

Assessment of State Support for Short Line Rail Infrastructure

Findings and Recommendations

December 16, 2021



What is a short line railroad?



Short lines are smaller railroads that run shorter distances and connect shippers with the larger freight rail network.

The Rail System in Washington state includes two Class I and twenty-seven Class III (short line) railroads:

- Class I - 1,900 miles (58%)
- Class III - 1,347 miles (42%)

Railroads are classified based on their annual operating revenues

- Class I - \$447,621,226 or more.
- Class III - \$35,809,698 or less.

Washington's Class 1 Connections



Short lines handle **one in every four rail cars** moving through the nationwide network.



Washington state law directs WSDOT to provide grants and loans to improve the short line rail system



Freight Rail Investment Bank (FRIB)

FRIB loans provide funds to build new or improve existing rail infrastructure across the state. The program is administered by WSDOT and loans are only available to public entities.

There was \$7 million for eligible projects in 2019-2021.

Freight Rail Assistance Program (FRAP)

State grant program open to both publicly and privately owned railroads, rail shippers or receivers, and port districts with rail for purposes of rehabilitation, infrastructure preservation or economic development. This program is directed toward larger projects where it is difficult to gain a contribution and where the rail location or the project is of strategic importance to the local community and the state.

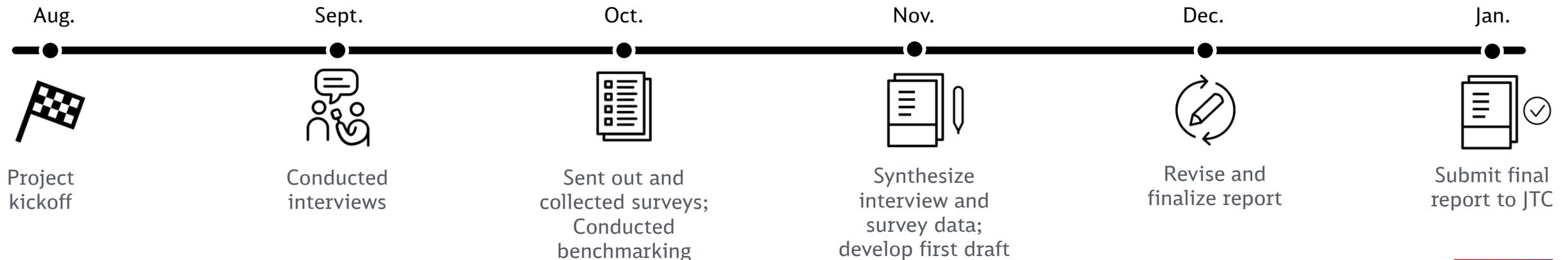
The state provided \$7.6 million in grants in 2019-2021.

Project Purpose and Methodology



The purpose of this study is to update the Washington State Short Line Rail Inventory and Needs Assessment, assess the effectiveness of state support for short-line rail infrastructure, and to make recommendations to improve and enhance that support.

Our team is on track to deliver the draft and final reports to the JTC by January 1

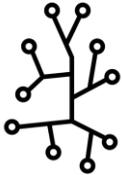


Short lines face challenges in the changing global economy that they serve



Reducing reliance on single markets

Structural changes in logistics networks may disfavor rail, and there is a need to explore ways to attract a diversity of customers that can rely on rail shipping.



Expanding capacity and industrial access

Washington's rail network needs to be able to handle more carloads and/or build new infrastructure to serve customers. It is critical to view short lines as part of a larger network that will need to rely on key investments at ports, shipper facilities, and on the Class 1 networks.



Maintaining a state of good repair and upgrading track

Many short line railroads in Washington face a significant backlog of deferred maintenance but do not earn enough revenue to address it. There are also increasing needs to upgrade infrastructure in order to meet industry standards to interchange heavier rail cars to the Class 1 network.

Washington shippers sell on a world market and require affordable and reliable transportation to stay competitive



Opportunity to inform policy makers



Stakeholders interviewed share the belief that the state legislature has an opportunity to learn about the short line industry, the industry's benefit to the state's economy and/or the capital-intensive nature of railroading. Stakeholders are hopeful this study will provide a platform to inform policy makers not just of the benefits of short line rail, but also the constant capitalization issues most operators face.

Expanding FRIB and FRAP programs



Some stakeholders reported opportunities to expand the existing short line funding programs. There are opportunities to reduce the complexity of the application process and long lead time to award, expand the amounts of funds allotted to the program, and explore the role of governance and decision making around awarding funds to both state-owned and non-state-owned rail infrastructure.

