RAILROAD WEEK IN REVIEW

December 20, 2019

“In after-hours news: 5-year 45G Tax Credit is to be included in HR 1865! Chuck Baker & ASLRRA members thank all 297 supporters of HR 510, all 63 supporters of S 203, & the many who have endorsed, supported and recognized the value of this program and helping to make the public case.” — ASLRRA Tweet, Dec 17

“The new Express RIFF program will significantly cut credit risk premium costs and advisor fees, costs that borrowers would otherwise have to pay in the traditional RRIF program.” — Andrew Corselli, Managing Editor, Railway Age, Dec 17

“Rail volumes for the industry in Week 50 continued to decline, although at a more moderate pace, declining 6.3% for the industry vs. 8.9% last week. We consider current declines to be at a more normalized rate, and this feels like a bit of a stabilization. From here, we believe investors will begin to look at the rate of change of declines (are they getting less negative) as we head into 2020.” — Wells Fargo note, Dec 17

The 45G tax credit deal appears to be reached. Whew. The bill makes the tax credit retroactive to January 1, 2018, and runs through 12/31/2022. Though not the permanent bill — or even a five-year extension — sought, three years is enough to get some projects going.

By way of review, “45G” refers to a section of the 1986 tax code that permits short lines to take a 50-cent tax credit for every $1 invested in infrastructure, with a credit cap of $3,500 per mile of track. The credit expired Dec. 31, 2016, but ASLRRA President Chuck Baker, in his December 5 testimony before the T&I Committee freight hearing, told Members,

> Short line railroads operate nearly 50,000 miles of track, or approximately 30 percent of the national rail network and employ more than 17,000 hard-working Americans. We operate in 49 states. Short lines are often called the first mile and last mile of the nation’s railroad system.
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> The name “short line” can create the mistaken impression that all of these railroads are very short in length. The fact is we come in all sizes. The Peru Industrial Railroad in Illinois is three miles long. The Portland and Western in Oregon is 516 miles long. Pan Am Railways operates 1,700 miles and provides the majority of rail service in New England.
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> Our common denominators are that: we operate track that was not viable under the structure of the previous owners, we run lean and mean, we stay very close to our customers, we are dedicated to safety, and we hustle for every last carload of stuff we can help move.

> Short lines preserve service over track that was previously headed for abandonment. For many small towns and rural America, short line railroad service is the only connection to the national network. For the businesses and farmers in those areas, our ability to take a 25-car train 75 miles to the nearest Class I interchange is just as important as the Class I's ability to attach that block of traffic to a 100-car train and move it across the country.

To be sure, the bill still has to make its way through the House Rule Committee, the House floor, and the Senate floor, but Baker seems confident all will be well. I think it comes at the right time, too, as the Class Is finally get their arms around the commercial aspects of Precision Scheduled Railroading.

Trip plans and fleet management are crucial PSR elements so cars serving shortline customers have to get on and off the short line promptly. Class Is are going to measure the shortline dwell for interchange-on to interchange-off and I wouldn't be surprised if they started counting hours between placement (actual or constructive) and release back to the serving short line. Kudos to all at the ASLRRA for getting this task this close to home.

In a related development, *Railway Age* reports that the U.S. Department of Transportation has announced a new pilot program, the Railroad Rehabilitation and Investment Financing Express (RRIF Express), to expedite long-term, low-cost loans for America's short line and regional freight railroads. This was another shortline matter that desperately needed fixing as winning loans from the old RRIF program was an arduous process.

Thus the RRIF Express is aimed at reducing the time and costs associated with securing loans to modernize aging freight rail infrastructure. In addition to expedited handling of loan requests, the program provides up to $26 million in additional financial support. The DOT's Build America Bureau will administer this new program in an effort to support economic activity and improve the safety, capacity and reliability of this freight transportation sector. Letters of Interest will be accepted beginning Jan. 12, 2020 and ending April 11, 2020.

Says ASLRRA's Baker, "Access to long-term low-cost capital is a challenge in this industry, especially for railroads serving small town America. The RRIF express program shows great promise for meeting that need." I'll say.

Union Pacific has recently completed its Positive Train Control (PTC) implementation, activating its final track segment. The technology is now implemented on all the company's federally mandated rail lines, including commuter and Amtrak routes. It gets interesting where non-Class I railroads' trains have rights over Class I lines that are required to have PTC installed.

Says *Railway Age*, the regional carriers' non-PTC-equipped locomotives "are permitted to run on these PTC-equipped Class I's for distances of up to 20 miles. However, if the Class I requires PTC on its own power used on the line segment it will require the same of its trackage-rights tenants."

Thus it was that OmniTRAX' Illinois Railway installed PTC equipment on three locomotives to maintain inter-operability with BNSF's PTC between the IR interchange at Montgomery on the former Q and the serving yard in Eola. Metra is also on the line to a point just west of Eola. Silica sand from the Ottawa area mines is the principal commodity.

Because PTC monitors trains based on a custom analysis of specific factors, including weight, location, speed and a five-mile look down the track, it's a natural adjunct to PSR. The Class Is have been slow to promote the link between the two, and that's a shame because short lines like the IR can benefit. As one friend put it an an email to me, "We need rail management iconoclasts who will embrace the germ of automation inherent in PTC and move with alacrity in the direction of virtual blocks and crew-less, self-driving trains to enable operation of short, nimble, on-demand trains dispatched on extremely short notice in very short corridor service."

Union Pacific currently hosts 25 freight and passenger railroads which must achieve PTC interoperability by December 2020. Sixteen of these railroads are compliant, encompassing 85 percent of Union Pacific's interoperable PTC train miles. While the company's PTC infrastructure is in operation, Union Pacific continues working with its remaining partner railroads, which are expected to take necessary steps to reach interoperability by mid-2020.

Closing the PTC gaps on UP is timely. The company has revitalized and consolidated its marketing and sales organization to accommodate the volume shift between coal, frac sand, crude oil, and plastics, to name a few. The four former ag, energy, industrial, and premium (intermodal and auto) commodity groups become three: Bulk, Industrial and Premium. The changes are effective January 1.

Bulk, formerly Agricultural Products, will add coal and coke products to its portfolio, while liquefied petroleum gas (LPG), petroleum products (mainly STCC 29) and industrial sand products will shift to Union Pacific's Industrial business group. Coal, LPG, crude oil, and frac sand are part of the railroad's current Energy business group. Premium remains as is.

Coal is certainly less important than it once was but its unit train discipline fits nicely with the grain business. Having raw materials from forest products and ferrous scrap to metallic ores and salt all in a single-carload franchise makes sense. In fact CP did something like that not long ago, putting grain, nutrients, and coal in the bulk group, and everything else — including auto — that wasn't intermodal on flat cars in the Merchandise group.

It's an ill wind that blows no good, and the late downturn in UP carloads gives the commercial group a chance to get its arms around the new structure and the operating group the chance to have PTC and the rest of its tool kit ready when business returns in 2H2020.