

Railroad Tax Credits: A Proven Solution for Railroad Infrastructure Improvements



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Georgia House Rural Development Council
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About Mickelson & Company, LLC

- Founded in 2004 in Sioux Falls, SD
- Financial Consultants
 - Capital Advisory and Consulting Services
 - Industrial Development Finance
 - Tax Credit Advisory: 45G, New Markets, State Tax Credits
 - Actively involved with legislative efforts at ASLRRRA
- 200+ short line railroad clients
- Georgia Northeastern, Georgia Southern, CaterParrott, Great Walton, Hartwell/Athens Line, Heart of Georgia, G&W

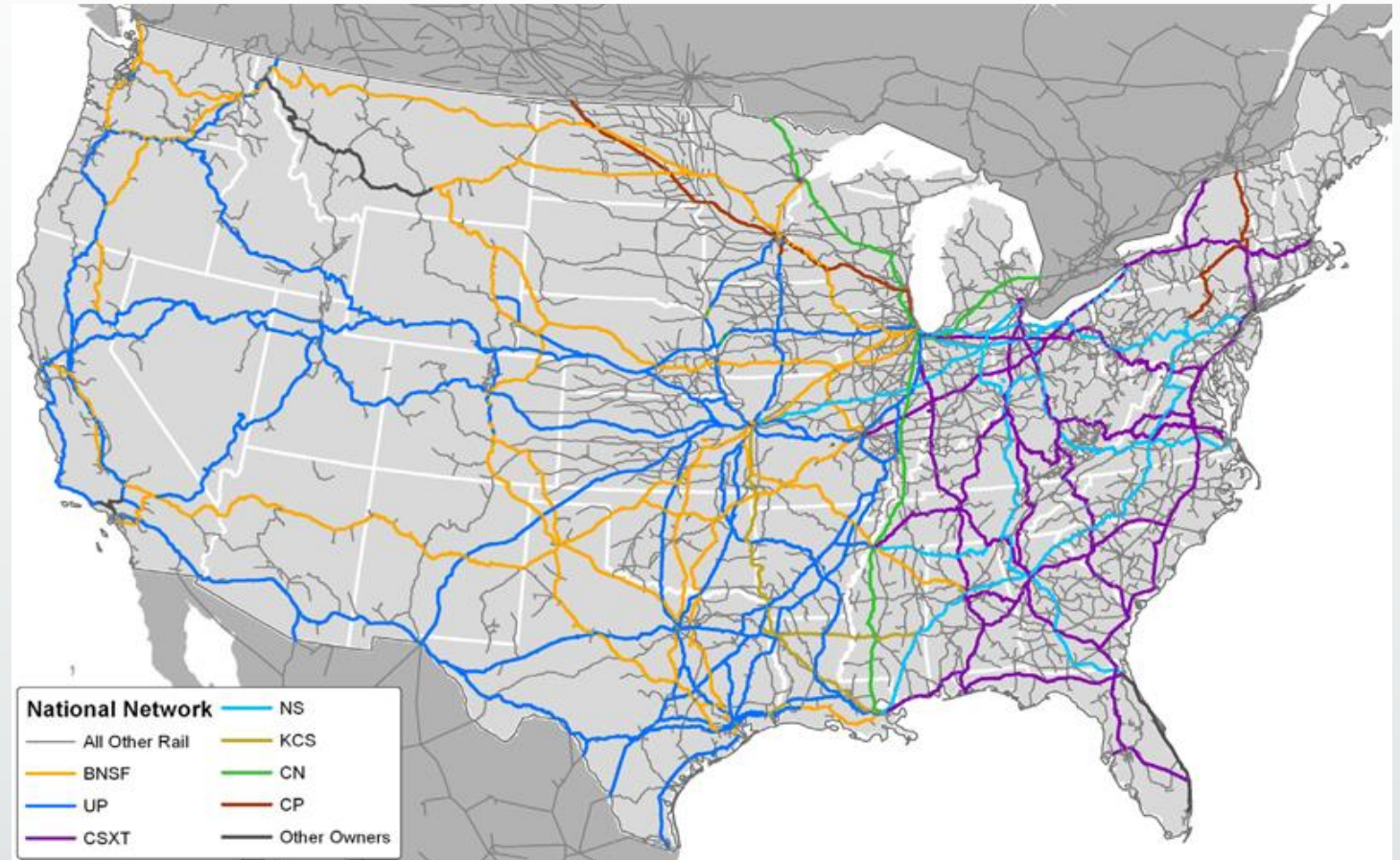
Presentation Outline

- U.S. Freight Rail Overview
- It's All About the Railroad Customer
- Infrastructure Reinvestment Needs
- Replicating Something That Works
- A Potential Solution for Georgia Freight Rail Needs
- Q & A

