

A discussion on tips and tools for financing freight infrastructure improvements.

# Four Issue Areas

1. Short Line Financing Oversimplified
2. Railroad Rehabilitation and Improvement Financing
3. Section 45G Tax Credit and Investment Tax Incentive
4. Rail line relocation program and short line grant program

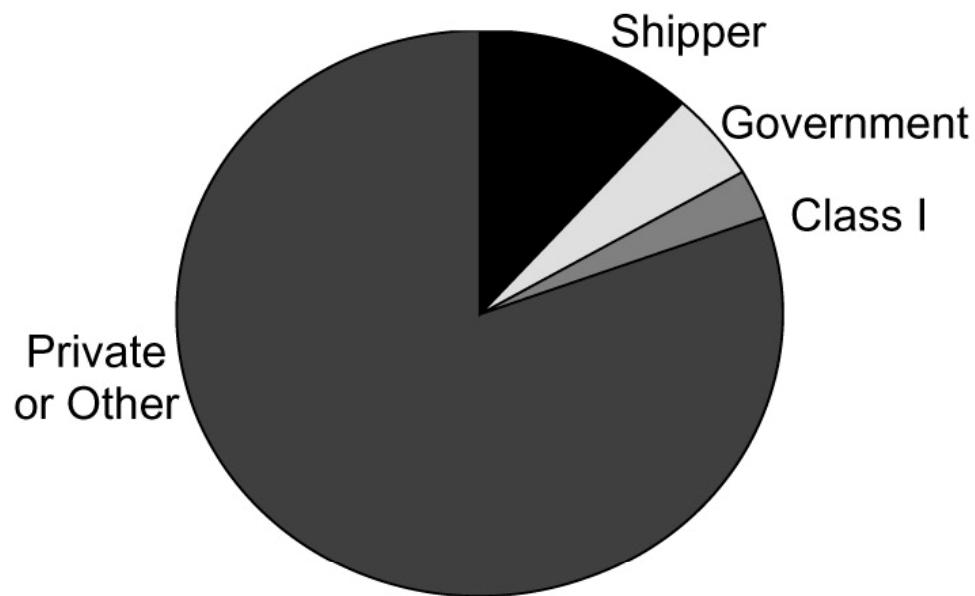
# 1. Short Line Financing Oversimplified

- Unlike Class I's, the vast majority of short line railroads are NOT publicly traded
- Until recently – three major short lines were listed: (1) Genesee & Wyoming, Inc.; (2) Florida East Coast Railway; and (3) RailAmerica, Inc.
- FEC and RA were recently purchased, leaving G&W as only traded short line

# Debt or Equity?

- Most other short line railroads are privately held.
- At startup, most short lines are heavily leveraged, with acquisitions financed through commercial loans.
- Many short line companies have ready access to lending and relatively strong credit

# Short Line and Regional Railroad Ownership



Type of Ownership	Number of Railroads	% of total short line and regional railroads
Shipper	61	11.1%
Government	26	4.7%
Class I Railroad	11	2.0%
Private or Other	454	82.2%
<b>All Types</b>	<b>552</b>	<b>100.0%</b>

# Debt or Equity?

- Commercial loans for acquisition and improvement
- Recently, relatively little done – 90% financed
- Fairly short terms – 7 years usually maximum
- Relatively high interest rates given nature of startup

## 2. Railroad Rehabilitation and Improvement Financing (RRIF)

- The great weakness of commercial lending as a financing method makes the RRIF loan program such a great tool...

### **FINANCING AGREEMENT**

BETWEEN

**XYZ RAILROAD, INC.**

AND

The **UNITED STATES OF AMERICA**, represented by  
the **SECRETARY OF TRANSPORTATION**

acting through the **ADMINISTRATOR** of the **FEDERAL RAILROAD ADMINISTRATION**

# RRIF Uses

- Acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings and shops;
- Refinance outstanding debt incurred for the purposes listed above; and
- Develop or establish new intermodal or railroad facilities

# RRIF vs. TIFIA

(Transportation Infrastructure Finance and Innovation Act )

- Term: TIFIA = 35 Years; RRIF = 25 Years
- Interest Rate: Similar (low 4%)
- Risk Premium: TIFIA = Appropriated;  
RRIF = Paid by applicant/appropriated
- Fed. Share: TIFIA = 33%; RRIF = 100%

