RAILROAD-SHIPPER TRANSPORTATION ADVISORY COUNCIL
Washington D.C.

Position Paper

Railroad Investment Tax Credit

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The Railroad-Shipper Transportation Advisory Council (RSTAC) is charged to provide a private sector forum for the discussion of matters of concern to small rail shippers and small railroads and to provide advice on regulatory, policy and legislative matters to the Surface Transportation Board (STB), Secretary of Transportation and Congress.

One area of major concern to small shippers and small railroads is the current capacity constrained rail network and its effects on their businesses. There is no doubt that key corridors of the rail system are approaching capacity; the Department of Transportation has found that rail tonnage density has tripled since 1980. At the same time, highway vehicle density has increased 250%, impeding the effectiveness of small shippers' trucking alternative. In addition, small shippers and small railroads are most vulnerable to problems caused by capacity constraints.

Although the railroads have been increasing their capital expenditures, most of that capital, approximately 80%, is going to sustain existing capacity rather than toward expansion. Studies by the American Association of State Highway and Transportation Officials (AASHTO), the General Accountability Office (GAO), the Congressional Budget Office (CBO), and others show that the current pace of investment is insufficient for the expected growth in freight traffic. The problem is serious because railroad capital investment is already very large relative to other industries. The reason that both existing and needed capital investment is so large is that the railroads are the only carriers that must build and maintain their own rights-of-way.

AASHTO's study, *Freight Rail Bottom Line Report*, states "The rail industry today is stable, productive and competitive, with enough business and profit to operate but not to replenish its infrastructure quickly or grow rapidly." In its analysis, AASHTO estimated that railroads will need to carry an additional 888 million tons of freight annually by 2020 just to maintain their current market share. AASHTO estimates that the railroads will need $175 billion to $195 billion invested in infrastructure over this period to handle this traffic growth, and projected that the railroads will be able to fund the majority of this investment, $142 billion, themselves. According to AASHTO this will only enable the railroads to handle about half of the expected increase.

As long as there is a capital shortfall, the growth of merchandise traffic may be constrained. Merchandise traffic is particularly important to small shippers and small railroads; such carload business factors heavily into the competitiveness of domestic industrial manufacturing. And, if the capacity shortfall is severe, merchandise traffic will be forced out and onto an already burdened highway infrastructure. Therefore, it is an urgent matter for small shippers and small railroads that the railroad industry finds a way to add capital investment to increase rail capacity as quickly as possible.

The nation's Class I railroads are engaged in a legislative effort to obtain a 25 percent federal investment tax credit and a first year expensing provision for investments in railroad infrastructure. This initiative is designed to assist the railroad industry in finding a way to fund the potential shortfall of railroad infrastructure investment and to add new capacity. Eligibility for the credit would extend to any taxpayer that makes the qualifying investment, not just the railroads. The investment tax credit program for rail infrastructure would be limited to projects that expand freight rail capacity, by increasing the volume, weight or speed of freight that can be carried. Examples of qualifying investments include upgrading single track lines to double or triple tracks to handle additional volume, adding and lengthening sidings to improve velocity, strengthening bridges to carry heavier loads, adding new locomotives to create additional capacity and construction of new track at a shipper's location to enhance faster turn times on loading or unloading. The investment tax credit program would also provide that any capital expenditures that do not qualify for capacity enhancing tax credits would be expensed, thus allowing railroads to expense their infrastructure costs, reducing the disparity with highway and waterway freight service providers.

The proposed railroad tax credit would be good policy because it would ease the distortion caused by public funding of highways and waterways. It would advance the energy efficiency and environmental benefits inherent in rail transportation, and it would work against highway congestion. Moreover, the tax credit would be an efficient mechanism because it would keep decisions about individual projects in the private sector and close to the marketplace, and leverage significant additional private investment in the railroad industry..

The use of tax credits to improve and quicken capital investment in the railroad industry has been used before with the 2004 passage of the short line tax credit for infrastructure investment. By any standard, this program has been a complete success. It has improved the overall capabilities of the short line rail network by accelerating capital investment in short line rail infrastructure thereby contributing to the output.

RSTAC believes an overall capacity enhancing investment tax credit for rail infrastructure should be enacted as soon as possible. The benefits for the small shippers and small railroads are significant. We urge that the tax credit be made a priority and that it be advanced apart from, other railroad issues now before the Congress.