United States Freight Rail Network

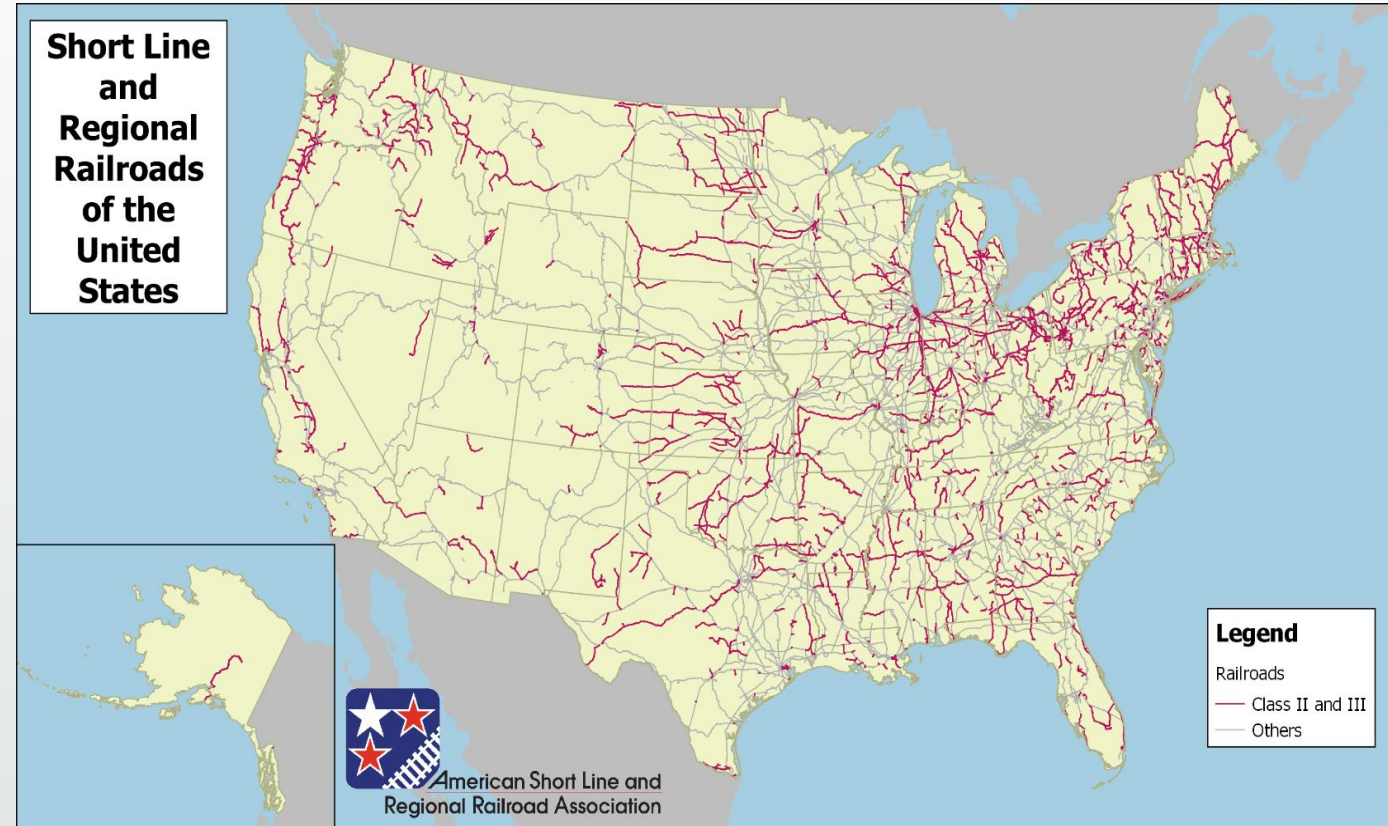
Quick Facts:

- 610 Railroads
- 140,000 track miles
- 181,465 FTE's (\$106k/year)
- 64,671,000 carloads annually
 - 91% bulk commodities
 - 9% intermodal (consumer)
- 2.2 billion tons of freight
- Equivalent of 122 million additional trucks