# Program Disadvantages

- Long application process – much longer than commercial lending
- Credit Risk Premium – covers default risk to government
  - *In theory*, could be appropriated
  - *In theory*, should be returned when loan repaid
- Government insists on more extensive collateralization – ties up assets

# RRIF Program Strengths

- For Statute Text: 45 USC §821, etc.
- Long Term: 25 Years
  - Possible Deferral in first 6 years (as yet untested)
- Low Interest Rate: Cost of Money to the Government
- 100% Financing available

# Eligible RRIF Borrowers

- Railroads
- State and local governments
- Government-sponsored authorities and corporations
- Joint ventures that include at least one railroad
- Limited option freight shippers who intend to construct a new rail connection

## 2. Railroad Rehabilitation and Improvement Financing

<b><u>ORGANIZATION</u></b>	<b><u>YEAR</u></b>	<b><u>AMOUNT (millions)</u></b>
Nashville and Eastern Railroad	2008	\$4.6
Columbia Basin Railroad	2008	\$3.0
Great Western Railway	2007	\$4.0
Virginia Railway Express	2007	\$72.5
R.J. Corman Railway	2007	\$59
Dakota, Minnesota & Eastern Railroad	2007	\$48
Iowa Northern Railroad	2006	\$25.5
Wheeling & Lake Erie Railway	2006	\$14
Iowa Interstate Railroad	2006	\$9.35
Great Smoky Mountains Railroad	2005	\$7.5
Riverport Railroad	2005	\$5.5
The Montreal, Maine & Atlantic Railway	2005	\$34
Tex-Mex Railroad	2005	\$50
Iowa Interstate Railroad	2005	\$32.7
Stillwater Central Railroad	2004	\$4.6
Wheeling & Lake Erie Railway	2004	\$25
Arkansas & Missouri Railroad	2003	\$11
Nashville and Western Railroad	2003	\$2.3
Dakota, Minnesota & Eastern Railroad	2003	\$233
Amtrak	2002	\$100
Mount Hood Railroad	2002	\$2.07

# Local Government and RRIF

- Local Government can bring a great strength to a RRIF application
- Dedicated sources of public revenue: bonds; dedicated tax streams; tax increment financing; etc. can provide stable source of repayment
- Low credit risk premium
- Disadvantage: Feds will discount

# DIY RRIF Applications *Very* Difficult

- FRA will want exhaustive information
- Customers must be extensively interviewed in assembling RRIF application
- Applicants should discount sunshine predictions
- “Weak cases” should never be included to pad the numbers

### 3. Section 45G Tax Credit and ITI

#### *Why a Short Line Railroad Credit?*

- Most short line railroads are the former branch lines of Class I railroads
- Introduction of heavier railroad cars, and sub-par infrastructure at startup constrained short line and customer growth.
- Early this decade AASHTO and ASLRRA estimated a \$7b-\$10b infrastructure need

# Section 45G Tax Credit

- 45G was originally proposed 2003
- Credit was enacted in 2004 as part of *American Jobs Creation Act*
- During 2005-2007, 45G assisted over \$800m in investments by creating over \$400m in credits
- Credit expired at the end of 2007



# How the Credit Works

- Short Lines earn 50¢ of every \$1 in qualified track expenditures
- Credits are capped at  $\$3,500 \times \text{Miles}$  (as of 1/1/2005)
- Credit sunset at the end of 2007
- Railroads may assign their credit limitation to customers, contractors, and suppliers
- Assignees earn credits if they pay for qualified railroad track expenditures



# ASLRRA Survey of Tax Returns for 2005 and 2006

(tax returns for 2007 not available until after September extensions are filed)

Short Lines Responding:	<b>512</b>	Representing:	<b>52,893</b> Miles
Short Lines Not Responding:	<b>40</b>	Representing:	<b>802</b> Miles
<hr/>			
TOTAL	<b>552</b>		<b>53,695</b> Miles

Of the 512 responding 141 did not utilize the credit in one or both years, representing **10,842** Miles.

The data demonstrates that the tax credit is widely used by a majority of short lines and a vast majority of the miles in the industry.

