

**Summary Report from  
Roundtable on Funding & Financing Short Line Rail Projects**  
February 20, 2018 -- Washington DC



## WELCOME & INTRODUCTIONS

**Jennifer Brickett**, BATIC Institute: An AASHTO Center for Excellence

Since the last BATIC Institute rail roundtable in Oakland (September 2017) there have been important developments impacting short line rail including: the one-year retroactive extension of the track maintenance "45G" tax credit in the budget bill; other changes affecting railroad companies in the recently-passed tax bill; and new detailed infrastructure principles contained in the document released earlier this month by the Trump Administration.

**Roger Bohnert**, Director of Outreach and Project Development, USDOT, Build America Bureau

From conversations with Administration officials involved in the development of the recently released Infrastructure Principles document, Roger offered some insight into the principles and themes.

- Earlier versions included even more detail, but the principles as released are intended to be the start of a conversation that hopefully moves toward enactment of important legislation.
- The document refers to all infrastructure, not just transportation. USDOT was one of 12 infrastructure agencies at the table.
- There is an overarching desire to move authority and decision making to state and local governments.

## Operating Environment, Capital Needs and Investment Approaches

*Introductory Remarks: Linda Darr, President, American Short Line and Regional Railroad Association (ASLRRA)*

- Short line railroads operate nearly one third of the national railroad network, just under 50,000 miles of track. More than 600 Class II and III railroads operate in 49 states, and in 36 of those states they operate at least one quarter of the state's total rail network. In five states short lines operate 100 percent of the state's rail network. Short lines are often called the first mile/last mile of the nation's railroad system – basically on and off ramps for the Class I railroads – and handle in origination or destination nearly one out of every four rail cars moving on the national system.
- Short lines are small businesses that contribute directly and indirectly to rural economic development. The average annual revenue is just \$7.7 million and their combined annual revenues are less than the annual revenues of any single one of the nation's four largest Class I railroads. Fewer than 7% of short line track-miles are government owned. The average short line employs 30 people or less, and a significant number are run with less than a dozen employees. However, short lines directly provide 18,000 jobs in mostly rural areas nationwide, and they provide critical connections for over 10,000 shippers to the national rail network.
- Short lines invest heavily in themselves, but have significant capital needs (~\$10B). The majority of short lines operate track that was headed for abandonment under previous Class I owners. These were light density branch lines that could not make enough money under the cost structure of the big national carriers. Since the deregulation of the rail industry formalized by the Staggers Act of 1980, the large railroads have shed unproductive lines in poor condition, which the short lines have acquired, growing from 8,000 miles of track to 48,000. Short line companies spend over 25% of annual revenues on capital investment, but their rail lines have significant deferred maintenance. The short lines business community continues to grow as Class I railroads shed branch lines.

Other key focus areas:

- The Administration's focus on local decision making makes it even more important for short lines to work well with state and local partners.
- Positive Train Control (PTC) compliance costs are a significant hurdle for many short lines. The federal Consolidated Rail Infrastructure and Safety Improvements (CRISI) grant program, for which a Notice of Funding Opportunity was just published in the Federal Register, may prove to be a useful tool for investment in this area (more so than the less-targeted and over-subscribed TIGER and INFRA grant programs).
- The recent one-year retroactive extension of the track maintenance "45G" tax credit (from 2016 through 2017) was also a positive step, but it needs to be made permanent. This is a very important investment tool for short line railroads: from 2005 through 2016 this tax credit program helped spur over \$4 billion of capital investment to maintain and upgrade track.

*Introductory Remarks: Jerry Vest, Senior Vice President of Government & Industry Affairs, Genesee & Wyoming*  
Short line railroads and state DOTs share many common challenges, notably that there is never enough money for the work they do. Regardless of ownership structure, short line economics are built on their "last mile" relationships with Class I carriers. The short lines do not have much wealth or market power, most have just one or two major customers. The ability to maintain and reinvest in their lines is based on cash flow that depends on the ability to serve customers to the expected standard. State grant programs are important sources of capital investment for short lines.