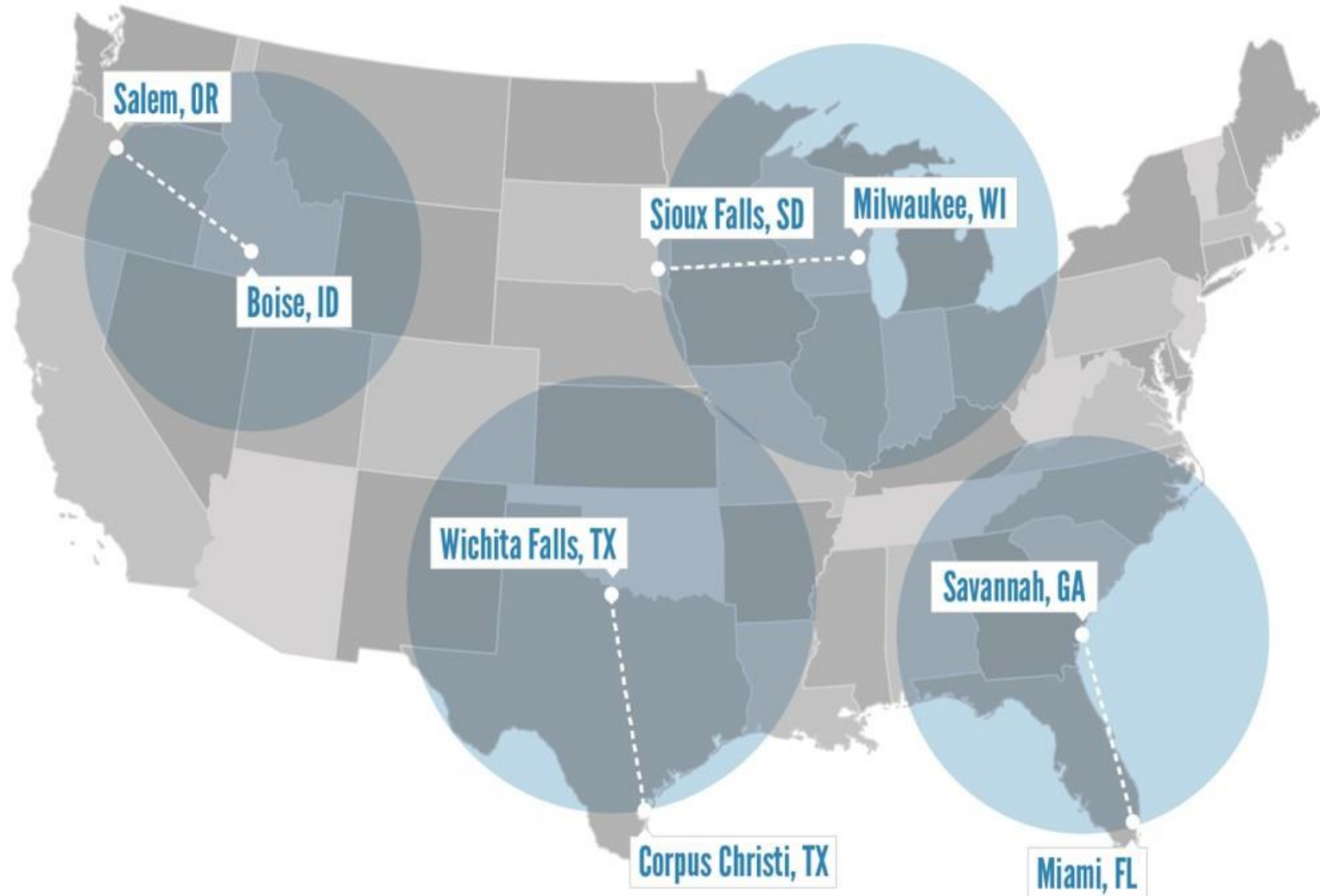
Short Line and Regional Railroads of U.S.

- 603 Short Line Railroads
- 48,000+ track miles in 49 states
- First mile/Last mile
- Connect to national freight network
- Serve 10,000+ rail customers
- Local job rural creators



HOW FAR CAN A SINGLE GALLON TAKE YOU?

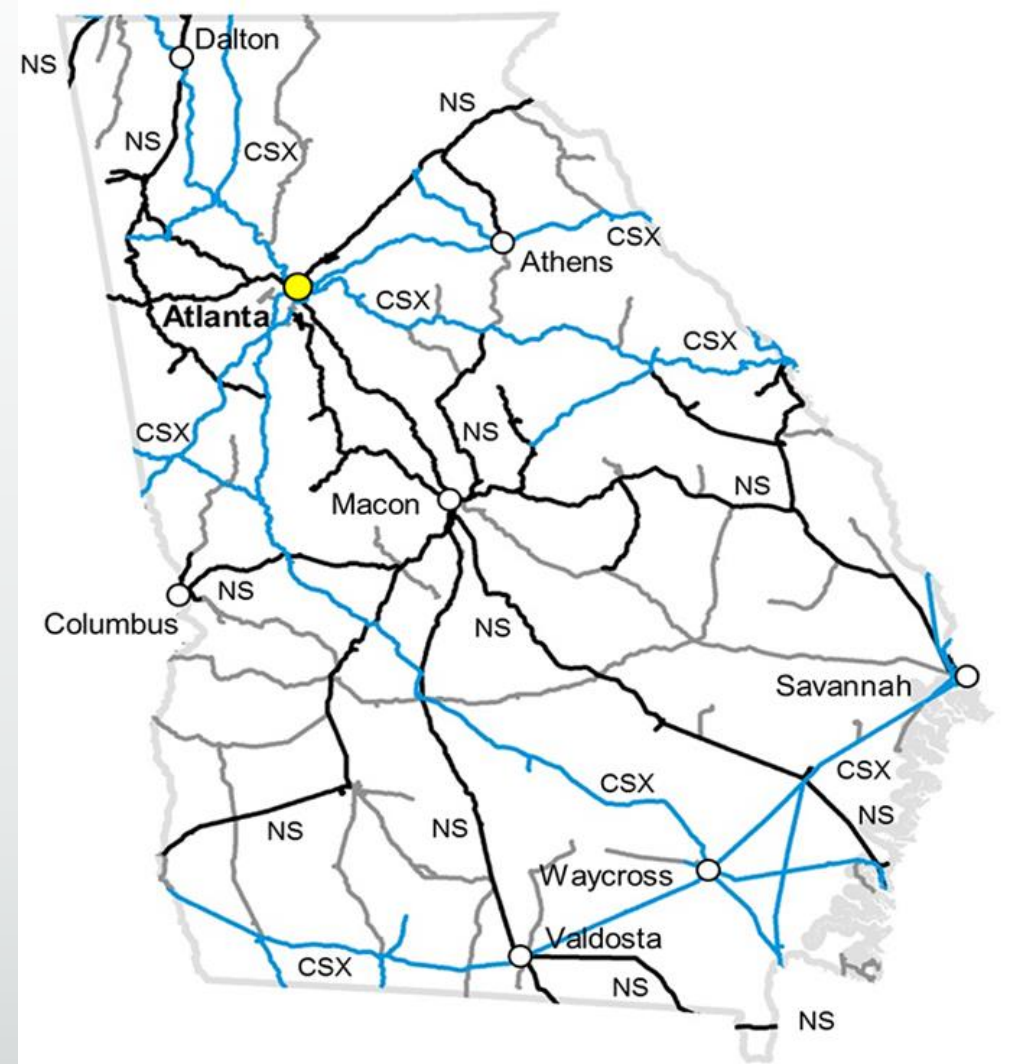
If you're on a freight train, farther than you'd think.



