American Short Line and
Regional Railroad Association

TESTIMONY OF

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REGARDING

The infrastructure needs of short line and regional railroads in the United States and the impact of the 45G Short Line Railroad Tax Credit

BEFORE THE

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Thank you Chairman Denham, Ranking Member Capuano and Members of the Committee. My name is Linda Darr and I am President of the American Short Line and Regional Railroad Association (ASLRRA). We are the national trade association representing the nation's 600 Class II and Class III railroads (referred to here collectively as "short lines").

Together short line railroads operate just under 50,000 miles of track, or nearly one third of the national railroad network. Short lines operate in 49 states and in 30 of those states they operate at least one quarter of the state's total rail network. Congressman Capuano's Massachusetts is one of ten states where short lines operate more than 70 percent of the state's rail network. In five states short lines operate 100 percent of the state's rail network. Short lines are often called the first mile/last mile of the nation's railroad system and handle in origination or destination nearly one out of every four rail cars moving on the national system.

Thirty Members of this Subcommittee's 32 Members have at least one short line operating in your District and I know many of you are familiar with how and who we serve. For the benefit of those not as familiar with the short line industry let me comment briefly on four defining characteristics.

1. <u>Short lines are small businesses</u>. Our combined annual revenues are less than the annual revenues of any single one of the nation's four largest Class I railroads. The average short line employs 30 people or less, and a significant number are run with less than a dozen employees. Like all small businesses, we are forced to do more with less.

2. <u>Our importance is not our size or our total market share but in who and where we serve</u>. For large areas of the country and particularly for small town and rural America, short line railroad service is the only connection to the national railroad network. For the businesses and farmers in those areas, our ability to take a 25-car train 75 miles to the nearest Class I interchange is just as important as the Class I's ability to attach that block of traffic to a 100-car unit train and move it across the country. Midwestern grain shippers cannot complete the journey to poultry farm markets in the southeastern United States without Class I railroad service. But for many, they can't start the journey without short line service.

   Short lines serve over 10,000 shippers nationwide and we find those shippers quite willing to testify to the importance of their short line rail service. I have attached to my testimony a list of quotes from current customers. We have selected one from each of the 49 states we serve to give you a sense of the important relationship between shippers and their short lines. In general, they sound like this: *"Our serving short line railroad is truly a partner for our paper mill. The services provided, including freight haul in and out, daily switches, and rail car maintenance help us keep our mill running successfully day in and day out. The level of support and service we receive is rare. It is critical to the 400 plus people employed here that our short line railroad be able to continue to operate successfully."*

3. <u>The majority of short lines operate track that was headed for abandonment under previous Class I owners.</u> These were light density branch lines that could not make enough money under

the cost structure of the big national carriers. They served customers located "off the beaten path" for the large railroads … meaning not on their main lines. These customers typically shipped smaller volumes. Because these were marginal or money losing lines they received little or no capital investment by their previous owners, resulting in deferred maintenance. To be successful, short line owners must not only eliminate that deferred maintenance but must upgrade its track to handle the heavier, longer trains of our Class I connections. To do that short lines invest on average from 25 to 33 percent of their annual revenues in rehabilitating their infrastructure and this makes short line railroading one of the most capital intensive industries in the country.

4. <u>Without upgrades to their tracks and bridges, customers served by short lines face potential competitive disadvantages.</u> If a short line is not able to handle a modern, heavier-weight freight car, they must ship or receive rail shipments often in suboptimal rail shipment sizes. This will become more pronounced a problem with time, as the older, smaller freight cars used in the national railroad fleets reach their mandatory retirement age and become unavailable. At that point shippers will either have to use the newer, more expensive freight cars and light load them, or divert their shipments to trucks.

To help short lines sustain such a significant investment, Congress enacted the Short Line Rehabilitation Tax Credit in 2004 and has renewed it five times since. The credit expired at the end of 2016. The credit, known as 45G, has been a major factor in maximizing infrastructure investment and we believe making the credit permanent is the most important thing Congress can do to help short line railroads rebuild and improve their portion of America's infrastructure.

We know and appreciate that most of you agree. Twenty eight of this Subcommittee's 34 Members are co-sponsors of H.R. 721, the stand-alone bill that would make the credit permanent, including Chairman Denham and Ranking Member Capuano. Full Committee Chairman Shuster and Ranking Member DeFazio are also co-sponsors.