The new rail industry standard of 265,000 lb freight cars makes the challenges of deferred maintenance on bridges, rail, and rolling stock immediate and pressing.

- Rolling stock
  - Box car fleets nearing age limits, thousands of different design types that would have to be re-engineered/ re-built
  - Clearance issues
  - Light-loading is not a real solution given the demand for and use of heavier cars; short lines must upgrade to modern, heavier cars to keep customers
- Bridges
  - Many existing bridges are over 100 years old, corrosion is taking a toll
  - While many can get by with "fit for purpose" slow speed operations, that also does not allow railroads to operate heavier and meet the demand for modern cars. Short lines must upgrade.

Positive Train Control:

- Original regulations allowed an implementation deadline waiver for short lines, but didn't mandate one, and in practice PTC implementation for many short lines is subject to conditions and timelines imposed by Class I partners.
- Due to uncertainty in the regulations and in Class I partners' decisions, many short lines effectively are now facing an end of year deadline.
- Costs for implementing PTC can be extremely high relative to short line revenues. For example, extra costs for hardware, software and insurance might add \$1 million annually to a short line small business with annual revenues of just \$7 million per year.
- PTC will add significant costs to the businesses wanting access to the rail network – what are the implications for short line business plans / growth opportunities?
- Most short lines will not be PTC equipped.
- Is there an expectation of short lines not complying? What litigation might be brewing?

Other investment needs:

- Grade crossings/ rebuilding of roadways
- Maintenance of lighting at crossings

Rail plans and public funds:

- State legislatures can program funds, planning to spread them out over many years, but cannot commit all the funding upfront, making it hard to obtain federal funding that requires {committed} matching funds
- State rail plan is not fiscally constrained, more like a wish list of illustrative projects
- Perhaps the state rail plan and state freight plan should be rolled into / made real subcomponents of the long-range plan?
- There is interest in the rural block grant program proposal in the Trump Administration's "principles" document – perhaps a new federal funding opportunity for short lines?
- Description of Iowa's revolving loan and grant fund – grant must be matched along with a commitment to create a certain number of jobs; 10-year loan with zero interest can be made for important investment like bridge replacement

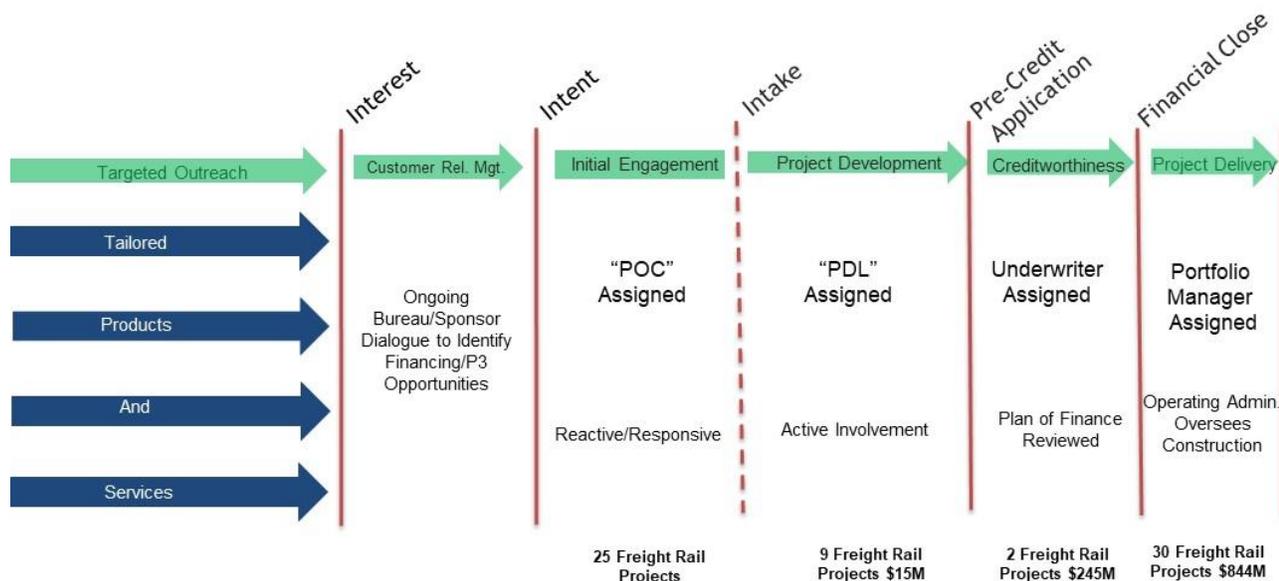
### **Federal Financing for Short Line Projects**