Interest in new and/or alternative funding programs



Some stakeholders expressed interest in the state exploring alternative funding avenues for the state's short lines. A frequently cited option which has been gaining traction nationally is a tax credit system like the Federal 45G tax credit, which would provide a more predictable and flexible source of funding to the state's short line operators, according to proponents. There is also an opportunity to explore other state agency's roles in aiding industries that support short line railroads.

Ranking of short line needs



Respondents were asked to assign a point value to each of the 18 issues listed below, based on that issue's importance to the railroad. The following table aggregates the responses received.

	Average Rating	High Importance	Moderate Importance	Low Importance	Rank
Track conditions	4.9	15	0	0	1
Funding to properly maintain rail lines	4.9	14	1	0	2
Funding for state/federal-funded programs for construction/ rehabilitation	4.5	13	2	0	3
New business opportunities	4.5	11	4	0	4
Rail/highway crossings Surface conditions	4.3	13	2	0	5
Bridge conditions	4.3	13	0	2	6
Ability to handle 286k or higher weight railcars	4.1	11	3	1	7
Existing traffic levels	4.1	10	3	2	8
Funding for emergency repairs	3.7	8	6	1	9
Adequacy of service from interchange carriers	3.7	8	5	2	10
Equipment and support facilities condition	3.5	6	7	2	11
Rail/highway crossings Un/under-protected crossings	3.5	6	6	3	12
Rail/highway crossings Crossing consolidation	3.3	7	3	5	13
Trespassers	3.2	7	3	5	14
Rail/highway crossings Sight obstructions	2.6	4	4	7	15
Customers holding cars	2.5	3	4	8	16

Increase Size of Funds Available for Grant Funding

Survey participants articulated that there is an overall greater desire to use grants vs. loans for project funding. Grant Program Participants articulated a desire for the pool of grant monies available under FRAP to be increased by legislative action. Increased funding to short line railroads not only provides social and environmental benefits due to decreased congestion and emissions, but also decreases highway maintenance needs from less truckloads.

— In the 2020 grant period, PennDOT awarded \$31 million for 26 rail freight projects upon the receipt of a line item through local legislative representatives to approve funding.

Evaluate creation of a state tax credit program

Programs involving tax credits serve as a potential source of funding outside the grant or loan program and encourage additional private investment. While several states currently have a tax credit program, but the most prominent example is federal 45G Short Line Rehabilitation Tax Credit. Originally envisioned as a means to allow railroads to reduce the scale of deferred maintenance and project cancellations due to a lack of consistent funding opportunities, 45G provided a means to subsidize project and maintenance obligations with a credit against tax liability.

— The State of Oklahoma developed an offer in 2006 for a Railroad Modernization Income Tax Credit to incent Class II or Class III Railroad track reconstruction or replacement. Eligible may qualify for a tax credit equal to 50 percent of qualified track improvement annual expenditures, up to a cap of \$1,500 multiplied by the miles of railroad track owned or leased by that taxpayer within the State.

Develop new funding opportunities to meet specific short line rail needs and open availability to additional entities

There was a desire to open both programs to both public and private entities to include customers and other stakeholders. This is particularly significant with FRIB, where eligibility is limited to publicly owned railroads, port districts, rail districts, and local governments only based on the wording in the enabling legislation.

As part of a statewide effort to attract new industry to North Carolina, the N.C. Department of Transportation's Rail Industrial Access Program (RIAP) uses state funds to help build or refurbish railroad tracks that a new or expanding industry needs.

Streamline grant application review process

The current process uses a fixed period for the application and selection process, there was a request to utilize rolling periods to allow groups to focus on multiple applications over time into both programs. The staggering of program dates may conflict with state fiscal year requirements. The grant and loan application processes mirror each other in the lengthy and detailed application process. This prompts the need for contracting with others to write applications, increasing the overall costs for participation. Time constraints to match the provisions of the programs also tax resources and provide a disincentive to utilizing the program, particularly for the smaller entities.

Since 2000, KDOT has administered more than \$87 million to support major rehabilitation, system expansion, railcar/locomotive purchase, and 286K upgrades through the state Rail Service Improvement Fund (RSIF). The annual call for applications occurs in May/June. The Short Line Rail Improvement Fund (SLRIF) has also provided over \$9.4 million to support ongoing maintenance needs and has an annual call for projects each July.



