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

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January 23, 2020

David McNabb
Director General, Surface Transportation Policy
Transport Canada
330 Sparks Street
Ottawa, ON, K1A 0N5

Dear Mr. McNabb:

I am writing to share information about two significant developments pertaining to federal support for shortline railways in the United States (U.S). The U.S. Department of Transportation (DOT) has introduced the Railroad Rehabilitation & Improvement Financing Express (RRIF Express) pilot program[1] to support shortline investments and also extended the Shortline Tax Credit (45G) for another five years[2]. As noted in the statutory reviews of *The Canadian Transportation Act*[3] and *The Railway Safety Act*[4], there is a demonstrable role for the federal government to support the competitiveness of the shortline railway industry in Canada.

The Railway Association of Canada (RAC) represents more than 40 shortline railway companies across Canada. These companies play a vital role in the Canadian economy by providing first and last mile connections to and from continental rail networks operated by CN and CP. Shortlines transport $20.3 billion worth of freight, everything from metals, lumber, grain and manufactured goods, each year, accounting for nearly 20 per cent of originated carloads in Canada.[5] In 2018, these shipments travelled an average distance of 120 miles (192km), up 54.8 per cent from the previous year.[6] Our shortline railway members employ more than 2,200 employees with an average salary of nearly $84,000 while paying more than $52 M in taxes to Governments across Canada.

While shortline railways play a critical role within the rail-based supply chain, their revenues narrowly outpace their expenses. In fact, the average operating ratio for a shortline railway is well above the 90th percentile. As railway companies are vertically integrated (i.e. they own the track, real estate, and locomotives and rolling stock), investment costs to maintain infrastructure and equipment are substantial for our shortline railway members. Currently our members invest roughly 12 per cent of their annual revenues into maintaining their infrastructure[7]. Yet these investments are well below the Class I annual average of 20 per cent and are not enough to support growth or new business opportunities for our shortline members.

1 U.S. Department of Transportation https://www.transportation.gov/buildamerica/rrif-express

2 *Progressive Railroading*. December 23, 2019. https://www.progressiverailroading.com/short_lines_regionals/news/Short-line-tax-credit-extension-signed-into-law--59355

3 Pathways: Connecting Canada's Transportation System to the World, 2015. https://www.tc.gc.ca/eng/ctareview2014/CTAR_Vol1_EN.pdf

4 Enhancing Rail Safety in Canada: Working Together for Safer Communities - Transport Canada, 2019. https://www.tc.gc.ca/en/reviews/railway-safety-act-review/enhancing-rail-safety-canada-working-together-safer-communities.html#sec5-1-4

5 Shortline Railways: Canada's green transportation infrastructure https://www.railcan.ca/wp-content/uploads/2017/06/Shortline_infographic_2018_EN.pdf

6 Rail Trends 2019. https://www.railcan.ca/wp-content/uploads/2019/12/2019_Rail_Trends.pdf

7 Shortline Railways: Canada's green transportation infrastructure https://www.railcan.ca/wp-content/uploads/2017/06/Shortline_infographic_2018_EN.pdf

RAC believes that shortlines in Canada require government assistance to support capital expenditures and address costs driven by increasing regulatory requirements related to carbon pricing, and rail safety issues such as grade crossings and insurance for the transportation of dangerous goods in Canada.

Comparatively shortlines in the U.S. receive federal assistance through the new RRIF Express program. A significant investment of $7 billion USD is being reserved exclusively for class II and class III railroads as part of the RRIF Express program. RRIF Express will reduce wait times and costs associated with securing loans to modernize aging freight infrastructure. Eligible projects up to $50 million include track improvements, bridge rehabilitation, rolling stock acquisition, planning and design, and refinancing non-federal debt (up to a maximum of 40% of the final RRIF loan). This is an example of capital funding support a government can provide to a shortline railway company.

The 45G shortline tax credit has been extended retroactively to 2022. The significance of this tax credit cannot be understated as it allows a credit of 50 cents for each dollar a railroad invests in track and bridge improvements, capped at $3,500 per mile. This has spurred $4 billion in infrastructure investment since 2005 when it was first enacted and allows shortline railways to meet customer demands and grow their business.[8]

Additional benefits include rail safety improvements and reduced transportation emissions. In fact, Federal Railway Administration data show a 50 per cent reduction in shortline railway train derailments since the tax credit was first introduced, while improving shortline railway competitiveness minimizes transportation-related emissions on account of the environmental benefits associated with moving goods by rail instead of heavy truck.[9] These investments and positive impacts would not have been possible without the tax credit. A similar initiative in Canada would provide immediate benefits.

The RRIF Express and Section 45G shortline tax credit provide working examples of government programs and fiscal tools that the Canadian federal government can mirror to support shortlines in Canada. RAC is prepared to collaborate with Transport Canada to develop programs and public policy initiatives for Canadian shortline railways. Successfully implementing initiatives that improve the financial solvency and competitiveness of shortlines would bring economic and environmental benefits to all of Canada.

Should you have any questions, please do not hesitate to contact me at 613 564 8103 or mgullo@railcan.ca.