Georgia Freight Rail System

- 25 Railroads
- Georgia Track Miles:

Class I's (2):	3,200
Short Lines (23):	<u>1,600</u>
Total Track Miles:	4,800
- 490 miles owned by GDOT
- Key hub for exports and intermodal
- Short lines key to rural Georgia



Economic Impact of Freight Rail

- Total Freight Rail Employees in GA: 7,178
- Avg. Annual Wages & Benefits: \$ 102k/year
- Total Annual Labor Income: \$ 732 million
- Total State & Local Taxes: \$ 36 million
- Total Direct Economic Impact: \$ 2.4 billion

Source: *Association of American Railroads; 2015 Georgia Freight Rail Plan*

So what moves by rail in Georgia?

- **Major Commodities**

- Agricultural and food products, sand, pulp/paper, coal, and intermodal

- **Annual Volume:**

- 3.9 million carloads handled/year
- 187.4 million tons freight/year
- \$203.2 billion in annual value (Avg. \$1,074/ton)

- **By comparison:**

- Equivalent of 7.7 million trucks (loaded)
- \$300 million annually in pavement damage savings

- **By 2050, 335 million tons freight/year (\$525 billion value)**



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FOR
94,000 GALLONS OF BEER



It's All About The Railroad Customers!

- Railroads cannot exist without their customers
- Rail customers come in all shapes and sizes
- Freight must be delivered in a safe, reliable, and efficient manner
- “Short Lines” are small rural Georgia businesses providing first and last mile that connects customers to the national freight network (“logistical lifeline”)
- **Biggest challenge** = maintaining and upgrading rail infrastructure to meet customer needs/demands
- Meeting infrastructure needs presents tremendous opportunity

Investing in America's Rail Infrastructure

- **Railroading is capital intensive:**
 - **New track:** Estimated \$1.5 million per mile
 - **Rehab/Upgrade Track:** Estimated \$400,000 per mile
 - **Bridges:** Varies widely; \$100k (maintenance) to \$1 million (rebuild)
- \$630 billion reinvested from 1980 to 2016
 - Estimated \$130 billion from 2012-2016, alone! (20%)
- **Reinvestment critical for:**
 - Safe and reliable freight service
 - Economic development (286k railcars)

