Written Testimony in Support of Senate Bill 326
Ryan Pidde, Mickelson & Company, LLC
House Taxation Committee
March 16, 2022

Dear Chairman Smith and Honorable Members of the Committee:

Good afternoon and thank you for the opportunity to provide testimony in support of Senate Bill 326. I am Ryan Pidde with Mickelson & Company, a small consulting firm from South Dakota that helps short line railroads grow their businesses through increased reinvestment in track infrastructure. My short line colleagues have provided great background on some of the challenges the industry faces today. I will focus my remarks on how Senate Bill 326 can be a catalyst for accelerating reinvestment and creating economic development opportunities in Kansas.

Short line railroads are small local job creators that serve as a logistical conduit to the global economy by providing critical freight service to the many areas of rural America. Today, there are over 650 short line railroads in the United States, with 13 of these short lines located in Kansas. **10 of the 23 members in the House Taxation Committee have a short line railroad that is located and operates in their district.**

Freight railroading is capital-intensive and privately-owned rail infrastructure must be upgraded to keep local customers shipping via rail connected to the national rail network. The average short line railroad reinvests over 30% of their annual revenues back into the infrastructure they own or operate. It is typical for short line railroads to invest $10,000-$15,000 per track mile annually on track maintenance alone, which doesn't take into account expensive capital projects (i.e. track reconstruction and rehabilitation to handle heavier rail cars). Short lines own and operate 30% of the total national rail network. However, as an industry short-line railroads only earn 4.9% of the industry's revenues[1].

This mismatch between revenue and infrastructure leads to older rail, ties, and bridges on the short-line railroads track, resulting in slower train speeds (10 mph in many cases) and the inability to carry modern size trains (286k-lb cars and 100 car trains). Over the past 40 years it is estimated some 2,000 short line track miles have been abandoned in Kansas alone.

The greatest challenge (and opportunity) facing short lines today is how to adequately maintain and reinvest in their track infrastructure to retain existing customers and attract new business. Senate Bill 326 provides a proven policy incentive for stimulating track reinvestment to meet the demand of current and future freight rail customers.

[1] PWC, *The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry*, p.8.

The enactment of Senate Bill 326 would provide a proven reinvestment incentive for Class II and Class III railroads ("short lines"). The program would provide a tax credit of up to 50% of qualified maintenance and capital expenditures, with an annual cap that controls the cost of the program. To generate the tax credit short lines must spend their own money first. The qualified expenditures used to generate the tax credit must be separate from any expenditures used generate a federal tax credit, or any expenditures reimbursed with state or federal grant proceeds. The program also includes a transferability component that can be used a financing mechanism to undertake track work that might be otherwise out of budget or out of reach. The tax credit also provides the flexibility for short lines to prioritize track investments based on customer needs and demands.

Kansas short lines serve hundreds of Kansas rail customers and move over 190,000 carloads annually – the equivalent of almost 545,000 trucks - saving the state of Kansas roughly $50 million in annual pavement damages. The high-end estimate of the fiscal impact assumes Kansas's short lines would spend the requisite amount of $17.4 million or more on track infrastructure improvements or maintenance to generate the maximum tax credit amount. The state of Kansas could see up to $30 million/year in economic impact with this program.

Senate Bill 326 is a based on the successful federal 45G tax credit reinvestment program. The 45G tax credit was originally introduced in 2005 by Sen. Jerry Moran to help agricultural producers and small businesses in rural Kansas stay connected to the national freight network. The success of the 45G program has led to six states implementing state-level programs to stimulate additional track investment (AL, AR, GA, KY, OK, and OR). In 2022, another seven states are considering similar legislation.

Implementing Senate Bill 326 in Kansas will bolster private reinvestment, increase safety, spur economic development opportunities in rural areas and help to relieve some of the supply chain pressures our country is currently experiencing.

Thank you for your time today and I hope you will vote in favor of Senate Bill 326. I would be happy to answer any questions. Thank you.

Ryan Pidde
Mickelson & Company, LLC
Sioux Falls, SD
605-977-4873
ryan@mickco.com