# Tax Credit Benefits are Captured in 3 Ways

<i>Credit Usage</i>	<i>2005</i>	<i>2006</i>	<i>Total</i>
<i>Utilized In Tax Year</i>	\$33,068,645	\$59,721,466	\$92,790,111
<i>Assigned to Third Party (i.e. Customer)</i>	\$24,010,011	\$32,201,106	\$56,211,117
<i>Carried Forward</i>	\$62,733,159	\$56,012,780	\$118,746,019
<i>Total</i>	\$119,811,895	\$147,935,352	\$267,747,247

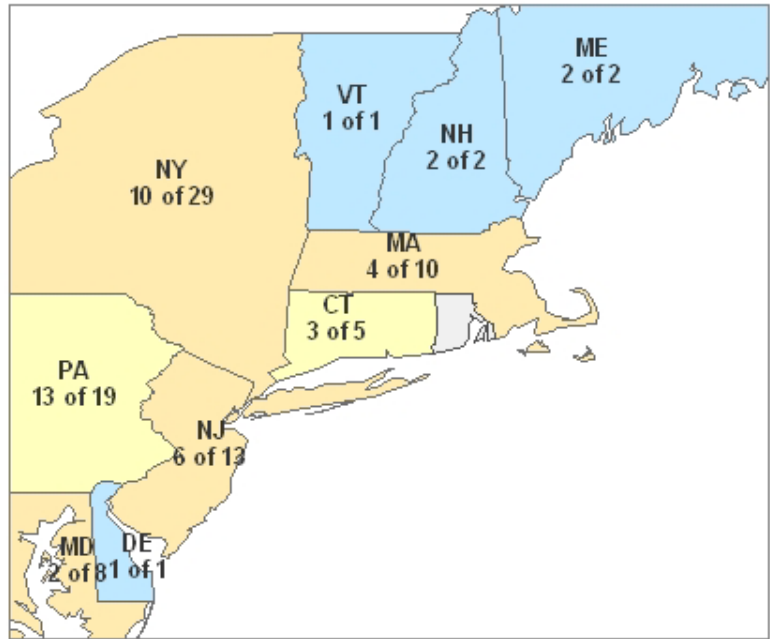
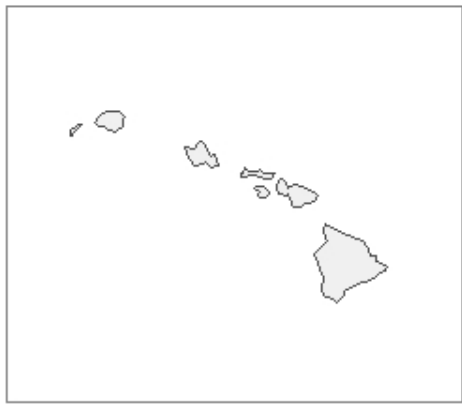
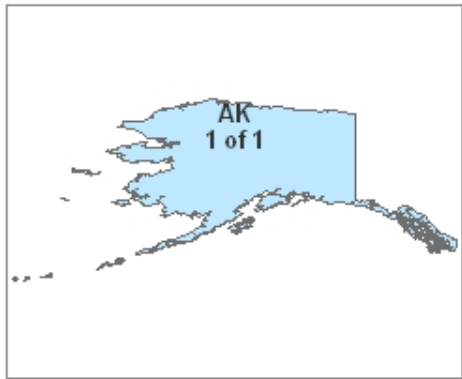
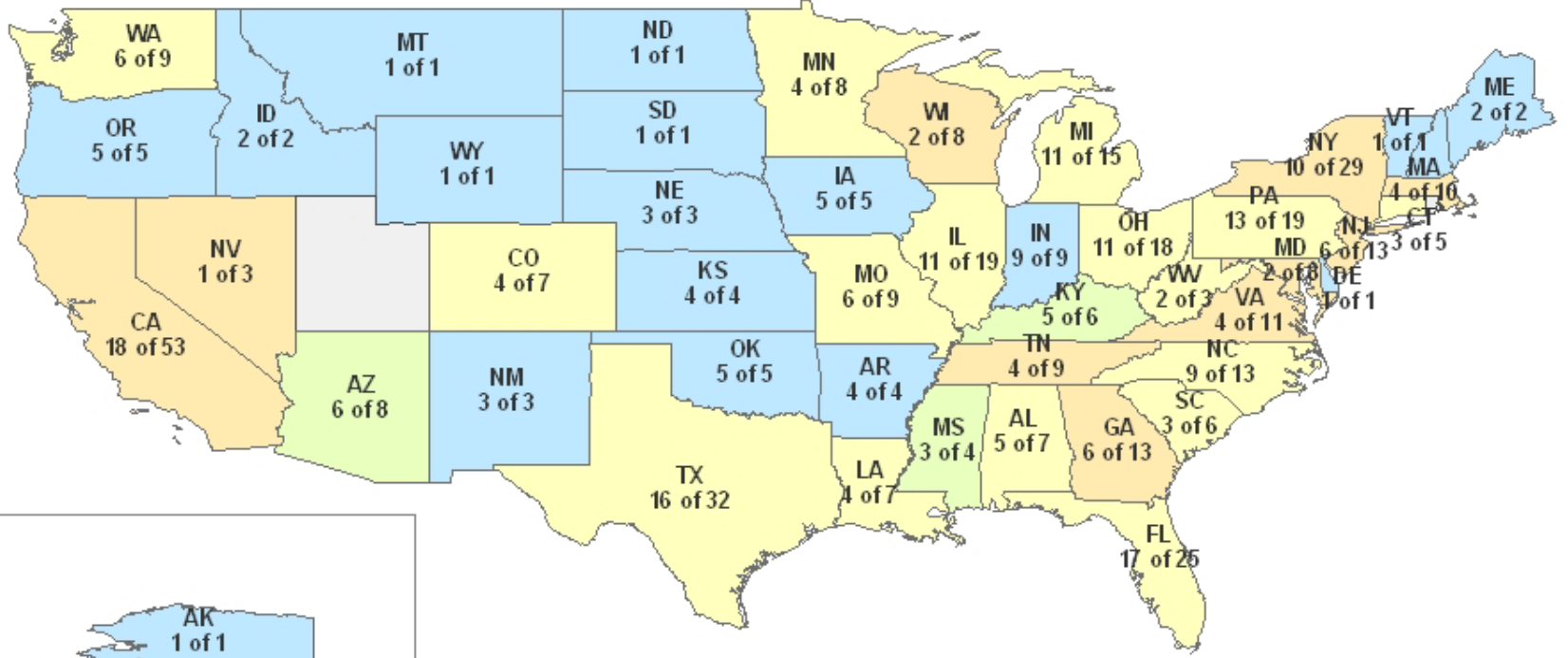
## Short Line Supporters Work to Extend Benefits of 45G