**Source – Association of American Railroads, Industry provided information*

286,000-lb Railcar Capacity

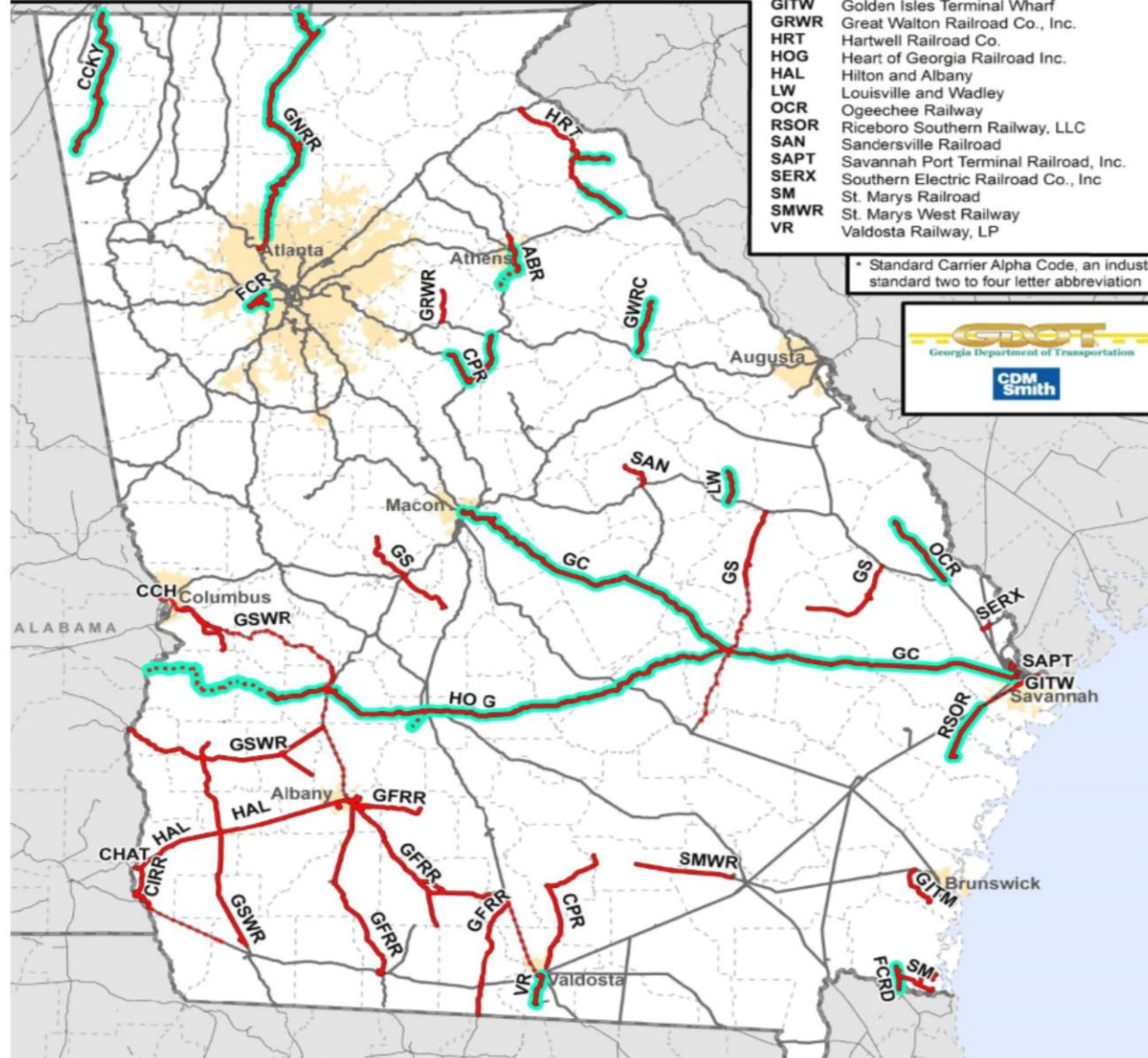
- Industry standard railcar weight for bulk commodities (grain, lumber, coal, etc.) **“286K”**
- Most Class I’s are 286K capable
- 50% of short line miles are not 286K capable!
- Huge disadvantage if not able to handle 286K
- Where are there 286K issues in Georgia?
 - CSX: Cartersville Subdivision
 - NS: Moores Subdivision; Dublin Subdivision
 - Short lines in Georgia

SCAC*	Railroad
ABR	The Athens Line, LLC
CPR	CaterParrott Railnet, LLC
CHAT	Chattahoochee Bay Railroad
CIRR	Chattahoochee Industrial Railroad
CCKY	Chattooga and Chickamauga Railway Co.

SCAC*	Railroad
CCH	Columbus & Chattahoochee
FCRD	First Coast Railroad
FCR	Fulton County Railway, LLC
GFRR	Georgia and Florida Railway, LLC
GC	Georgia Central Railway, LP

SCAC*	Railroad
GNRR	Georgia Northeastern Railroad Co., Inc.
GS	Georgia Southern Railway
GSWR	Georgia Southwestern Railroad, Inc.
GWRC	Georgia Woodlands Railroad, LLC
GITM	Golden Isles Terminal Railroad Inc.
GITW	Golden Isles Terminal Wharf
GRWR	Great Walton Railroad Co., Inc.
HRT	Hartwell Railroad Co.
HOG	Heart of Georgia Railroad Inc.
HAL	Hilton and Albany
LW	Louisville and Wadley
OCR	Ogeechee Railway
RSOR	Riceboro Southern Railway, LLC
SAN	Sandersville Railroad
SAPT	Savannah Port Terminal Railroad, Inc.
SERX	Southern Electric Railroad Co., Inc.
SM	St. Marys Railroad
SMWR	St. Marys West Railway
VR	Valdosta Railway, LP

* Standard Carrier Alpha Code, an industry standard two to four letter abbreviation



Georgia Freight Rail Needs Assessment	Cost in Millions
<u>Freight and Safety Improvements</u>	
<u>Short-Range Projects (2016-2019)</u>	
GDOT owned short line track and structure improvements	\$ 37.8
Grade crossing safety improvements	\$ 36.0
Needs analysis, rail capacity and economic impact studies	\$ 4.0
Short-Range Subtotal	\$ 77.8
<u>Long-Range Projects and Studies (2020-2045)</u>	
Atlanta regional rail capacity solution engineering and design	\$ 5.0
Specifically identified short line infrastructure projects	\$ 218.1
Ongoing maintenance GDOT owned short line railroads (lump sum)	\$ 877.8
Grade crossing safety improvement program (lump sum)	\$ 189.0
Long-Range Subtotal	\$ 1,289.9
Rail Program Freight and Safety Improvement Totals	\$ 1,367.7
Average Annual Amount Per Year (25 years)	\$ 54.7

