

# short line/regional perspective



**Richard F. Timmons**

## Calculating the tax credit and its value

**L**onger, heavier trains will result from Red River Valley & Western's use of the short line tax credit in North Dakota. This \$3.5 million project includes 14 miles of rail replacement and is one of the largest capital projects ever undertaken by the railroad. It reestablishes the long-term viability of the railroad's west end and, in conjunction with a grain elevator project, will allow a North Dakota grain shipper to move 110-car trains using 286K cars.

Improved transit times for New York-bound Pennsylvania coal will result from Western New York and Pennsylvania's \$2.7 million upgrade of a 29-mile segment in western Pennsylvania. This work is the last part of a larger rehab project to increase track speeds. Crews can now traverse the 190-mile route from Meadville, Pa., to Hornell, N.Y., without the risk of outlawing. Such operational improvements have allowed more competitive pricing for the shipper and more efficient equipment utilization for the railroad. This state-funded project required a substantial local match, and without the tax credit, the project would not have survived.

Reducing California highway congestion will result from the San Joaquin Valley's rehab of a light-density branch line southwest of Bakersfield. Making the line 286K capable will nearly double traffic volume with the increase coming right off nearby Highway 15. Additionally, the tax credit-funded rehab has provided an online petroleum shipper incentive to fund a new spur from its plant to the rail line. Prior to the rehab, the railroad could only switch hazmat cars five at a time. The upgrade will allow 10- to 15-car trains. That makes the shipper's product much more competitive and convinced him to make an investment.

Ten new jobs were added to an existing force of 59 workers as Montana Rail Link used the tax credit to help fund a \$5.2 million rehab project in southeastern Montana. The project replaced 115-pound jointed rail laid in 1948 with 136-pound welded rail.

Speeds on the segment will go from 25 mph to 60 mph. About 60% of the salvaged rail will be cropped and welded to replace 1900-vintage 70- and 80-pound jointed rail on a branch line. This is a line with small shippers and low volumes, and absent the tax credit, it could not justify this kind of repair.

Accelerating the timetable for a critical bridge replacement in Columbus, Ind., was Louisville & Indiana's tax-credit benefit. The law allows a railroad to use its entire per-mile credit on any portion of the railroad, and this \$600,000 construction project will utilize almost all of its annual credit.

These are a few of hundreds of new projects made possible by the short line tax credit. The new law provides short lines with a tax credit of 50 cents on the dollar for eligible track improvement expenditures up to a \$3,500 per mile. The credit is available each year for three years beginning in 2005. Even with the limited data we have collected prior to the end of the credit's first year, it's clear that it will transform the short line railroad industry. It is allowing railroads to significantly accelerate planned capital spending and undertake new projects that could not otherwise be supported by small shippers.

I believe this tax credit will be ultimately recognized as one of the most significant pieces of railroad legislation since the passage of the Staggers Act. Staggers created the legal and regulatory framework for the creation of the short line industry as we know it today. Since Staggers, short line mileage has grown from 8,800 miles in 1980 to nearly 50,000 miles today. But the potential of this industry to preserve service

and jobs in mostly small town America has always been jeopardized by the poor condition of these Class I castoffs. The advent of the new heavier 286K cars made this problem more serious and more immediate.

The tax credit will allow short lines to complete the transformation. As the examples above show, the credit will make more short line track 286K ready and give small shippers increased access to longer, heavier trains. As a result, shippers will benefit from

more competitive rates and expanded market opportunities. The tax credit will allow short lines to win back much-needed traffic from shippers who need a more efficient and reliable railroad to make the move from truck. It will allow short lines to become more effective contributors to local economic development plans, helping attract new industries and jobs to local communities. It also will allow short lines to take increasing numbers of heavy trucks off local roads, and help local railroads create jobs to rebuild track and handle the resulting increased business.

Railroading is one of the most capital intensive industries in the U.S. Class II's and III's spend nearly 33% of their annual revenues on infrastructure improvements. The short line tax credit will allow them to do more to make small roads an efficient and reliable part of the national rail network.

The vision of those who were able to look to the future and understand the important contributions that the tax credit would provide to freight movement throughout the nation is a testament to the progressive thinking of the men and women involved with the rail industry, whether railroaders, legislators, suppliers, or contractors.

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