- Reps. Pomeroy (D-ND), Camp (R-MI), and Moran (R-KS) champion H.R. 1584 to extend the credit
- Sen. Lincoln (D-AR) and Smith (R-OR) champion S. 881 to extend the credit
- Language to extend 45G has been included in House and Senate “extenders bills” for the last year

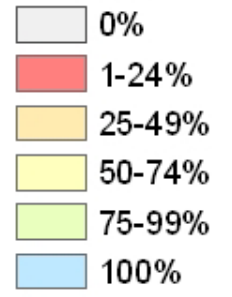
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# H.R. 1584 is Co-sponsored by 247 U.S. Representatives



### HR.1584 Support by Delegation



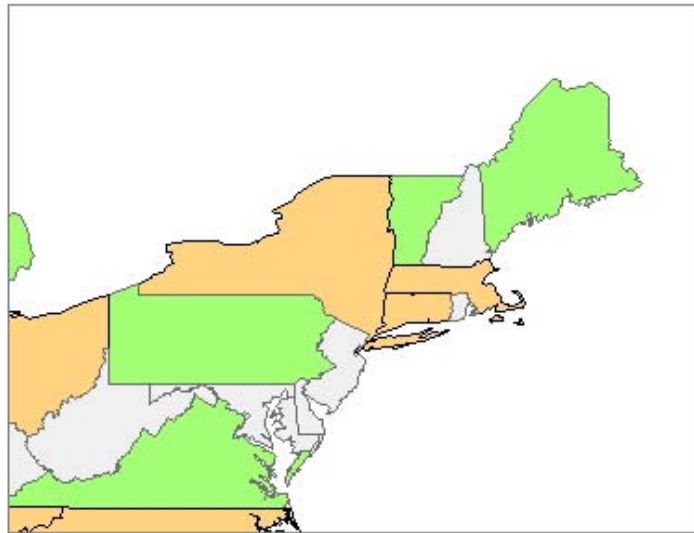
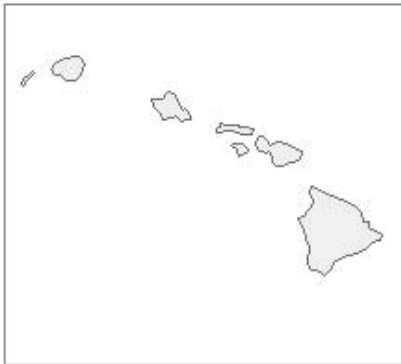
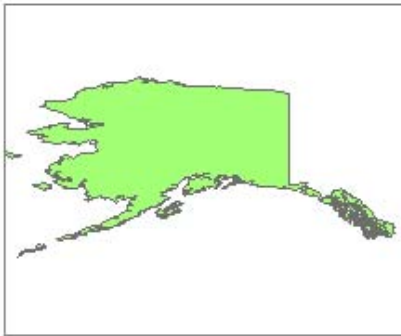
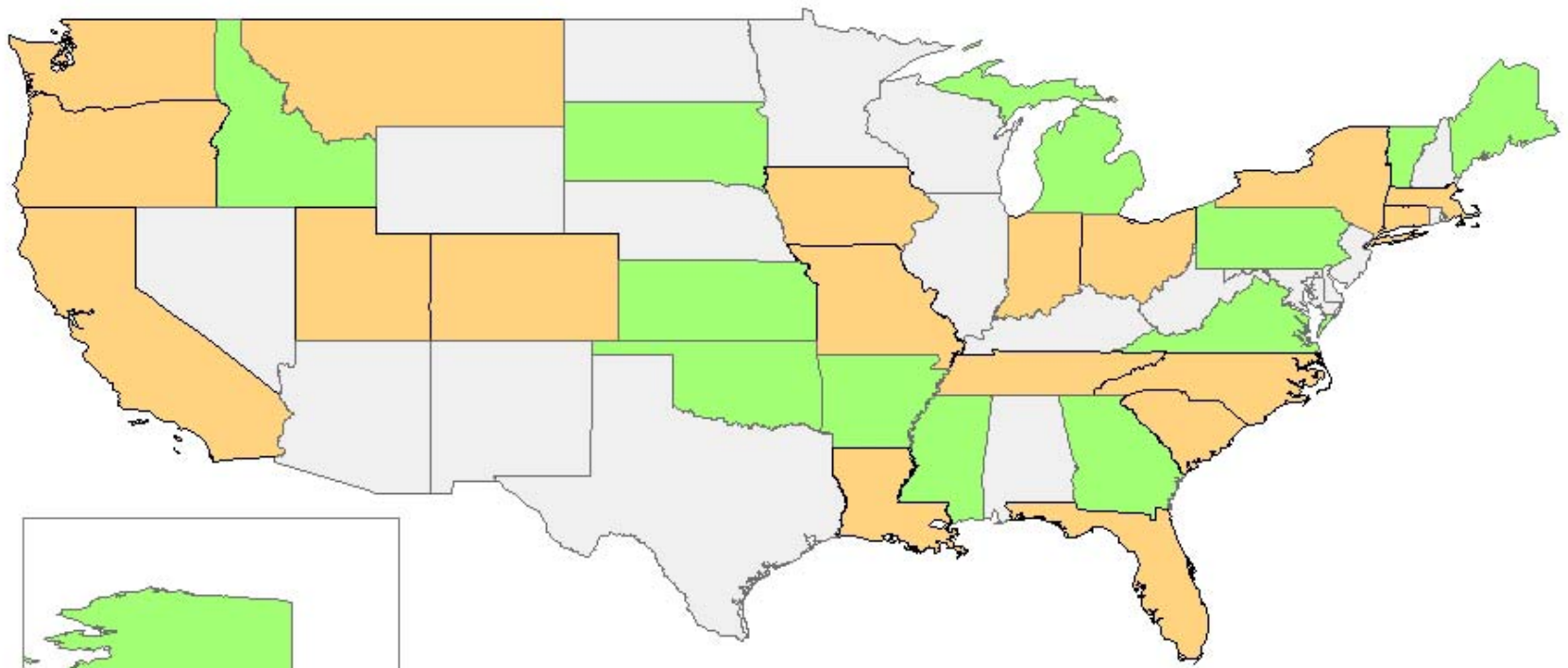
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Olympia Snowe (R-ME)  
Arlen Specter (R-PA)  
Debbie Stabenow (D-MI)  
Ted Stevens (R-AK)  
Jon Tester (D-MT)  
John Thune (R-SD)  
John Warner (R-VA)  
James Webb (D-VA)  
Roger Wicker (R-MS)