** Source - 2015 Georgia Freight Rail Plan*

A Proven Solution - 45G Tax Credit

- Developed in 2005 for short lines to upgrade infrastructure
- Federal tax credit equal to 50% of eligible expenditures
- Tax credit capped at \$3,500 per track mile
- Tax credit may be claimed by railroad or by shippers and certain vendors that have relationships with railroad via an assignment of track miles
- Assignability feature is unique to the IRS code
- Over \$3+ billion improving rail infrastructure since 2005
- Legislative uncertainty: 45G tax credit expired 12/31/16

The Building Rail Access for Customers and the Economy Act (“BRACE Act”)



- HR.721/ S.407 (115th Congress)
- Since 2005, series of one/two-year extensions
- BRACE Act makes 45G tax credit permanent
- Bi-partisan support; most co-sponsored tax bill
- Uncertain path forward (tax reform)
- Eliminating 45G would negatively impact businesses that depend on short line service

H.R. 721 (115TH CONGRESS) CO-SPONSORS (165)

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Gerald Connolly (D-VA-11)	Evan Jenkins (R-WV-3)	Rick Nolan (D-MN-8)	David Valadao (R-CA-21)
Joe Courtney (D-CT-2)	Lynn Jenkins (R-KS-2)	Eleanor Holmes Norton (D-DC-AL)	Filemon Vela (D-TX-34)
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Scott DesJarlais (R-TN-4)	Ron Kind (D-WI-3)	Jared Polis (D-CO-2)	
Mario Diaz-Balart (R-FL-25)	Steve King (R-IA-4)	Bill Posey (R-IN-6)	
Mike Doyle (D-PA-14)	Adam Kinzinger (R-IL-16)		
Sean Duffy (R-WI-7)	Ann Kuster (D-NH-2)		

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Richard Blumenthal (D-CT)	Kirsten Gillibrand (D-NY)	Lisa Murkowski (R-AK)	Jeanne Shaheen (D-NH)
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Benjamin Cardin (D-MD)	Heidi Heitkamp (D-ND)	Patty Murray (D-WA)	Dan Sullivan (R-AK)
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Al Franken (D-MN)	Patrick Leahy (D-VT)	Mike Rounds (R-SD)	

Georgia Delegation Support of BRACE Act

Co-sponsors of the BRACE Act in the 115th Congress (S. 407 and H.R. 721)

- Sen. Johnny Isakson (R-GA)
- Rep. Earl Carter (R-District 1)
- Rep. Sanford Bishop (D-District 2)
- Rep. Austin Scott (R- District 8)
- Rep. Doug Collins (R-District 9)
- Rep. Jody Hice (R-District 10)
- Rep. Rick Allen (R-District 12)
- Rep. Tom Graves, Jr. (R-District 14)