Sincerely,

Michael Gullo
Senior Director, Policy & Public Affairs
Railway Association of Canada

cc: Ms. Indrani Hulan, Director, Rail Policy Analysis and Legislative Initiatives, Transport Canada
Mr. Aaron White, Trillium Railway Co. Ltd.
Mr. Andrew Glastetter, Great Western Railway Ltd.
Mr. Chris Bevilacqua, BCR Properties Ltd.
Mr. Christian Godbout, The Roberval and Saguenay Railway Company

8 Shortline Tax Credit White Paper http://files.aslrra.org/images/news_file/012819-ShortLineTaxCredit-WhitePaper_Final.pdf
9 Ibid.

Mr. Denys Del Cardo, Knob Lake and Timmins Railway
Mr. Dominic Belleville, Compagnie du Chemin de Fer Lanaudière inc.
Mr. Doug Dillon, Prairie Dog Central Railway – Vintage Locomotive Society Inc.
Mr. Eric S. Smith, South Simcoe Railway
Mr. Gaynor Ryan, Central Maine & Québec Railway Canada Inc.
Mr. Gerald Linden, Southern Railway of British Columbia Ltd.
Mr. Grant Bailey, Nipissing Central Railway Company
Mr. Ian Simpson, New Brunswick Southern Railway Company Limited
Mr. James Bérubé, Tshiuetin Rail Transportation Inc.
Mr. James Schwichtenberg, CSX Transportation Inc.
Mr. James Titsworth, BNSF Railway Company
Mr. Jason Morris, Norfolk Southern Railway
Mr. Jay Cranney, Central Manitoba Railway Inc.
Mr. Jean-Pierre Boucher, ArcelorMittal Infrastructure Canada s.e.n.c.
Mr. Jeff Willsie, Ontario Southland Railway Inc.
Mr. Kavens Dupuis, Romaine River Railway Company
Mr. Kent Affleck, Big Sky Rail Corp, Last Mountain Railway
Ms. Lorrie Johnston, Eastern Maine Railway Company
Mr. Louis Gravel, Cape Breton & Central Nova Scotia Railway, Genesee & Wyoming Canada Inc., Goderich-Exeter Railway Company Limited, Huron Central Railway Inc., Ottawa Valley Railway, Québec Gatineau Railway Inc., Southern Ontario Railway, St. Lawrence & Atlantic Railroad (Québec) Inc.
Mr. Luc Lévesque, Société du chemin de fer de la Gaspésie
Mr. Matt Enright, Battle River Railway, NGC Inc.
Mr. Nicolas Bouchard, Chemin de fer Arnaud Québec
Mr. Sergio Sabatini, Carlton Trail Railway
Mr. Steve Bromley, Barrie-Collingwood Railway, Orangeville Brampton Railway
Mr. Terry Berthiaume, Essex Terminal Railway Company
Mr. Tony Mayham, Keewatin Railway Company

Appendix 1 - U.S. Railroad Rehabilitation & Improvement Financing Express

Program Overview
The U.S. Department of Transport (DOT), has established a new pilot program known as the Railroad Rehabilitation & Improvement Financing (RRIF) Express program for shortline and regional railroads. It is intended to reduce the wait times and costs associated with securing loans to modernize aging freight infrastructure. The DOT's National Surface Transportation and Innovative Finance Bureau will administer the program.

The RIFF Express program can support up to a total of $35 billion USD in direct loans and loan guarantees while $7 billion USD is reserved for non-Class 1 carriers. The application window is January 13, 2020 to April 13, 2020.

Program Benefits
Successful program applicants have access to the following benefits:
- Credit Risk Premium waived (up to 5% of your total loan amount)
- Advisory fee assistance (up to $100,000 per borrower)
- Low rates (as of December 12, 2019, the interest rate is 2.25%)
- Expedited loan processing

Applicant Eligibility
This program is designed for Class II and Class III railroads. Joint applications where one of the co-applicants is not a Class II or Class III is permitted so long as the other co-applicant is.

Buy America Policy
Of note is the Buy America policy that requires program applicants to purchase steel, iron and other manufactured goods produced in the U.S. for their project. Projects that do not comply with this requirement are not eligible for RRIF Express.

Applicants can apply to the overall RRIF program instead and apply for an exemption to the Buy America policy if their project includes assets not produced in the U.S. Exemptions may be granted if the Federal Railroad Administration finds that:

- The steel, iron, and goods produced in the U.S. are not produced in a sufficient and reasonably available amount or are not of a satisfactory quality
- Rolling stock or power train equipment cannot be bought and delivered in the U.S. within a reasonable time
- Including domestic material will increase the cost of the overall project by more than 25 percent; and/or
- Applying the RRIF Buy America policy would be inconsistent with the public interest.

Eligible Projects
Total eligible project costs cannot exceed $50 million USD. Eligible projects include:
- Track improvements
- Bridge rehabilitation
- Rolling stock acquisition
- Planning and design
- Refinancing non-federal debt (up to a maximum of 40% of the final RIFF loan)

Appendix 2 – Section 45G Short Line Tax Credit

The Short Line Tax Credit began in 2005 and provides a credit of 50 cents for each dollar short lines and regional rail roads spend on track and bridge improvements. It is capped at $3,500 per mile.

While the tax credit is not permanent it has gone through six cycles of legislative renewal. From 2017 until December 2019, the tax credit remained expired. Now, it is now extended for five years, retroactive from 2018 through to January 1, 2023. This tax credit has a proven ability to stimulate infrastructure investments in the rail industry and it is estimated that it will spur $200M per year in infrastructure spending.