Railway Association of Canada | Association des chemins de fer du Canada

Summary of 2019 RAC Member Shortline Survey Results

Assessing the Funding Needs of Ontario's Shortlines

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BACKGROUND

The Railway Association of Canada recently surveyed shortline railway members in Ontario to determine how Government investment could support their competitiveness. Each company was asked to:

1. Rank near-term funding requirements by priority and list specific projects where Government funding could immediately improve existing infrastructure and as a result, maintain shortline railway competitiveness.

2. List specific uses of potential Government funding that would support growth and expansion of their networks and describe the specific types of Government funding that would be most beneficial to them.

Ranking of Near-Term Funding Requirements by Priority, Specific Projects That Could Start Immediately with Government Funding

Respondents were asked to rank the following near-term funding requirements by priority:

1. Track and Roadway
2. Bridges and Structures
3. Signals, Communications & Power
4. Rolling Stock
5. Work and Roadway Equipment
6. Buildings & Related Machinery & Equipment
7. Safety and Compliance
8. Terminals & Fuel Stations
9. Intermodal Equipment

- Respondents overwhelmingly chose “Track and Roadway” as their number one funding priority within the next three years.

- “Bridges and Structures” and “Safety and Compliance” were the next most-prioritized funding requirements.

- “Intermodal Equipment” was the least-prioritized funding requirement.

- Respondents listed specific investments in ties, rail, surfacing, and bridges as immediate priorities. Respondents are focused on increasing capacity and speed.

- Upgrading locomotives and rail cars was identified as a lower priority than track infrastructure.

- Respondents showed a high level of interest in investments in capacity-building infrastructure, particularly new sidings.

- On average, each company outlined $2,826,500 in project spending that could be greenlit immediately if Government funding were secured.

Specific Uses of Government Funding That Would Support Growth and Expansion of Shortline Networks, Preferences Regarding Types of Government Funding

- Respondents identified three high-priority expansion project types: new track to accommodate additional rail car storage, construction or expansion of warehouse facilities, and construction or expansion of trans loading sites.
- On average, each company outlined $4,508,333 in growth and expansion spending that could be greenlit if Government funding were secured.
- Respondents indicated broad support for innovative funding opportunities to maintain their operations and capitalize on growth opportunities, noting a diversity of options provided by Federal and State-level governments in the United States.
- Support options noted by members include transferable tax-credits, low-interest loans and grant-based funding envelopes dedicated to shortline railways.

Conclusions & Next Steps

RAC recommends that it works with the Government of Ontario to convene a meeting with shortline railways to discuss the results of the survey.

The Ottawa Valley Railway, located in North Bay, has agreed to provide a tour of their facility and host a meeting on behalf of RAC members.

RAC is prepared to arrange for a meeting this fall.

APPENDIX – OVERVIEW OF ONTARIO SHORTLINES AND RAC SHORTLINE SURVEY

1. Overview of Ontario's shortlines

A total of 11 shortlines operate in Ontario. **Figure 1** represents Ontario's shortline network, whereas **Figure 2** provides a full list of shortlines in Ontario.