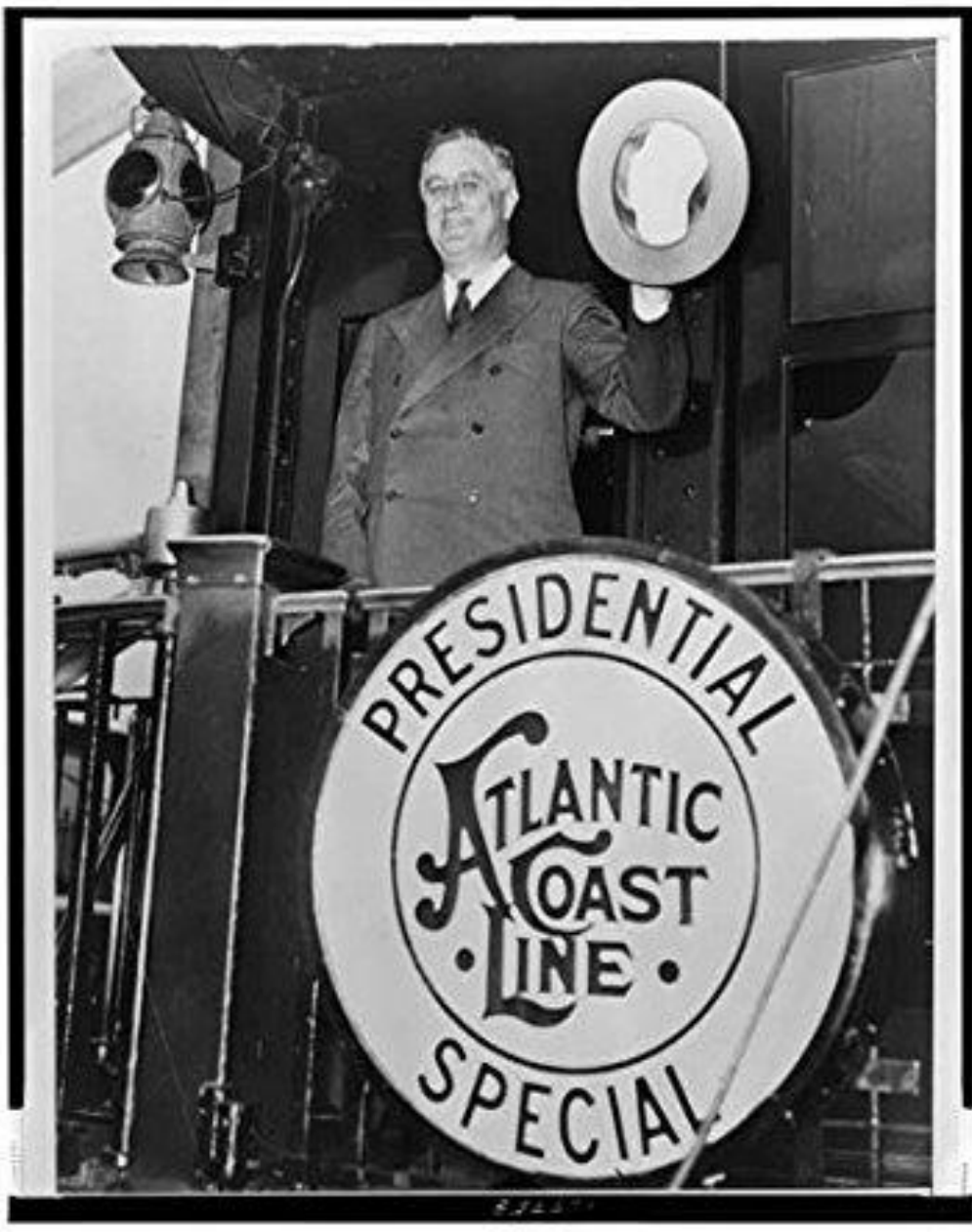


S.O.S. Members with Locations in Georgia

Total: 65 S.O.S. Member Locations

"Member Locations" in a state is the number of distinct locations to or from which a short line railroad customer ships products by rail. Many companies have multiple locations in the state employing workers and generating activity for the state's economy. Because of this the number of facilities and the number of companies listed below may be different.

84 Lumber Company	Jones Logistics	Savannah Marine Terminal
AgroLiquid	Lineage Logistics dba Flint River Services, LLC	Schnitzer Southeast LLC.
American Protiens, Inc	Logistec USA	SeaGate Handling, Inc.
Ampro Products Inc	MillerCoors	South Dakota Soybean Processors, LLC
Arizona Chemical	Norton Packaging, Inc.	Standlee Premium Western Forage
Birdsong Peanuts	Oil-Dri Corporation of America	Stella-Jones Corporation
Constellation Brands-Beer Division	Omya Inc.	Synergy Recycling LLC
Cox Industries, Inc	Owens Corning Sales, LLC.	The Anastasio Group
Darling Ingredients Inc.	Oxford Construction Company	The Mallory Group
East Coast Terminal Company	PCA	Toys R Us
Gilman Building Products, LLC	R. W. Griffin Industries, LLC	USAT Logistics - division of USA Truck, Inc.
Imerys	Roche Farm and Garden	Venture Commodities, Inc.
IMEX Converting, LLC	Rose Acre Farms	Yang Ming (America) Corp.
International Auto Processing, INC		
International Feed		



**“IF IT WORKS, DO
MORE OF IT. IF IT
DOESN’T, DO
SOMETHING ELSE.”**

-FRANKLIN D. ROOSEVELT

Oklahoma State Railroad Tax Credit

- Program enacted in 2006 for short line railroads
- Historically, 50% tax credit capped at \$2,000/track mile
- Tax credit can be claimed, carried forward, or assigned
- Estimated program cost: \$2 million annually
- \$40+ million in additional private investment since inception

Kentucky State Railroad Tax Credit

- Program enacted in 2009 for short line railroads
- 50% tax credit capped at \$3,500/track mile
- Tax credit can be claimed or assigned (no carry forward)
- Estimated program cost: \$3 million annually
- \$50+ million in additional private investment since inception

Replicating a Proven Solution

▪ **Market Development Factors**

- Concentration of railroads and track miles
- Active state railroad association
- Existing state tax credit markets (helpful)
- Legislators who like railroads and economic development
- Railroads willing to actively engage in the process

▪ **Railroad Tax Credit Legislation**

- 2017: Texas (introduced; did not pass due to budget issues)
- 2018: Georgia, Oregon, Idaho, Louisiana, Indiana and Washington

Georgia State Railroad Tax Credit Proposal

- 50% tax credit for eligible track expenditures
- Tax credit amount capped at \$3,500/mile track mile in Georgia
- Example for 100 mile railroad:
 - 100 miles x \$3,500 = maximum tax credit of \$350,000
 - Railroad must spend \$700,000 or more to generate tax credit
- Tax credit could be claimed or assigned to another Georgia taxpayer
- Estimated annual cost? Depends on your assumptions...
 - 1,600 short line miles x \$3,500/mile = \$5.6 million annual cost
 - Annual cost assumes \$11.2 million in additional railroad investment
 - Class I Railroad provision for rural infrastructure investment
- Tax credit is a private sector solution to Georgia's rail shipper needs

