Building Freight's Future

JERRY W. SZATAN

Chicago's freight and distribution sector continues to grow, but future vitality depends on addressing infrastructure challenges.

CHICAGO IS THE NATION'S busiest rail hub; an estimated 50 percent of U.S. rail freight passes through the city's rail yards via 500 freight trains daily, according to World Business Chicago (WBC), an economic development organization. The area is the only place where six Class 1 North American railroads interchange traffic and is also one of the world's largest intermodal container handlers. National rail traffic set a record for carloads in 2006, up 1.2 percent over 2005, but intermodal freight grew by 5 percent that year, setting a fifth consecutive yearly record, according to the Washington, D.C.–based American Association of Railroads (AAR). Both rail shipping and distribution center growth are being fueled by offshore manufacturing expansion. International container traffic was up 7.5 percent in 2006, according to the Calverton, Maryland–based Intermodal Association of North America.

More than 500 million square feet (46.4 million sq m) of warehouse/distribution space exists in the Chicago area, accounting for almost 48 percent of all available industrial real estate there, according to WBC, and another 17.5 million square feet (1.625 million sq m) is under construction. Air freight distribution clusters around O'Hare International Airport. The I-55 distribution corridor in fast-growing Will County continues to boom. Large regional distribution centers are being built in communities located 50 to 100 miles (80.5 to 161 km) from downtown. Infill development serves those needing closer access to downtown or a more central location for Chicago market operations. In 2002–2003, two new outlying rail intermodal facilities were focal points for investment. [See "On Track," June 2003, page 65.]

Wal-Mart built two bulk distribution centers totaling 3.4 million square feet (315,870 sq m) at CenterPoint Intermodal Center, located next to the Burlington Northern Santa Fe Railway's Chicago Logistics Park in Elwood, Illinois.

ERIC HERZOG PHOTOGRAPHY

The Burlington Northern Santa Fe Railway (BNSF) opened its 715-acre (289.5-ha) Logistics Park Chicago in Elwood, near Joliet, and the intersection of I-55 and I-80 about 50 miles (80.5 km) southwest of Chicago in 2002, offering direct rail and truck access, specialized automotive facilities, and intermodal facilities capable of over 1 million lifts yearly. Chicago area–based CenterPoint Properties developed Logistics Park and the adjacent 1,100-acre (445.3-ha) CenterPoint Intermodal Center, which has attracted 1 million-plus-square-foot (92,903-plus-sq-m) distribution centers for Georgia Pacific (which consolidated facilities from the Chicago area and Wisconsin) and DSC Logistics and two (1.6 million- and 1.8 million-square-foot/148,644- and 167,225-sq-m) Wal-Mart bulk distribution centers and other smaller users.

In 2003, Union Pacific (UP) completed its 1,200-acre (485.8-ha) Global III intermodal facility in Rochelle, Illinois, with capacity to handle more than 3,000 containers per day. The community lies at the intersection of I-39 and I-88, about 90 miles (145 km) west of Chicago and 25 miles (40 km) from United Parcel Service's second-largest airport hub and one of its three national heavy freight hubs at the Rockford International Airport. The BNSF and UP main lines intersect in Rochelle and a city-owned short line railroad connects certain industrial areas to both, offering rail users the opportunity to negotiate rates and service. The community sees opportunity in using containers that arrived holding manufactured consumer goods to export grain, including dried distillers' grain, a livestock feed that is a by-product of nearby ethanol production.