Figure 1: Ontario's Shortline Network

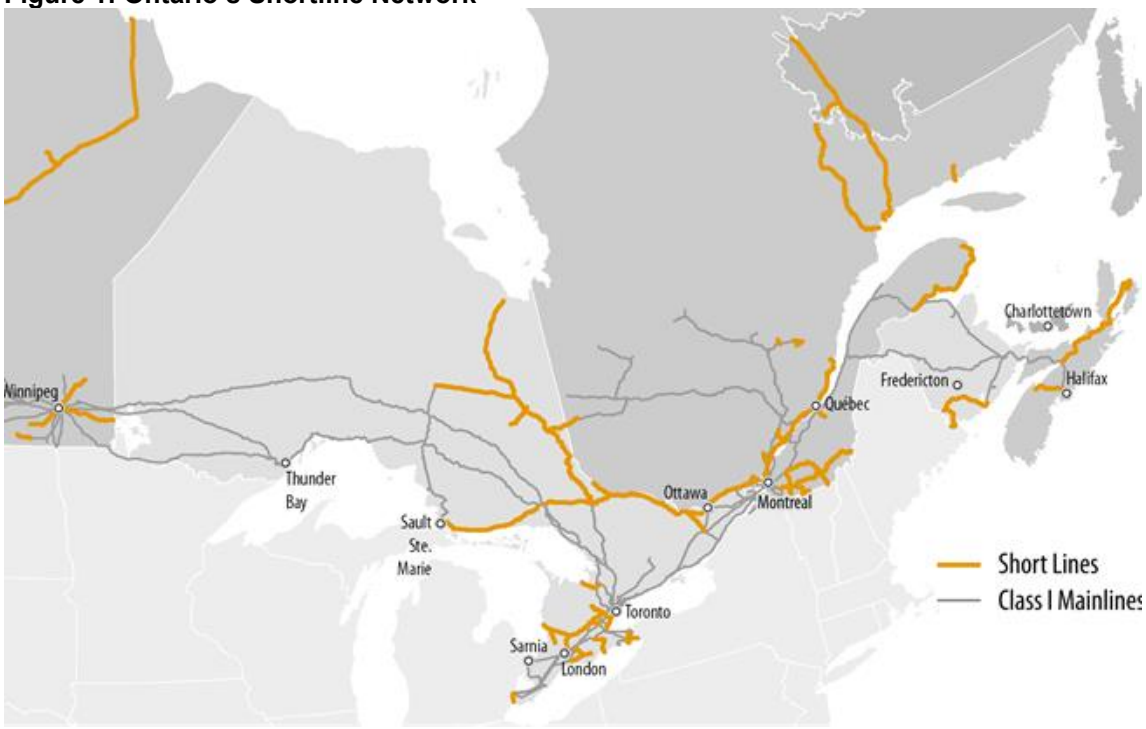

Figure 2: List of Ontario Shortline Railways
Barrie-Collingwood Railway
Essex Terminal Railway
Goderich-Exeter Railway Company Ltd.
Huron Central Railway
Nippising Central Railway
Ontario Northland Transportation Commission
Ontario Southland Railway
Orangeville Brampton Railway

Ottawa Valley Railway
Southern Ontario Railway
Trillium Railway Co. Ltd.

Originated Carloads

Figure 3 represents the 5-year average of originated carloads by commodity grouping. In total, Ontario's shortlines moved over **97,000** carloads in 2017**.** Commodity groupings for originated carloads remained relatively stable and consistent over the 5-year period.

Figure 3 - Ontario Shortlines
(Originated Carloads by Commodity Grouping)

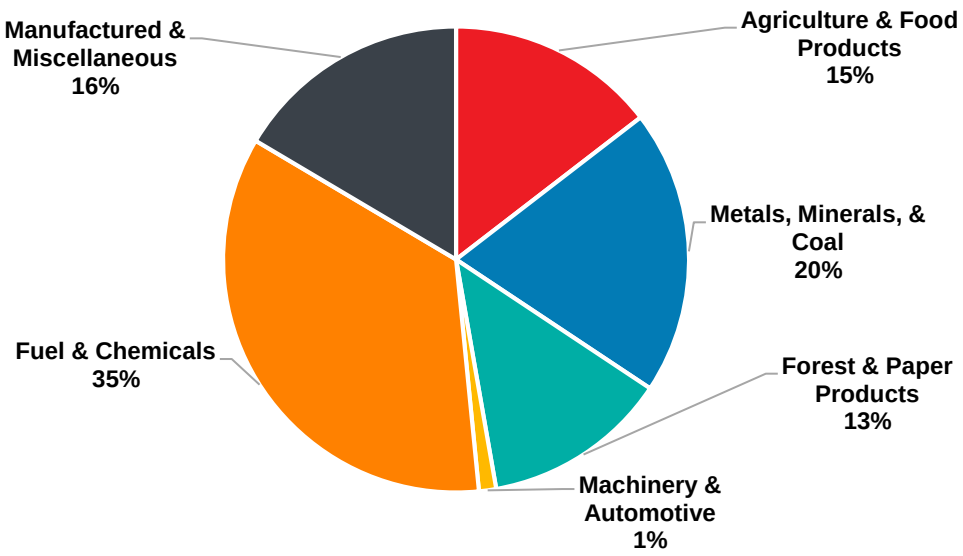

Figure 4 below showcases railway activity in Ontario, including Revenue Tonne Kilometers (RTK's), taxes paid, and Employees.