Georgia Southern Railway



- 74 track miles operated in Georgia
- 3,000 carloads per year (Grain, Sand, Plastics)
- Reinvestment drives economic development
- 2016: 5 industrial track projects; 82 new jobs
- WL Plastics in Statesboro, GA (pictured)
 - Switch installation and new business in 2016
 - 15 new jobs; 400 new carloads annually

Georgia Northeastern Railroad



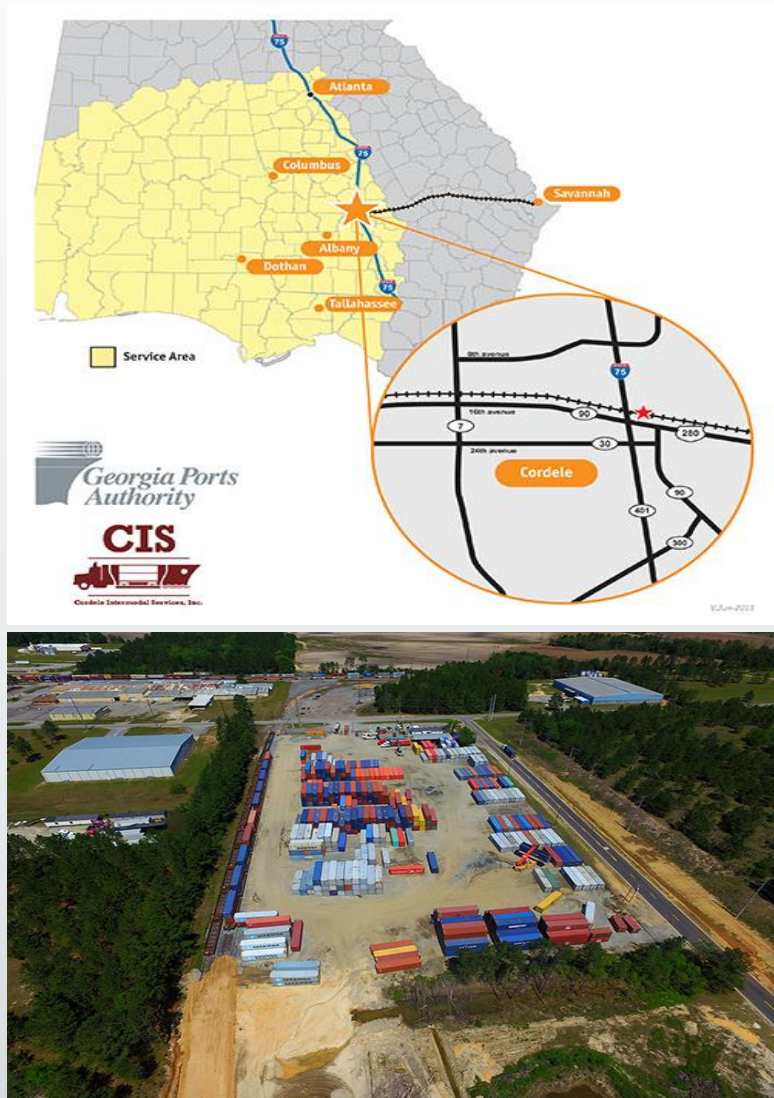
- 112 track miles operated in Georgia
- Marietta, GA to McCaysville, GA
- 20+ customers (Imerys, Universal Alloy, DOW)
- 5,000 carloads per year
- Rail replacement near Canton, GA (pictured)
 - Replacing 90lb rail with 132lb rail
 - Accommodate heavier cars and increased speeds

Hartwell Railroad Company (“HRT”)

- Founded in 1879; owned by B.R. Anderson
- 58 track miles; 5,000 carloads annually
- Grain, lumber, plastics, and wood chips
- **New Elbert County Feed Mill (2017)**
 - Multi-million dollar investment
 - 8 acres 10,000 SF facility
 - 6 new FTE’s
 - Rail access key to location siting
 - HRT constructing new railroad spur



Heart of Georgia and Georgia Central



- Cordele Inland Port (Cordele, GA)
- 40 acres Crisp Co. Industrial Park (expandable)
- Georgia Ports Authority in Savannah, GA
- Rail/Truck Access (I-75, Hwy 300 & 280)
- Reduced truck traffic and pavement damage
- New rail traffic of 4,000 carloads annually
- 125 new FTE's
- Model for other inland ports in Georgia

Recap/Final Thoughts

- It's all about the railroad customer and creating rural jobs
- Significant reinvestment is required to accommodate their needs
- Deferred investments will result in missed opportunities
- Tax credit model is a proven solution - it drives private reinvestment
 - Not a handout; private investment required to generate tax credit
 - Investments prioritized based on market demand
- Legislative priority for Georgia Railroads in 2018 Session
- Q&A

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