I know that tax legislation is not the purview of this Committee and I appreciate there are other grant and loan programs that deal with infrastructure improvements. We do support those programs, such as TIGER and INFRA. And we are particularly hopeful that Congress will fund the CRISI program created in the FAST Act, which has a rural set aside that we think will benefit short line railroads.

But given the opportunity to testify I am here to say that the 45G tax credit is the most economical and effective way to maximize investment in our portion of the national railroad system. As the Committee that is the most knowledgeable when it comes to railroad infrastructure matters, I urge you to take that message to your colleagues whenever and however the subject of infrastructure is addressed in this Congress.

There are various reasons 45G has been so successful.

The tax credit provides that the railroad must spend two dollars for every dollar in credit up to a credit cap equivalent to $3,500 per mile of track. The government is not giving these small businesses a dollar, but rather letting them invest more of their own money in capital improvements. This additional

spending power allows short lines to speed up projects that are in the works and take on new projects that were otherwise unaffordable.

Let me give you three pieces of data that demonstrate this fact.

1) For decades the Railway Tie Association (RTA) has keep comprehensive statistics on railroad tie purchases. Using advanced econometric modeling that controls for other factors, the RTA estimates that the 45G credit results in annual short line tie purchases of between 500,000 and over one million beyond what their normalized annual purchases would be without the benefit of the credit.

2) In 2014 the Short Line Association undertook a survey of short line investment from the first year of the tax credit in 2005 through 2013. The survey confirmed the average 25 to 33 percent revenue reinvestments into infrastructure I cited earlier. But the survey also found that when the recession was at its worst, from 2008-2010, short lines maintained consistently high levels of investment, never falling below 27 percent of operating revenue. The tax credit was a major contributor to that substantial level of spending at a time that most businesses were cutting back.

3) Investing in better track leverages significant additional investment by railroad customers. For example, in South Dakota the improvements made by the 670 mile Rapid City, Pierre & Eastern Railroad since it began operations in 2014 has already attracted over $311 million in new facility investments by 6 South Dakota companies. Those facilities employ 260 workers. This result is being duplicated in the 49 states served by America's short line railroads.

While there is a realization that an appropriately sized infrastructure package must contain both federal spending and private investment, there is disagreement as to what it takes to draw out that private investment. There is also considerable concern that the kind of projects that will attract private capital are not feasible in rural America.

The 45G tax credit is a perfect solution in this regard.

First, the matching dollars we spend to secure the credit are private dollars going directly into track rehabilitation. And, although some in Washington may disagree, the tax credit dollars themselves are not a grant, it is money we earned. Rather than making a round trip through the government we are using it to increase direct investment in our infrastructure.

Second, by virtue of our locations, the majority of short line rehabilitation spending occurs in rural and small town America. These less dense areas will not provide enough business to attract private equity for toll roads or mass transit projects. But these areas are deeply dependent on efficient and competitive short line freight railroad service and the short line tax credit guarantees that investment will be made in those areas.

Finally, this has clearly been demonstrated to work. This is not an unproven idea, it is a proven process that absolutely facilitates additional infrastructure investments with no need for additional federal

administrative resources. It allows those that understand their infrastructure needs the best, the short line railroads themselves, to decide where the next dollars of investment need to be made efficiently and effectively.

For all the reasons I have outlined, the short line railroad industry is in unanimous agreement that the short line tax credit has proven to be the most efficient and effective way to maximize investment in our portion of the infrastructure world. It has been as important to our on-going success as the Staggers Act was to our initial success. Let there be no doubt that preserving the credit is the most important thing Congress can do for the short line industry and the customers we serve.

As of today, the 45G legislation enjoys one of the largest number of bi-partisan co-sponsors in Congress – 244 in the House for H.R.721 and 53 in the Senate for S.407. In the Senate it has more co-sponsors than any other tax bill and in the House it is one of three highest co-sponsored tax bills. This has been the pattern for each of its extensions since 2004. At a time when there is so much about which Republicans and Democrats disagree, shouldn't we jump at the opportunity to act when both sides agree?

I appreciate the opportunity to appear before you today and am happy to answer any questions.