National and local industrial park developers are active with distribution-oriented parks, and major companies have built regional megadistribution centers in the region, some attracted by proximity to the intermodal center. Recent projects include Lowe's 1.2 million-square-foot (111,483-sq-m) center that opened in March in Rockford (about 90 miles [145 km]

ERIC HERZOG PHOTOGRAPHY

CenterPoint Properties demolished a shuttered aluminum mill (above) on a 242-acre (98-ha) infill site in McCook, outside Chicago, to develop a beverage company plant (left).

northwest of Chicago), Target's 1.5 million-square-foot (139,354-sq-m) center in DeKalb in 2006, Wal-Mart's 1.2 million-square-foot (111,483-sq-m) center in Sterling (120 miles [193 km] west of Chicago) in 2006, expanding this year, and a second 1 million-square-foot (92,903-sq-m) center in nearby Princeton, and PetSmart's 1 million-square-foot (92,903-sq-m) center in Ottawa along I-80 in 2005.

The large centers often are retailers where industry consolidation has produced survivors with increased market share, many growing rapidly, who frequently find it more efficient to operate one huge facility rather than two smaller ones. A single large center can hold inventory for many stores, reducing individual in-store and overall company inventory. Sites, typically measuring well over 100 acres (40.5 ha), are larger to accommodate expansion needs and parking for large numbers of trailers. Seeking big sites and low land costs and trying to avoid traffic congestion, companies locate these facilities in outlying areas. Proximity to intermodal centers offers reduced local transportation (drayage) costs and faster deliveries.

Declining supplies of large tracts of relatively close-in land and rising prices have led to new development in areas that have been overlooked until recently, including south along I-57, west along I-80 in Grundy County, and in northwest Indiana.

Infill projects typically involve redevelopment of well-located but functionally obsolete facilities in industrial areas in the city and suburbs. In McCook, about five miles (8 km) west of Midway Airport near the intersection of I-55 and I-294, CenterPoint demolished a shuttered 3.5 million-square-foot (325,160-sq-m) aluminum plant and plans 3 million square feet (278,709 sq m) of new facilities on the 242-acre (98-ha) site. McCook Business Center II currently houses food and beverage distributors, a cold storage facility, and other light manufacturing and distribution. The adjacent McCook Business Center I has 1.5 million square feet (139,354 sq m) of new space on a 155-acre (62.7-ha) site that once held a 1.7 million-square-foot (157,935-sq-m) General Motors locomotive plant. Denver-based ProLogis, which has a significant suburban presence, entered the city of Chicago in 2006 by purchasing from Union Pacific Corporation for $23 million a 48.5-acre (19.6-ha) shuttered intermodal rail yard about five miles (8 km) southwest of the Loop along I-55. Plans are to build 800,000 square feet (74,322 sq m) of industrial and distribution facilities.

Industrial buildings, including warehouses, in Cook County (which includes Chicago) face higher property taxes than in other Illinois counties resulting from Cook County's practice, unique among counties in that state, of assessing commercial and industrial property at a higher percentage of market value than other property types. The result can be effective tax rates that are double those of neighboring counties. Companies have addressed this by applying for a "6B" tax abatement halving assessment levels for new commercial and industrial investment for ten years, renewable for another ten years, and then phasing out. This past November, the Cook County Board created a new classification, Class 8, providing permanent renewability for reduced assessment for new investment in areas needing economic revitalization, contingent upon municipal and county approval. The county board certified several townships in southern Cook County eligible, though projects still need municipal approval.

Chicago's current 37,500 freight rail cars daily are expected to increase to 67,000 daily within 20 years on tracks shared by 700 commuter trains each week and Amtrak. Many trains cross now-busy roads at grade level, slowing trains and inconveniencing motorists. Congestion and slow travel times getting rail and truck freight across Chicago, already a major issue, are growing concerns.

Chicago Metropolis 2020, a nonprofit civic/business organization promoting long-term planning, regional cooperation, and smart investment in the Chicago region, issued *The Metropolis Freight Plan: Delivering the Goods* in December 2004, which explores the region's freight rail system and options to prevent gridlock and keep the sector vital. Recommendations include the following:

▷ Developing barrier-free tolling technology and a system of user fees and variable pricing on the most congested highways to provide economic incentives for truckers and other drivers to use those highways in nonpeak periods, reducing rush-hour congestion.