Increase state's ability to serve short line economic development needs

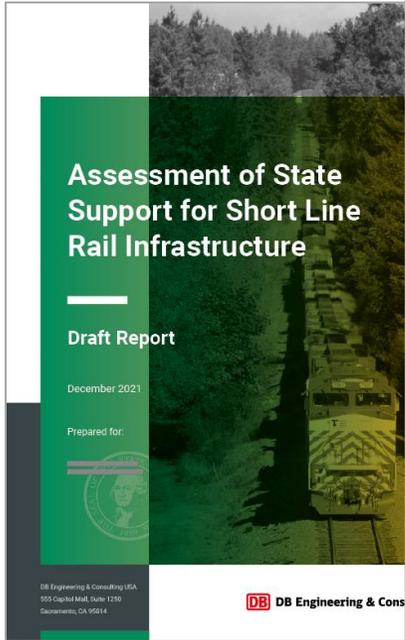
To best support the economic development needs of short line railroads there must be an experienced facilitator envisioning the project, developing consensus, and directing negotiations. The usual expertise in economic development and community consensus building must be supported by a working knowledge of railroad economics.

Increase statewide engagement with short line owners/operators

There was a desire to strengthen the relationship between statewide stakeholders and Class 1 Railroad connections. This may involve state-level resources that could be advocates for the interest of locally owned short lines within the state.

JobsOhio launched SiteOhio in 2016 in response to the need across the state for more construction-ready industrial sites. This program guarantees industrial sites are ready for immediate development and companies get access to sites that minimize risk, reduce costs and increase speed to market. Communities gain construction-ready sites that are more appealing to potential buyers and may help attract jobs to their region.

The California Short Line Railroad Association is an industry group that represents the owners and operators of short line railroads throughout the state. As of 2021, 17 short line railroads in California are members of the CSLRA, with an additional 27 entities listed as associates of the CSLRA. The CSLRA provides resources to member railroads and advocates and lobbies in the interests of short line railroads.



Ownership	Miles of Track Operated in WA	Locations of Trackage Rights, Haulage Rights, Leased, or Out-of-Service Lines
Owned	121	TRMW owned by City of Tacoma; TMBL owned by Tacoma Public Utilities. Includes 33.5 miles leased to other railroads. Also has trackage rights for approximately 70 miles owned by the Port of Tacoma and 20 miles owned by Sound Transit.

Track Class	Miles	Subdivision
Excepted track	20	TRMW
Class 1	48	TMBL 32, TRMW 16
Class 2	11	TRMW
Class 3 and above	0	

	2016	2017	2018	2019	2020
Carloads	120,119	112,010	130,702	123,895	97,455
Full time employees	116	113	115	118	115
Part time employees	<i>not reported</i>				
In-State Expense	\$36,134,828	\$32,867,344	\$33,682,458	\$35,848,969	\$36,167,345
In-State Revenue	\$32,734,810	\$31,211,606	\$34,491,858	\$38,350,588	\$36,016,177

Description of Need	Location	Estimated Cost	Priority	Timing	Planning to Apply for State Funding (Y/N)
Various track rehabilitation and upgrade projects	Tacoma	Unknown	Affects ability to properly serve customers	Immediate	Yes
Railroad bridge repairs	Pierce County	Unknown	Affects ability to properly serve customers	Immediate	Yes
Locomotive repowers to modern standards	Pierce County	\$2.5 million each	Affects ability to properly serve customers	Immediate	Yes

Top inbound and outbound commodities

	Inbound	Outbound
1.	Intermodal Containers	Intermodal Containers
2.	Crude Oil	Passenger Autos
3.	Denatured Alcohol	Asphalt
4.	Ethanol	Freight of All Kinds
5.	Frozen Meat	Petroleum

The report appendix contains a profile for each Class III railroad in Washington that reports operational data, economic impact, and freight rail needs.

Next steps



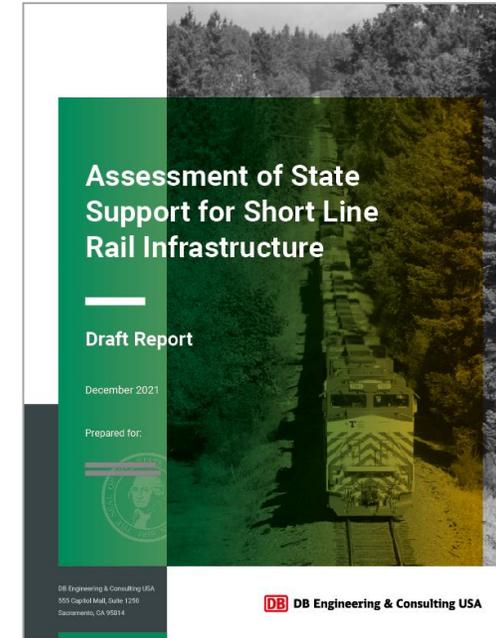
Present Draft Final Report to JT

December 16

Consultant develops final report

Final Report to House and Senate

by January 1



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