*Introductory Remarks: Jo Strang, Vice President, Safety and Regulatory Policy, American Short Line and Regional Railroad Association (ASLRRA)*

- ASLRRA Survey regarding RRIF program
  - 87% of respondents were from Class IIIs
  - 78% were privately owned
  - Evenly distributed between Line Haul & Switching Ops
  - 25% had applied for a RRIF Loan in the past
  - \$5M - \$10M was the anticipated request
  - Loans would be primarily used for Track and Bridge Repair
- Significant Barriers
  - Application Processing Time – 54%
  - Unclear Process or Requirements – 53%
  - Credit Risk Premium Uncertainty – 51%
- Key Takeaways
  - Short lines want transparency
  - Short lines need costs that align with small businesses

*Introductory Remarks: Roger Bohnert, Director of Outreach and Project Development, USDOT Build America Bureau*

- The program has \$30B available to loan, including a \$7B set aside for short lines. There is plenty of available capacity, the challenge is making the program attractive to and feasible for potential borrowers.
- Messaging and outreach to short line companies will be needed to overcome skepticism from past experiences with RRIF.



- Once the borrower declares intent, a POC is assigned who will be responsive to borrower questions, assist with project scoping, advise on federal requirements for preliminary activities to preserve future options.
- At Intake the Bureau credit team is briefed and votes on whether project has high likelihood of advancing, PDL should be assigned, and resources committed.
- After Intake the PDL acts as realtor/ loan officer, actively supporting borrower before they go to underwriter. Borrower refines details of cost, timing, revenue stream, and prepares application.

In response to borrower feedback regarding the complexity and timing uncertainty of the RRIF process (the average length of the RRIF process for borrowers to date is over 540 days), the Bureau is developing a "RRIF Express" program for regional and short line borrowers with relatively "straightforward" projects. This new sub-program will offer a more streamlined process (6-9 months) for projects without NEPA and Buy America issues, like basic track and bridge work.

- The Bureau offers ongoing support to borrowers to help them navigate the application process, helping borrowers get each step right on the first try. A "Point of Contact" person assists the borrower in the Initial Engagement stage. Once the project reaches the Development stage a Project Development Lead, who is supported by a team within USDOT, is committed. The PDL acts like a realtor, actively supporting and advocating for the borrower before getting to the Creditworthiness (underwriting) stage. Typically the Point of Contact and the PDL are the same person.
- The NEPA process takes place between the Interest stage and Financial Close. The Bureau can help borrowers assess the resources likely needed to address NEPA and other federal requirements versus the likelihood of reaching financial close and realizing the benefits of a RRIF loan. Projects with significant NEPA or other regulatory hurdles will not be candidates for RRIF Express.
- The project certainly becomes 'federalized' by the time the first federal dollar is invested. However, once a project borrower reaches Initial Engagement and is assigned a POC, processes necessary to comply with certain federal requirements (such as Buy American and NEPA) are identified and may begin – if there is deemed to be a high likelihood of reaching financial close. Effectively, a project begins to be federalized during the Development and Creditworthiness stages so that it remains eligible to reach financial close

and receive federal assistance. If financial close is not reached, the potential borrower no longer has to comply with federal requirements.