Figure 4: RTK's, Taxes and Employees

Revenue Tonne Kilometers (RTK)	Taxes Paid	Employees
$1.32 Billion	**$1.50 Million**	**321**

Shortline railway revenues, expenses and operating ratio

Figure 5 compares Ontario's shortlines operating revenues to expenses from 2013-2017. As shown below, 2017 accumulated only marginal revenues for the province's shortline industry. In 2013 and 2016, expenses exceeded revenues.

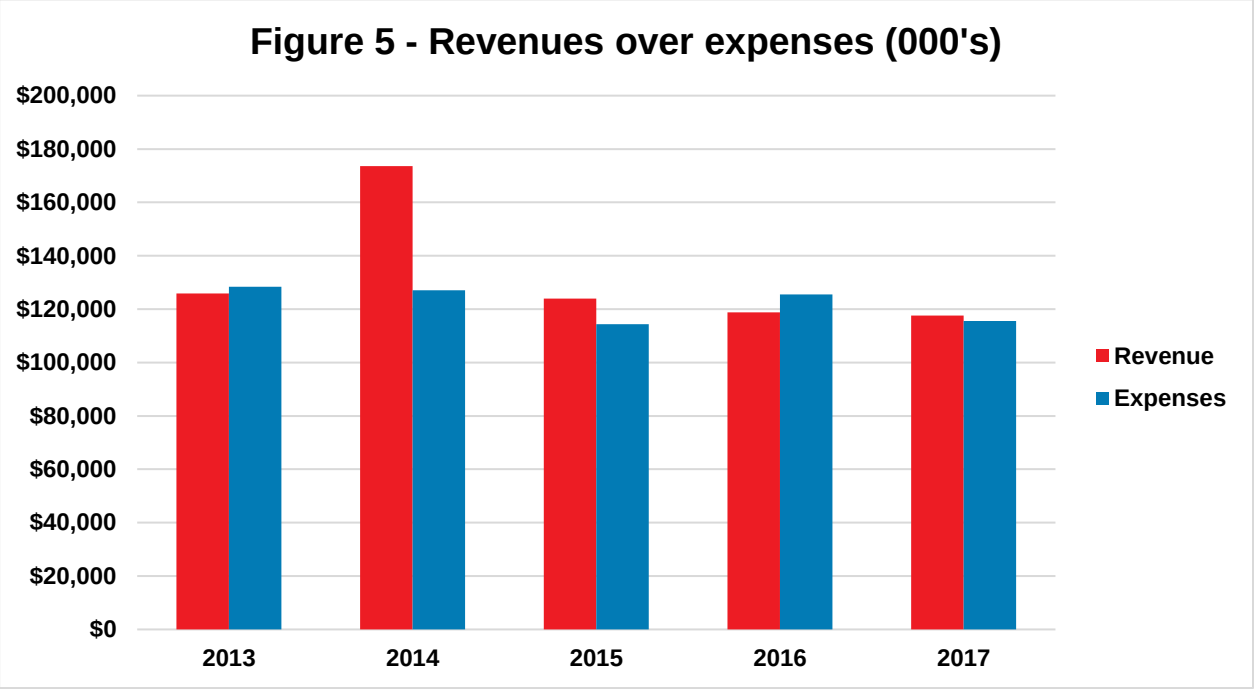

Figure 6 illustrates the 5-year average Operating Ratio (OR) of shortlines in Ontario. The 5-year average OR for Ontario's shortlines was **92.6%** between 2013-2017**,** which underscores the capital-intensive nature of railroads and the constraints shortlines experience with generating revenues.