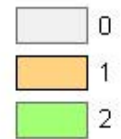
Lamar Alexander (R-TN)  
Robert Bennett (R-UT)  
Christopher Bond (R-MO)  
Barbara Boxer (D-CA)  
Sherrod Brown (D-OH)  
Sam Brownback (R-KS)  
Robert Casey (D-PA)  
Saxby Chambliss (R-GA)  
Tom Coburn (R-OK)  
Thad Cochran (R-MS)  
Susan Collins (R-ME)  
Cory Collins (R-ND)  
Larry Craig (R-ID)  
Christopher Dodd (D-CT)  
Elizabeth Dole (R-NC)  
Lindsey Graham (R-SC)  
Tom Harkin (D-IA)  
James Inhofe (R-OK)  
Johnny Isakson (R-GA)  
Tim Johnson (D-SD)  
John Kerry (D-MA)  
Mary Landrieu (D-LA)  
Patrick Leahy (D-VT)

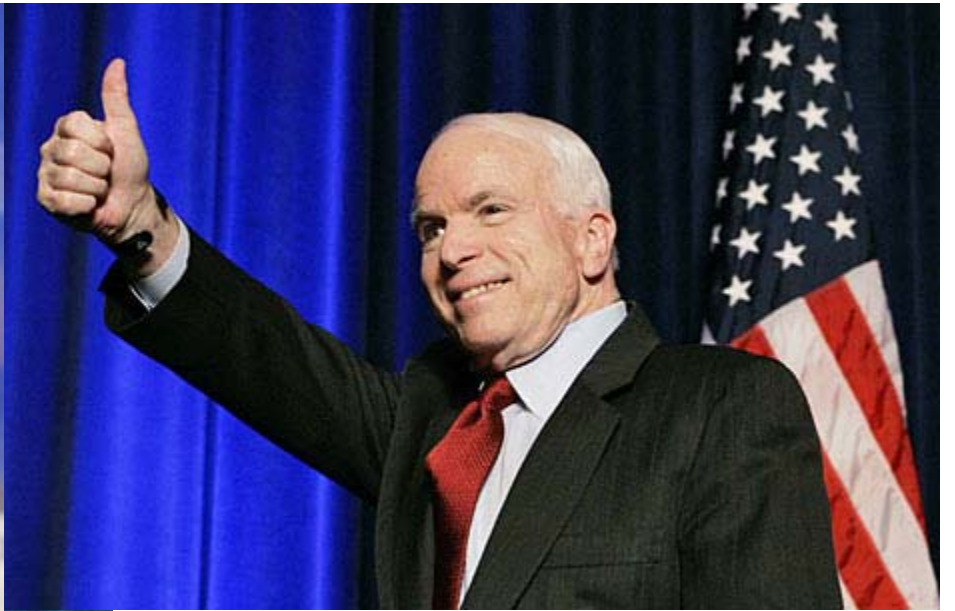
Carl Levin (D-MI)  
Blanche Lincoln (D-AR)  
Trent Lott (R-MS)  
Richard Lugar (R-IN)  
Patty Murray (D-WA)  
Lisa Murkowski (R-AK)  
Bill Nelson (R-FL)  
Mark Pryor (D-AR)  
Pat Roberts (R-KS)  
Ken Salazar (D-CO)  
Bernard Sanders (I-VT)  
Charles Schumer (D-NY)  
Gordon Smith (R-OR)  
Shirley Stabenow (R-ME)  
Arlen Specter (R-PA)  
Debbie Stabenow (D-MI)  
Ted Stevens (R-AK)  
Jon Tester (D-MT)  
John Thune (R-SD)  
John Warner (R-VA)  
James Webb (D-VA)  
Roger Wicker (R-MS)