- The Bureau is also creating a new fact sheet regarding the RRIF Express process. This would improve the transparency and clarity of the application process, as well as provide information about ongoing compliance and oversight after closing.
- There are differences among agencies regarding what documentation is acceptable to demonstrate Buy America compliance. The Bureau will look into this issue and provide guidance.

The Bureau recognizes that upfront payments of the Credit Risk Premium (CRP) and advisor fees and general uncertainty about loan benefits vs. costs pose a significant challenge to potential RRIF borrowers and is working to develop solutions.

- Getting a sense of the likely CRP amount earlier in the process; same disclaimers as a preapproved mortgage (subject to proof of asset value/ revenues)
- Perhaps charging a slightly higher interest rate (premium) to buy down the CRP, potentially to zero
  - Would have to be approved by OMB, which is problematic
- How to leverage state funds to help potential short line RRIF borrowers
  - Using state grants (not federal funds) to pay the CRP
- Advisor fees
  - Bureau has a small amount of money (\$900k) to pay advisor fees for small borrowers

The Bureau and the Administration are committed to making RRIF work for short line and regional railroads.

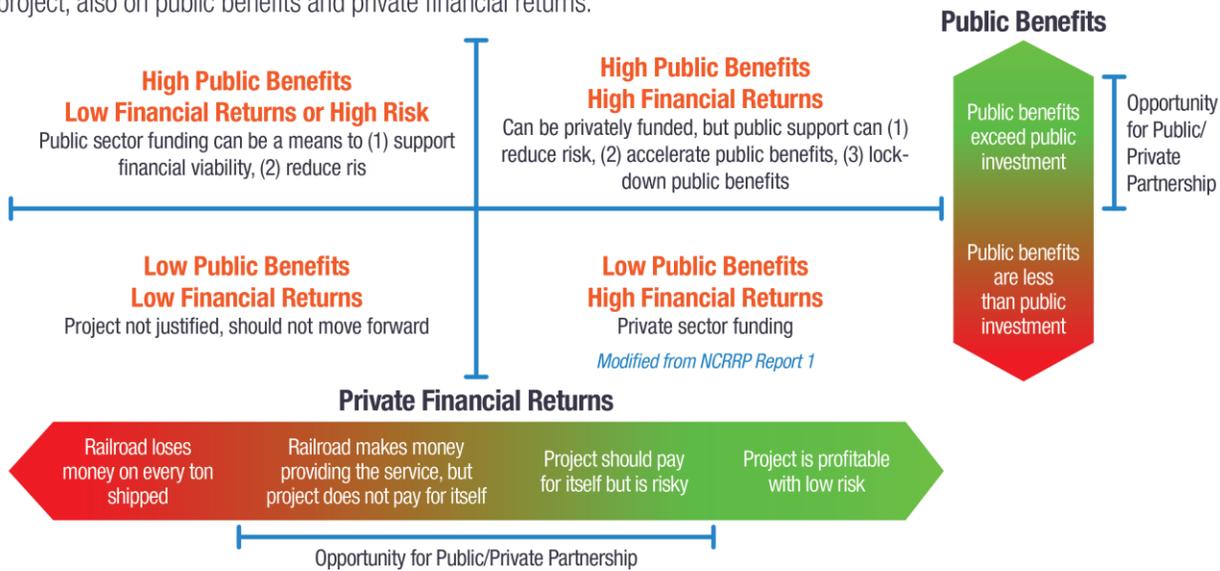
- The Administration's priorities include: expanding the geographic diversity of the RRIF portfolio, reaching different types of borrowers, financing more rural projects and "innovative and transformative" projects. One such example is a holding company seeking financing for projects for 10 lines backstopped by the holding company. The Administration's infrastructure principles suggest appropriating funds for RRIF to fund the CRP, as is the case with the TIFIA program.
- The Bureau is also changing its definition of success; shifting emphasis to project diversity rather than loan volume.
- RRIF Express won't be a solution for every company or project. Many companies don't have the cash flow to accommodate investment via loans, but RRIF can offer flexible, long-term, low interest rate financing for operators able to borrow. It may be useful for industrial development projects that will generate new traffic and yield additional cash flow.

## Public Funding Challenges and Strategies

*Introductory Remarks: Matt Dietrich, Executive Director, Ohio Rail Development Commission*

The chart below, excerpted from the latest Freight-Rail Bottom Line Report, illustrates the importance of the assessment of public benefits and financial returns in determining which projects should be considered for a public-private partnership.

Whether public sector involvement in a freight rail project is justified depends not only on the type of railroad and the type of project, also on public benefits and private financial returns.



Successful partnerships between public agencies and short lines require an understanding of key differences and developing strategies to bridge them.

- How do you translate state policies into meaningful projects? Rail infrastructure is mostly privately owned and operated. Short line companies are subject to market forces and have to respond quickly to seize economic opportunities. While private sector companies are more goal driven, public agencies are process oriented. Public sector partners are constrained by budget cycles, planning processes, etc., while short line planning processes often have shorter time horizons than traditional public transportation projects. Mitigating differences in timing and process is critical to successful partnerships.
- Unlike traditional highway maintenance, railroads maintain their assets to be “fit for purpose.” Capital investment needs and maintenance requirements may change dramatically based on intended usage.
- Public agencies have a mandate to advance state priorities. Agencies have to assess grant applications to distinguish great projects from compelling applications. Making public priorities clear to private partners helps both parties assess when partnerships make sense.
- Most public programs are designed to help the businesses and industries the railroads serve, many of which have significant political influence. Short lines can leverage their relationships with customers to demonstrate their economic impact and help state agencies generate support for beneficial policy changes.
- Public agencies often want to be the last dollar in, but sometimes the best value or maximum leveraging of public funds is accomplished by the first dollar in. Understanding the project, company, and context is key.
- Short lines vary in organizational and ownership structure. Successful partnerships require understanding how, when, and where the company’s investment decisions are made.
- Short line companies are very cost sensitive. Uncertainty regarding the cost of public funding or financing is a major hurdle. Good partnership opportunities clearly delineate the costs and burdens associated with the application for and administration of public funding/financing.
- Good public processes can help bring all the stakeholders to the table. Communication among short line companies, MPOs, localities, and other relevant parties assists in planning and can help make key participants more aware of the benefits of short line rail.

*Introductory Remarks: Jerry Vest, Senior Vice President of Government & Industry Affairs, Genesee & Wyoming*

Considering an Ideal Grant Program for Short Line Railroads:

- Flexible award size – small awards can have major impact
- Well defined matching requirement – helps short lines make better decisions about how to engage with a grant opportunity and evaluate what opportunities are worth the cost of pursuing
  - States can help with in-kind contributions, such as design and engineering services for complicated bridge projects
- Facilitate federal grant applications
  - Have a county or city take the lead on a project to avoid limits on the number of state applications for TIGER grants
  - It doesn't help when the eligibility emphasis for some programs (like TIGER) changes from year to year
  - CRISI permits Class II and III railroads to make applications directly, but states will still have a role to play in NEPA and administrative support
- Have a transparent process from start to finish
  - Federal process is a big challenge
  - Published process timelines assist short lines in programming improvements and allow for higher quality applications
  - Provide debriefing or feedback for unsuccessful applicants
  - Streamline execution of grant agreement (standardized agreements)
  - Provide clear expectations regarding oversight and compliance burden during construction and beyond
- Lower burden for quantitative elements of applications – clear directions regarding how to model benefits or the grantor can simply request specific inputs rather than asking companies to calculate public benefit themselves

## Key Issues and Potential Action Items

### Federal Programs

- How can I learn more about RRIF/ RRIF Express? Bureau trying to connect with those unfamiliar with RRIF
- How can stakeholders (especially past and prospective borrowers) provide feedback on the RRIF application process? (Bureau is updating...)
- Is TIFIA relevant to short lines?
- Could a state be a recipient of a RRIF (or TIFIA) loan under a loans-to-lenders-type arrangement?
- What refunding opportunities are available through RRIF?
- Can someone develop a "how to" guide on leveraging state investments with RRIF (or other federal assistance)?
- How can we advance the standardization of practices and processes among USDOT modal agencies?

### State Programs

- How does a state agency translate the conceptual matrix of where to invest into specific tools for decision making? (TN has history of formula-driven programs and needs help assessing viability and need for public investment.)
- How can states develop a better selection process that picks the right projects?
- What are best practices for grant programs post-award (compliance, monitoring, reporting)?
- How can public agencies maintain flexibility but provide clearer guidance about what they are trying to do?

### Industry Conditions

- What other innovations or changes will drive business for the future (beyond implementing PTC and upgrading for heavier cars)?
- What states are prohibited from investing in railroads?
- What states that have short line investment programs?
- What states own or operate short line railroads?
- How many short line railroads are in rural areas (defined as populations with less than 50,000)? And where are they?
- Is there a comprehensive list of short lines by state and their gross ton mileage?
- What is the breakdown of the estimated \$10B of short line capital investment needs by state?

### Assistance and Communications

- What is the role of states, associations, and other stakeholders in advancing short line rail? Are changes needed in roles and responsibilities? How can we improve communications among ASLRRRA, state DOTs, AASHTO/SCORT/BATIC, and USDOT/Bureau?
- Should AASHTO/SCORT have a more balanced focus on freight rail (more) and passenger rail (less)?
- Can we create materials (a concise summary of Jerry Vest's introductory remarks) to provide to legislators (brief and digestible)?
- What should be key objectives for future meetings / roundtables?
- Should shippers be brought into these conversations?
- Who can help short lines with federal grant (CRISI, TIGER) and loan (RRIF) application requirements, particularly benefit-cost analysis?
- Who can provide technical assistance to smaller, less sophisticated organizations learning how to write a federal or state grant application and how to sell their projects?
- Who can provide technical assistance with federal requirements and processes, including post-closing compliance, monitoring and reporting?
- Should a short line PTC briefing sheet be developed?
- What should ASLRRRA and other stakeholders be asking for in the regulatory streamlining discussions?

## Roundtable Participants

NAME	ORGANIZATION
George H. Conner	Alabama DOT
David Krutsinger	Colorado DOT
Brittany White	Indiana DOT
Ed Engle	Iowa DOT
Harry Romano	Maryland DOT
Tim Hoeffner	Michigan DOT
Peter Dahlberg	Minnesota DOT
Bill Craven	New Mexico DOT
Megan McClory	Ohio Rail Development Commission
Matthew Dietrich	Ohio Rail Development Commission
Tom Burns	Ohio Rail Development Commission
John Rosacker	Oklahoma DOT
Liza Joffrion	Tennessee DOT
Megan Kenney	Texas DOT
Linda Balderson	Virginia Department of Rail and Public Transportation
Ron Pate	Washington State DOT
Arun Rao	Wisconsin DOT
Jo Strang	ASLRRA
Linda Darr	ASLRRA
Roger Bohnert	Build America Bureau
Kylie Cannon	Build America Bureau
Tom Halloran	Build America Bureau
David Valenstein	FRA
Stephen O'Connor	FRA
Frances Bourne	FRA
Jerry Vest	Genesee & Wyoming
Katelyn Dwyer	AASHTO
Catherine Reddick	Mercator Advisors
Alex Clegg	AASHTO
Bryan Grote	Mercator Advisors
Jennifer Brickett	AASHTO