▷ Designating and protecting freight centers in the suburbs to ensure that public and private industrial development investments are targeted to those corridors that can most effi-

CREATE PARTNERS

Six Class 1 railroads, the city of Chicago, and the state of Illinois partnered on CREATE, a plan to coordinate investment to speed rail and road traffic in five regional corridors.

ciently support new industrial development and minimize freight trips.

▷ Preserving land for future rail corridors and intermodal terminals to enhance rail-to-truck freight transfer and delivery efficiency and maximize rail's ability to carry freight and reduce highway congestion.

▷ Directing highway spending to eliminate gaps—up to 12 miles (19.3 km) in some areas—in the region's state-designated truck route network to reduce delays and prevent unnecessary travel by heavy trucks.

▷ Creating county organizations to coordinate better planning of truck routes.

▷ Organizing a regional policy board to coordinate transportation and land use planning.

Progress has been made on some recommendations, says Jim LaBelle, deputy director of Metropolis 2020, and leader for policy development in freight, land use, and transportation. In 2006, the Chicago Metropolitan Agency for Planning combined the Chicago Area Transportation Study, the region's transportation planning agency, and the Northeastern Illinois Planning Commission, the land use planning agency, into a single body. Next steps may include financing power to encourage public/private cooperation on developments of regional impact. The region has "put a toe in the water on variable pricing for roads" in which trucks pay $1 per toll more during peak hours, says LaBelle, who believes that variable pricing will become more widespread. Other recommendations, such as preserving land for freight use, have to overcome hurdles of forging agreement among multiple jurisdictions.

A key recommendation is to complete the $1.5 billion Chicago Region Environmental and Transportation Efficiency program (CREATE), originally envisioned in 2003 as a ten-year agreement among the region's six Class 1 railroads, the city of Chicago, Metra (commuter rail), and the state of Illinois to eliminate rail bottlenecks by coordinated upgrading of public and private infrastructure. The program encompasses 78 projects including highway-rail grade separations, rail flyovers, railroad infrastructure (switches, track, signals) projects, and viaduct improvements along five rail corridors in five counties in Illinois and one in Indiana. The AAR calls it a "first of its kind" partnership.

Anticipated benefits include increased rail speed, lessening delays to shippers and making rail more attractive; decreased delays for motorists and rail passengers; reduced highway needs and new construction costs and highway user costs nationally; and improved air quality regionally and nationally.

This past September, CREATE received $100 million from federal SAFETEA-LU (Safe, Accountable, Flexible, and Efficient Transportation Act: A Legacy for Users) funds, to which the railroads will add $100 million, the state of Illinois is anticipated to add $100 million by issuing bonds, and the city of Chicago will contribute $30 million, for a total of $330 million over the next three years. This will fund 31 projects that will be completed or under construction by 2009. LaBelle notes that CREATE funding has not moved as quickly as proponents had hoped and that the next opportunity for federal funds likely will be in 2009. Projects chosen for initial funding were those that the partners agreed promised the largest benefits in terms of safety, efficiency, and congestion relief, says N. Marcia Jimenez, CREATE project director for the Chicago Department of Transportation.

Jimenez emphasizes that the Chicago area rail operations have national impacts and infrastructure improvements will lead to national benefits. Sixty-five percent or more of the freight from the ports of Long Beach, Seattle-Tacoma, and New Jersey eventually moves through Chicago. Congestion in Chicago is felt up and down the line; for example, one of the key benefits of CREATE is better air quality nationally as more efficient trains attract shippers and reduce truck traffic. The AAR, citing continued traffic growth, says expansion of rail capacity is a key issue nationally this year. As mentioned earlier, Chicago is the country's freight capital and the key hub in the national system. CREATE, says Jimenez, is a beginning to build capacity and efficiency regionally—an effort whose economic and environmental benefits will also be felt nationally. UL

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