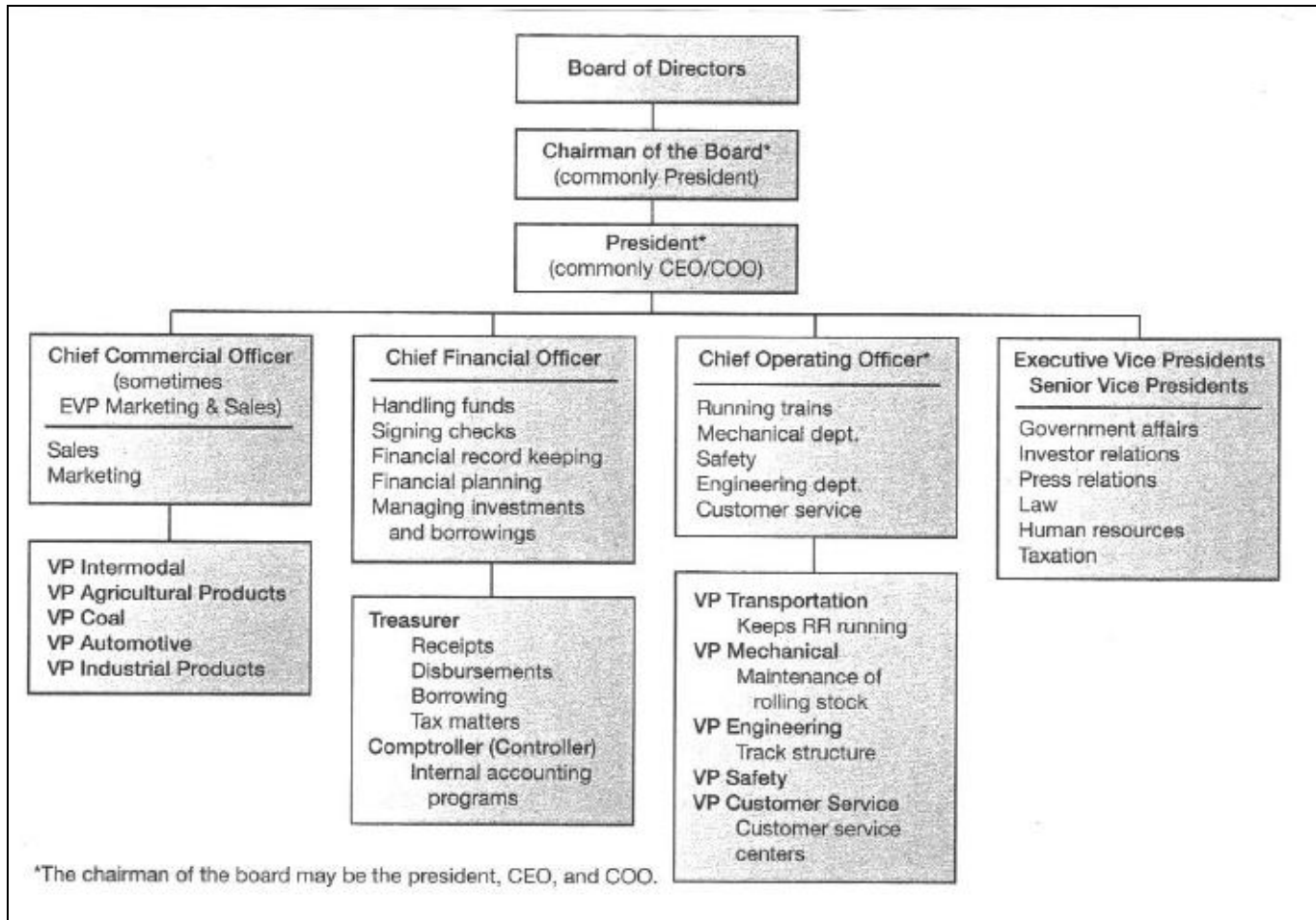
Class I

Regional

Local (Short Lines)

Switching & Terminal

# Corporate Structure



# Financial Results

Table 18-1. Condensed income statement

Condensed Income Statement		
(Amounts shown in millions)		
	2006	2005
Total operating revenue	\$52,152	\$46,118
Freight	50,315	44,457
Passenger	70	65
All other revenues	1,767	1,597
Total operating expenses	40,980	37,843
Net operating revenue	11,172	8,275
Other income	1,049	811
Miscellaneous deductions	945	725
Interest charges and amortization of discount	1,151	1,220
Income taxes on ordinary income	2,857	1,946
Provision for deferred taxes	786	278
Unusual or infrequent items (Dr) Cr	0	0
Ordinary income	6,482	4,917
Net railway operating income	7,560	6,075
Rate of return on net investment	10.2%	8.5%

Source: Railroad Facts 2006

Accounting Rules are Regulated, Must Follow – GAAP

Financial and Other Data – SEC

# Three Main Parts of Reports

Income Statement

Balance Sheet

Statement of Cash Flows

## Income Statement

Total Revenues from RR Operations

Expenses Incurred to Provide Revenue

Operating Income

## Operating Ratio – Efficiency Measurement

Proportion of Revenues Received that is  
Required to Maintain and Operate RR

Lower the Better – 70 is OK

## Balance Sheet

Shows Capitalization in Addition to Assets,  
Liabilities and Equity

Capitalization = (Long-Term Debt – Cash) + Equity

Keep Under 50 percent

## Cash Flow Statement

Cash Generated by Operating Activities

Higher the Better

Railroads are Very Capital Intensive

# Financial Effects of Railroad Regulation

1980 Staggers

1995 ICC Termination

Common Carrier

Revenue Adequacy = Return of Net Investment/Cost of Capital

Rail Cost Recovery Index – Adjust for Inflation



- Post-Staggers Earnings
- Pre-Staggers Years
- Leased Equipment
- Re-Regulation ??????

# Infrastructure Maintenance

Deferred Maintenance-of-Way

Deferred Maintenance of Equipment

Pre-Staggers

# Equipment Depreciation

New or Repair

Equipment Trusts

General Purpose Rolling Stock - Repossessed

Equipment Leases

Capital or Operating

Track

1982 – Ratable Depreciation

Prior – Additions/Betterments

Tunnels/Embankments

May Be Depreciated ???

Deferred Taxes

Depreciate Faster