

Assessment of State Support for Short Line Rail Infrastructure

Joint Transportation Committee Meeting
September 23, 2021





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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.

The final deliverable, the Washington State Short Line Rail Inventory and Needs Assessment, is a strategy document that addresses the following topics:



- Assessment of current state programs
- Washington short line needs and opportunities
- Benchmarks and best practices
- Possible improvement projects
- Funding sources and strategies

What is a short line railroad?



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

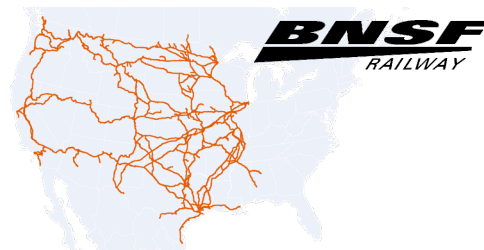
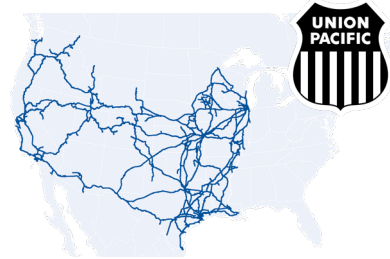
The Rail System in Washington state includes two Class I and twenty -seven Class III (short line) railroads:

- 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.



Short line railroads in Washington



Class III Railroad	Total Miles Operated
Palouse River & Coulee City RR	298
Tacoma Rail	204
Pend Oreille Valley Railroad	61
Port of Columbia	38
Clark County	33
Chehalis Central RR	1
Royal Slope RR	18
Yakima Central Railway	22
Eastside Community Rail	16
Tri Cities & Olympia RR	31
Puget Sound & Pacific (US Navy Owned)	25
Total Public Length	746
Great Northwest RR	77
Columbia Basin RR	74
Central Washington RR	58
Meeker Southern	5
Ballard Terminal	3
Cascade & Columbia RR	131
Puget Sound & Pacific	108
Kennewick Terminal	2
Longview Switching Co.	8
Mount Vernon Terminal Railway	1
Columbia & Cowlitz RR	9
Kettle Falls International Rail	124
Total Private Length	600
Total Short Line Length	1,347

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.

Key to the success of the project will be a comprehensive stakeholder engagement process

 <p>Class I</p> <p>Utilize existing relationships with BNSF and UP Short Line & Interline representatives</p>	 <p>Class III</p> <p>Washington State short line railroads are comprised of a mix of public and private ownership and operating models</p> <p>Public – Identify stakeholders with state partners Holding Company – Utilize existing relationships with G&W, Watco, Frontier Rail, OmniTrax, Patriot Rail Independently owned – Identify through stakeholder process and leverage our existing network</p>	 <p>Other</p> <p>During each interview we collect additional contacts recommended to interview, including but not limited to ports, shippers, trade associations, economic development agencies, etc.</p>
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The stakeholders involved in this study have a lot of demands and we have developed a process that makes productive use of their time.

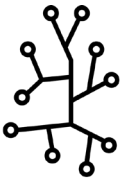
 <p>Our method first relies on establishing a meaningful relationship with stakeholders first before requesting information.</p>	 <p>Set up initial virtual interview to identify trends, inform stakeholders of process and create buy in for next steps. Walk through survey tool to ensure understanding of needs.</p>	 <p>Send survey tool and establish clear guidelines for submission. Identify individual needs and partner with stakeholders to ensure on-time completion.</p>	 <p>Follow up with stakeholders to collect survey back in a timely manner.</p>
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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.

Benchmarking provides information on how peer states and industries use and evaluate similar incentives



Assessing Regional Competitiveness

Idaho Transportation Department

Oregon Department of Transportation

States that own short line infrastructure and manage programming

Wisconsin Department of Transportation

Georgia Department of Transportation

States with independent commissions to manage programming

Ohio Department of Transportation / Ohio Rail Development Commission

States that are divesting in their state -owned infrastructure

South Dakota Department of Transportation



- Identify goals and objectives for the state's investment in short lines and determine programmatic actions to achieve them:
 - Attracting new rail served industries to Washington
 - Upgrading shipper rail infrastructure/facilities
 - Increasing opportunities for transloading
 - Exploring ownership models
 - Implementing environmental standards
- Expand our existing body of knowledge by benchmarking with additional state -led programs and other industry programs.
- Work with the staff workgroup to select other tax -based incentives that could be subjects for study for Washington State, including but not limited to tax exemptions, special tax treatments, and other relief mechanisms.

Next steps



**Draft Report to
staff workgroup**

November 18

Staff workgroup comment period, consultant develops draft final report

**Present Draft Final
Report to JTC**

December 16

Consultant develops final report

**Final Report to
House and Senate**

by January 1

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