# **S. 881 is Co-sponsored by 45 U.S. Senators**



**Number of Senators  
Cosponsoring S.881**

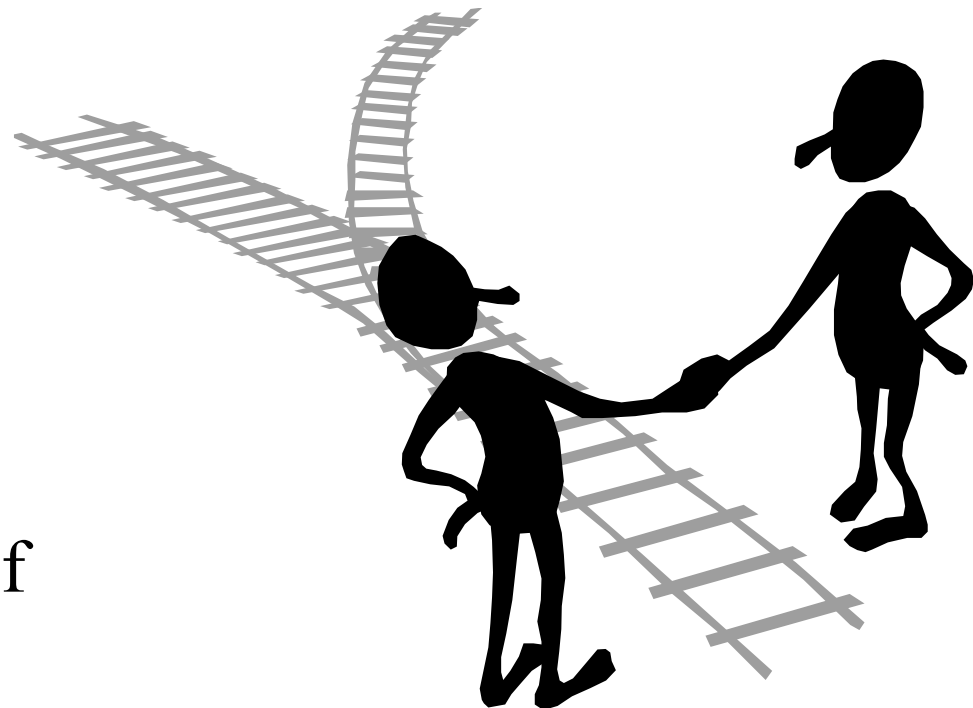




Unfortunately, other political considerations have prevented passage of the Senate extenders bill since October of 2007...

# Section 45G Benefits the Entire Rail Community

- During 2005-2007, 45G assisted over \$800m in investments by creating over \$400m in credits
- Railway Tie Association estimates that as many as 1 million additional ties were purchased because of 45G. Demand is down after sunset of 45G this year



# What if your railroad does not have tax liability?

- Section 45G allows tax exempt railroads (examples: Alaska Railroad), or railroads with loss carryforwards, to assign their credit limitation to customers, contractors, and suppliers
- Assignees of credits can earn credits by paying for upgrades to the railroad's infrastructure





# Success Stories for Customers

Cliff Forrest, President – Rosebud Mining Company, Penfield,  
Pennsylvania - *A Customer of the Buffalo & Pittsburgh Railroad*

Due to the investment funds made available by the Section 45G tax credit, the Buffalo & Pittsburgh Railroad is upgrading its tracks from Dubois to Driftwood, Pennsylvania. This \$2.2m investment will enable Rosebud Mining Company to expand its coal preparation and railcar loading facility in Penfield, Pennsylvania and expand its coal mining operations in the region. This project enables Rosebud Mining to open a new coal mine in the region with forecasted shipments of 8,000 railcars (800,000 tons of coal) annually. The upgrade provides a positive economic impact to the region by creating 45 new mining jobs, 5 new railroad jobs and 30 temporary construction jobs.