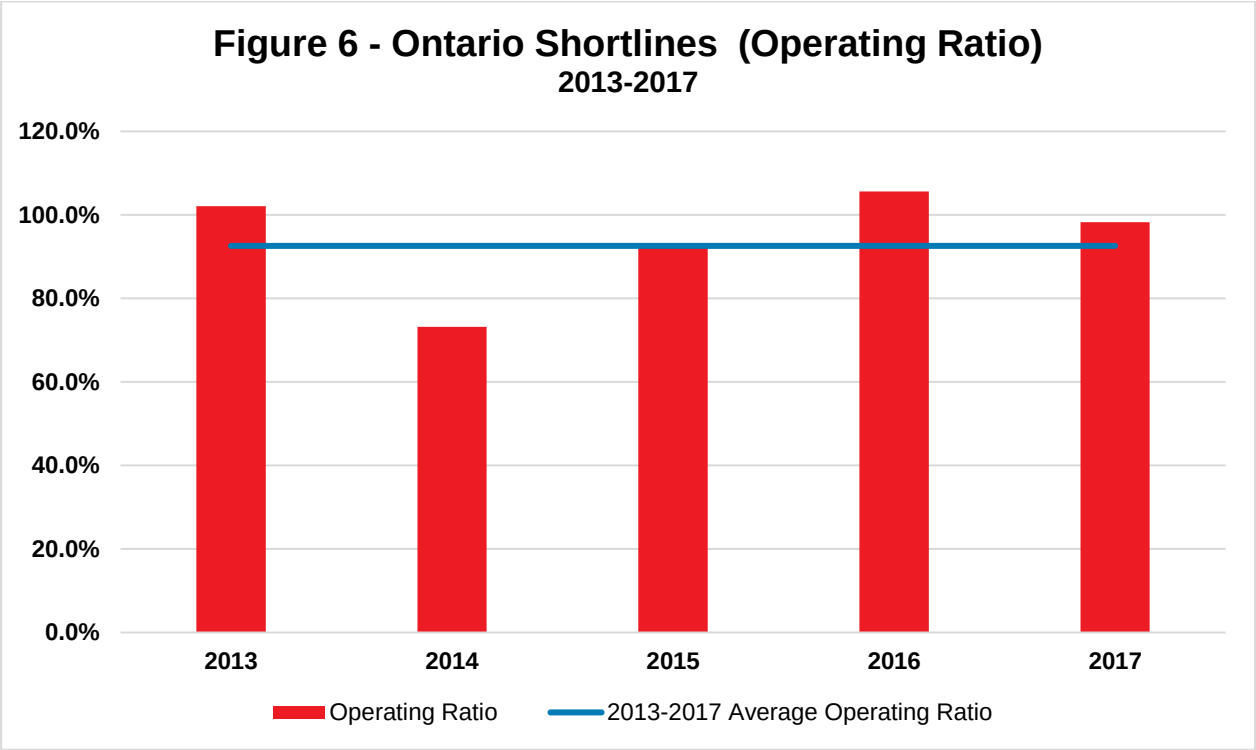
Figure 6 - Ontario Shortlines (Operating Ratio)
2013-2017
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
2013
2014
2015
2016
2017
Operating Ratio
2013-2017 Average Operating Ratio

Capital Expenditures (Capex)

Capital expenditures of shortline railways in Ontario have increased exponentially over the past two years, to comprise more than 50% of their operating ratio. **Figure 7** demonstrates the breakdown of total capital expenditures of shortlines in the province from 2013-2017.

Figure 7 - Breakdown of Capital Expenditures (2013-2017)