**Cliff Forrest of Rosebud Mining Company said, “Having the Buffalo & Pittsburgh Railroad make this investment was essential in our decision to expand the coal load-out facility, which will now enable us to handle 800,000 tons by the opening of new coal mines.”**

# Success Stories for Customers

Ronald Harlow, Dixie Business Director – Georgia Pacific, Naheola, Alabama - *A Customer of the Meridian & Bigbee Railroad*

The Meridian & Bigbee Railroad serves 22 customers in central Alabama and Mississippi. Those customers in turn employ over 3,900 high quality, industrial workers. The Section 45G credit allowed the railroad to undertake an aggressive \$5.6 million improvement project. With the renovations, the railroad will be able to attract new industries and jobs to the region while continuing to provide high quality service to existing customers.

**“The Georgia-Pacific mill at Naheola depends on the Meridian & Bigbee Railroad to provide critical rail service,” said Ronald Harlow, director of Dixie Business for Georgia-Pacific Corporation, the largest single on-line customer.**

# Success Stories for Customers

Gene Carrier, General Manager – East Texas Asphalt Company,  
Lufkin, Texas - *A Customer of the Timber Rock Railroad*

The Timber Rock Railroad provides a crucial connection to the BNSF and KCS Railroads, necessary to deliver needed aggregate into east Texas. The Timber Rock utilized the Section 45G tax credit to make needed bridge improvements to handle long heavy trains of rock cars and deliver them safely and economically to deep east Texas.

**“We count on the Timber Rock to supply multiple grades of aggregate to meet the construction needs of our region, “ said Gene Carrier, General Manager of East Texas Asphalt. “Their ability to make needed repairs to the railroad allows our communities to compete economically with the urban areas that have more transportation choices.”**

# Success Stories for Customers

*Mike Purdy, Owner – Delta Trading Company, Bakersfield, California  
- A Customer of the San Joaquin Valley Railroad*

*Delta Trading is a distribution facility located on the Sunset branch of the San Joaquin Valley Railroad in Bakersfield, CA. **Mike Purdy of Delta Trading said, “The track rehabilitation made possible by the tax credit is directly responsible for Delta Trading Company’s decision to invest nearly \$3 million in its facility and almost triple its number of employees. We now have a short line railroad partner that can provide the volume and level of service that allows us to significantly grow our business. This tax credit was a very smart decision by the federal government and I suspect it will more than pay for itself as our experience is repeated on short lines across the country.”***

## 4. Rail line relocation and short line grant programs

- Two recently created grant programs for short line railroads:
- Rail Line Relocation and Improvement Program (authorization at 49 USC §20154);
- Short Line Railroad Capital Grant Program (authorization at 49 USC §22301)

## Rail Line Relocation and Improvement Program (§20154)

- Authorized up to \$350m/yr through FY09 to “mitigate the effects of rail traffic on safety, motor vehicle traffic flow, community quality of life, ...economic development..., or lateral or vertical relocations of any portion of rail line.”

# Rail Line Relocation and Improvement Program (§20154)

- SAFETEA-LU created section 20154 to authorize grant programs for the relocation of freight rail lines.
- Grants are to be made to States or **political subdivisions of states**, and not directly to railroad companies.
- 90/10 money (theoretically)

# Rail Line Relocation and Improvement Program (§20154)

- Congress has already appropriated funding for this program
- FRA will soon start taking grant applications
- \$20.25 million was appropriated in FY08
- 9 projects totaling \$5.25 million were earmarked in the rail line relocation program
- \$15 million balance administered by FRA
- A continuing resolution may make more funding available

# Short Line Railroad Capital Grant Program (§22301)

- Authorizes up to \$50m/yr through FY2011
- Purposes: to rehabilitate short line freight “track (including roadbed, bridges, and related track structures)”, projects that facilitate short line transportation, reduce the use of less fuel efficient modes of transportation, and projects that demonstrate innovated technology for “increased fuel economy, reduce[d] greenhouse gas[ses]... and lower the costs of operation.”

# Short Line Railroad Capital Grant Program (§22301)

- Created as part of Energy Independence and Security Act of 2007
- Proposed by ASLRRA in 2001/2002
- 80/20 money (theoretically)
- No funding yet appropriated
- No regulations yet formulated