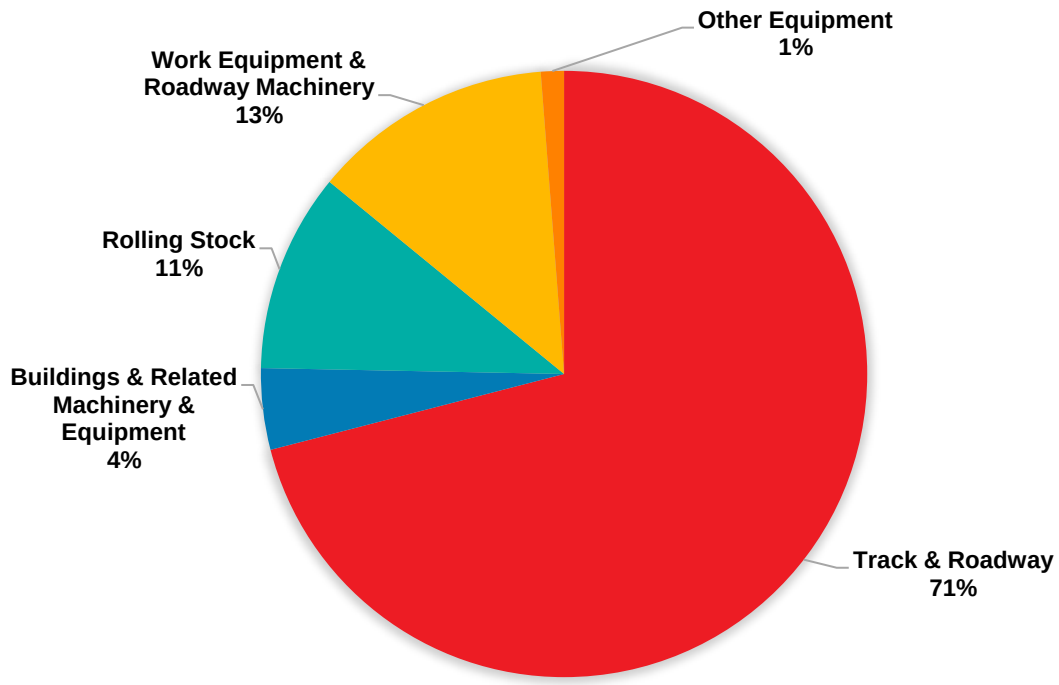

Figure 8 illustrates the 5-year average of Canada's class 1's capital expenditures as a percentage of revenue compared to Ontario shortlines over the same time period. It also conveys dollars invested per mile. As the tables below demonstrate, Ontario's shortlines' lack of access to capital stops them from investing in their track at the level Canadian Class 1s do.

Figure 8: Comparison of shortline and class 1 capital expenditures

Class 1 System - Capital Expenditures (% of Revenue) – 2013-2017	Ontario Shortlines Capital Expenditures (% of Revenue) – 2013-2017[1]
21.1%	**14.3%**
Class 1 System - Dollars invested per km of track – 2013-2017	**Ontario Shortlines - Dollars invested per km of track – 2013-2017[2]**
$73,614	**$11,049**

[1] Excludes Ontario Northland Transportation Commission
[2] Excludes Ontario Northland Transportation Commission

2. What are the immediate (1 to 3 years) funding needs for your shortline? Please rank.

☐ **Track and Roadway:** include land, grading, rail, ties, paved concrete track bed, other track material, ballast, track laying and surfacing, used track material in store, public improvements and other right-of-way property. **RANK:**	☐ **Buildings & Related Machinery & Equipment:** include office and common buildings and moveable equipment and machinery, passenger stations and moveable equipment, roadway buildings and roadway building machines and moveable equipment, equipment repair shops and shop machinery moveable equipment and leased improvements. **RANK:**
☐ **Bridges and Structures:** include the maintenance and addition of bridges, culverts, tunnels, fences, snow and rock sheds, etc. **RANK:**	☐ **Safety and Compliance:** include funding requirements for compliance activites, such as grade crossing regulations. **RANK:**
☐ **Signals, Communications & Power:** include signals and rail communication systems. **RANK:**	☐ **Terminals & Fuel Stations:** include intermodal terminals, rail freight terminals, marine terminals and fuel stations. **RANK:**
☐ **Rolling Stock (locomotives and rail cars):** include locomotives, freight cars and passenger cars. **RANK:**	☐ **Intermodal Equipment:** include intermodal terminal handling equipment, trailers, semi-trailers, containers, chassis and bogies, highway tractors. **RANK:**
☐ **Work and Roadway Equipment:** include roadway machines, work equipment and other non-revenue rolling stock. **RANK:**	☐ **Other**

Where could additional funding be used to improve your existing infrastructure?

Please list any and all projects which could commence immediately if funding were to be secured:

Project (ie, Sidings, spurs, etc)	Quantity	Unit Price	Total Cost

Additional Comments:

3. **Where could funding help promote the growth and expansion of your shortline operations (e.g. attract new customers, diversify revenue streams by providing new or expanding existing services, etc.)?**

Examples could include new track or sidings to new customers, new facilities to support storage or maintenance, or new services like switching.

Please populate the table below.

Project/service	Quantity	Unit Price	Total Cost

Additional Comments:

4. What specific types of government assistance would be most beneficial to your shortline (ie, tax incentive, direct subsidies to shortlines, direct subsidies to shippers to build rail infrastructure, yearly infrastructure funding, etc: