



State of Oklahoma

Incentive Evaluation Commission

Railroad Modernization Income Tax Credit Evaluation

November 11, 2019

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103



Contents

Key Findings and Recommendations 3

Introduction..... 8

Industry Background 10

Incentive Usage and Administration..... 17

Economic and Fiscal Impact 23

Incentive Benchmarking 27

Appendices 33



Key Findings and Recommendations



Overview

Since 2006, the State of Oklahoma has offered a Railroad Modernization Tax Credit to incent Class II or Class III railroad track reconstruction or replacement. Eligible taxpayers may qualify for a tax credit equal to 50 percent of qualified track improvement expenditures up to a cap of \$1,500 multiplied by the miles of railroad track owned or leased by that taxpayer within the State.

Recommendation: Based on its analysis of available data, the project team recommends retaining the program.

Key Findings

- **Rail service is essential to Oklahoma’s economy and provides a multitude of additional benefits.** Rail-related employment accounts for more than 20,000 jobs statewide and has an estimated economic impact of \$1.4 billion paid in income and total economic output of \$6.5 billion. The availability of rail transport provides cost and logistical advantages to Oklahoma firms that enable the state to compete effectively in the global marketplace. The presence of rail freight is especially important in rural areas where agriculture, mining/drilling, manufacturing, and local industries rely on freight shipping. Railroads are also up to four times more fuel efficient than trucks on the basis of ton-miles transported, and as greenhouse gas emissions are directly related to fuel consumption, every ton-mile of freight moved by rail instead of truck reduces greenhouse gases by up to 75 percent. The diversion of freight traffic to rail also increases the safety of the State’s highway system.¹
- **There appears to be a need for additional private investment in Class III railroad tracks.** In its 2013 Report Card for Oklahoma’s Infrastructure report, the American Society of Civil Engineers (ASCE) gave the State’s rail system a ‘B’ based on its infrastructure needs, capability and funding (the nation as a whole received a ‘C+’ for rail infrastructure in that year).² The evaluation found that segments of the short line network could not accommodate the high-capacity freight cars common to Class I railroads, and while the short line industry generally had the resources to maintain basic operations, increasingly higher funding would be required to maintain operations in accordance with escalating industry standards.³
- **In the years following the implementation of the credit, short line derailments have decreased.** The number of annual derailments peaked in 2006 – the same year the tax credit was enacted. Between 1994 and 2005, the State averaged 10.4 short line derailments per year; between 2007 and 2018, the average decreased to 7.8 annually.

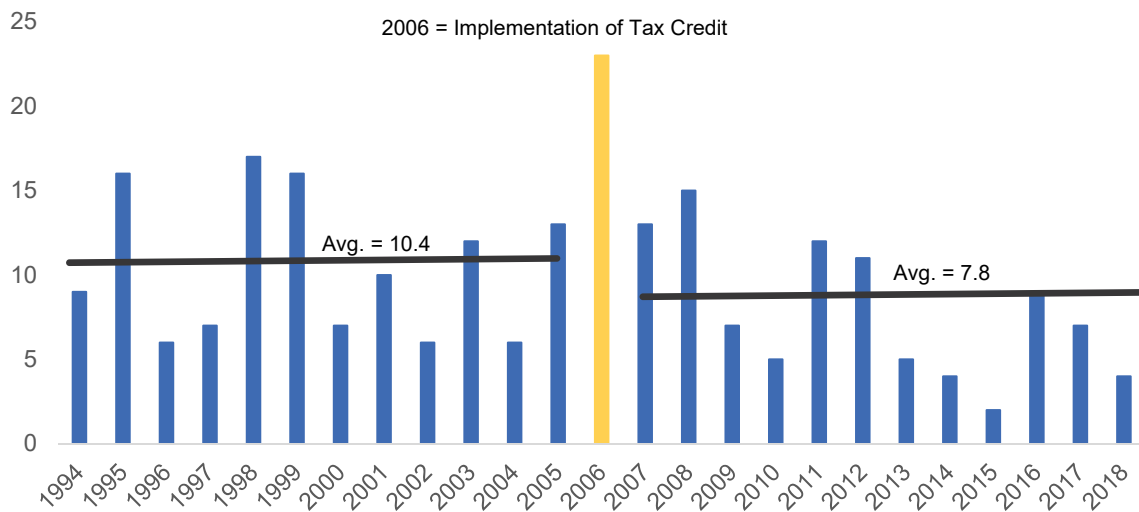
¹ Oklahoma Department of Transportation – 2018 Oklahoma State Rail Plan. Accessed electronically at https://www.ok.gov/odot/documents/OK_StateRailPlan_Final_2018.pdf

² 2013 is the most recent year for available Oklahoma data.

³ American Society of Civil Engineers – 2013 Report Card for Oklahoma’s Infrastructure. Accessed electronically at <https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-OK-2013-Report-Card.pdf>



Figure 1: Derailments Occurring on Oklahoma Class III Railroads, 1994-2018



Source: Federal Rail Administration Office of Safety Analysis

- **Credit use to reduce tax liability fluctuates from year to year.** Between FY2012 and FY2015, credits reduced tax liability by between \$150,000 and \$1,500,000. Preliminary data indicate the FY2017 total may be approximately \$300,000.
- **The tax credit program results in increased statewide economic activity, but the net impact is negative.** Between 2014 and 2017, the program, through direct, indirect and induced economic effects, generated approximately \$0.6 million in State tax revenue. Over the same period, however, the State provided nearly \$6.1 million in tax credits, resulting in a net impact over the four year period of -\$5.5 million, as shown in the following table.

Table 1: Annual Tax Revenue Generated

	Credits Established During Tax Year	Estimated Oklahoma Tax Revenue	Net Impact
2014	\$341,753	\$32,637	(\$309,116)
2015	\$3,417,691	\$352,498	(\$3,065,193)
2016	\$2,042,503	\$191,157	(\$1,851,346)
2017	\$259,950	\$22,839	(\$237,111)
Total	\$6,061,897	\$599,131	(\$5,462,766)

Other Findings

- **Credits are frequently transferred by railroad companies to other taxpayers.** In tax year 2015, the value of transferred credits used to reduce tax liabilities was \$1.5 million. That total decreased slightly – to \$1.4 million – in 2016, and to \$0.8 million in 2017.
- **A few beneficiaries make up a large majority of total claimants – and most are not railroad companies.** Six taxpayers are responsible for \$29.3 million of the \$35.1 million in claims made during the past five fiscal years – equal to a share of more than 83 percent of total claims. Among the six, only



one – Rio Grande Pacific Corp. – is in the railroad industry. Wal-Mart Stores East LP is the single largest program tax claimant, with claims totaling nearly \$10.0 million over the past five fiscal years.

- **State support for short line railroads is typically offered in the form of tax-based incentives (such as Oklahoma’s credit, modeled after the federal “45G” credit) and/or through grant or loan programs.** While few states currently have tax credit programs in place similar to Oklahoma’s, several states are currently considering or have recently considered similar incentives.
- **Evaluations of similar short time tax credit programs are generally positive but have yielded mixed results.** While several analyses have demonstrated the financial, economic, safety and other benefits of tax credit programs for railroad infrastructure improvements, one analysis found that tax credits are not as effective as direct expenditure programs (i.e. grant and/or loan programs) to support short line railroads, stating that it would be more efficient and timely to focus expenditures on directly addressing the need for improvement in short line infrastructure, rather than on persuading private investors to undertake the investment with an expectation of government repayment.⁴
- **Several changes have impacted the value of and ability to claim the credit in recent years.** A moratorium on the credit in FY2011 and FY2012 prevented claims from being made for eligible expenditures (carried forward credits could still be used). Since January 1, 2016, the value of the credit was reduced by 25 percent. Finally, effective January 1, 2018, an aggregate annual cap of \$2.0 million was put into place; all credits are reduced by a percentage that is calculated by the Oklahoma Tax Commission (OTC).
- **The State is not currently at risk of significant increases in expenditures associated with the program.** One of the statutory requirements of the Incentive Evaluation Act is that each evaluation should determine “whether adequate protections are in place to ensure the fiscal impact of the incentive does not increase substantially beyond the State’s expectations in future years.” Given the implementation of a \$2.0 million annual cap effective January 1, 2018, the State is not at risk of significant increases in expenditures related to this incentive.
- **There are concerns about tax data and reporting, but improvements are being made.** There exists a lack of high quality data, which makes it difficult for the State to accurately report on the impact of the incentive. Since 2014, the data collected and reported is more detailed. Additionally, the enactment of HB2335, which directs the OTC to make tax credit data available on its website no later than January 1, 2020, will likely improve data availability and reporting.⁵

Recommended Program Modifications

- **Consider making credits refundable instead of transferable.** Critics of transferrable tax credits question whether it is prudent for tax breaks to be sold to companies in industries the tax credits were not meant to incent. Additionally, selling the credits generally deflates their value, as they are typically sold by those companies at 85 to 90 cents on the dollar. Instead of making credits transferrable, it may be more impactful to make them refundable. Refundable credits provide a larger benefit to the original recipient at the same cost to the State, as these taxpayers would not sell them for less than full value.

⁴ National Center for Intermodal Transportation for Economic Competitiveness – Economic Impact Analysis of Short Line Railroads (2014). Accessed electronically at https://www.ltrc.lsu.edu/pdf/2014/FR_527.pdf

⁵ In May 2018, Governor Fallin signed into law HB3225. The information available on the website must be available free of charge, downloadable and offer users the ability to systematically sort and search the data. The bill also sets the minimum standards for what type of information must be disclosed about each tax credit, including a brief explanation of the credit and the following information for tax year 2013 and each tax year thereafter.



- **Standardize reporting to improve data collection and analysis.** As currently reported, the data available on the State’s data and statistics website (data.ok.gov) is difficult to summarize and analyze because there is no consistent identifier for taxpayers. To analyze credits claimed by taxpayer, one must use the taxpayer name, which may or may not be consistent. For example, Wal-Mart made nine claims between FY2014 and FY2018. There are three variations of the name in the system: “WAL-MART STORES EAST, LP,” “WAL MART STORES EAST LP” and “WAL-MART STORES EAST LP.” As a result, data must be cleaned manually before it can be used, and the possibility of human error is increased.
- **To evaluate program success, require eligible recipients to provide additional information about eligible projects.** To understand the full economic impact of the tax credit program and resulting improved transportation infrastructure, data regarding total eligible expenditures – as well as whether an eligible project was linked to an economic development project (retention or expansion) – would be required.



Introduction



Incentive Evaluation Commission Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The first set of 11 evaluations were conducted in 2016, 12 were conducted in 2017 and an additional 11 were conducted in 2018.

The Railroad Modernization Income Tax Credit, enacted as part of the Railroad Modernization Act of 2005, is one of 10 incentives scheduled for review by the Commission in 2019. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

Oklahoma is a crossroads for freight and passenger rail in the U.S. and maintains more than 3,100 miles of freight rail lines. Overall, the largely private Oklahoma rail industry is responsible for maintaining its basic infrastructure. While the three major railroads in the state have significant resources available to do so, 12 smaller railroads (which serve the majority of rural Oklahoma) have fewer resources to dedicate to network expansion and improvement.

In 2006, the State of Oklahoma began offering a Railroad Modernization tax credit to incent track improvements on these smaller railroads. Taxpayers reconstructing or replacing railroad infrastructure may qualify for a tax credit equal to 50 percent of qualified expenditures up to a cap of \$1,500 multiplied by the miles of railroad track owned or leased within the State.

Criteria for Evaluation

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In the case of this credit, the specific goal included in legislation is not identified; however, its purpose is presumably to spur short line and regional railroad infrastructure improvements within the State.

To assist in a determination of program effectiveness, the Commission has adopted the following evaluation criteria:

- Tax credit usage;
- Private investment associated with the tax credit;
- Railroad safety associated with the tax credit;
- State return on investment.



Industry Background



National Rail Industry: A Brief History⁶

Railroads were critical to the development of early America, providing a vehicle for previously inaccessible areas to be developed, for products to get to market and for the developed and undeveloped areas of the nation to be linked together. The railroad industry grew rapidly in the years leading up to World War I. From 1833 to 1860, the total miles of rail track in operation in the U.S. grew from 380 to more than 30,000. By 1917, 1,500 U.S. railroads operated approximately 254,000 miles of track and employed 1.8 million people – more than any other industry.

Following the war, growing competition from highways and waterways and increasingly stringent federal regulation greatly impacted the industry, and the Great Depression impacted it further: rail industry revenue fell by 50 percent from 1928 to 1933. By 1937, more than 70,000 miles of railroad (30 percent of all track miles) were in receivership. Between 1944 and 1949, rail traffic declined by 28 percent. Most railroads were in financial trouble, and federal regulations often prevented railroads from discontinuing money-losing passenger routes. Throughout the 1950s and 1960s, the construction of the interstate highway and inland waterway systems and ongoing losses in passenger operations led to increased railroad bankruptcies, service abandonments and deferred maintenance.

The Rail Passenger Service Act of 1970 relieved freight railroads of most of the losses incurred on the passenger side, but freight rail conditions continued to deteriorate. Bankrupt railroads accounted for more than one in five track miles, and operational railroads lacked the funds to properly maintain their tracks. By 1976, more than 47,000 miles of track had to be operated at reduced speeds because of unsafe conditions.

Federal regulations were often cited as a key factor in the rail industry's decline. In 1978, the U.S. Department of Transportation noted "the current system of railroad regulation...is a hodgepodge of inconsistent and often anachronistic regulations that no longer correspond to the economic condition of the railroads, the nature of intermodal competition or the often conflicting needs of shippers, consumers and taxpayers."

The Staggers Rail Act of 1980 reduced federal control over rail freight operations and recognized the need for railroads to earn adequate revenues to support their operations. Among other changes, the Act provided railroads with the freedom to set rail rates based on demand and to enter into confidential contracts while streamlining the procedures for abandoning or selling unneeded rail lines. The result was increased competition that stimulated advances in technology and a restructuring of the industry, including the creation of hundreds of new, smaller railroads around the United States.

The U.S. Rail Industry Today

There are hundreds of railroads currently operating across the United States today, and each is designated as Class I, II or III by the U.S. Surface Transportation Board (STB) based on annual operating revenues:⁷

- Class I (major) railroads: \$447.6 million or greater;
- Class II (regional) railroads: between \$35.8 million and \$447.6 million;
- Class III (short line) railroads: less than \$35.8 million.

According to the Association of American Railroads (AAR), there are seven Class I railroads operating in 44 states across the U.S., accounting for nearly 70 percent of the industry's mileage. The nation's 560 Class II and

⁶ History taken from the American Association of Railroads' "A Short History of U.S. Freight Railroads" (May 2018). Accessed electronically at <https://www.aar.org/wp-content/uploads/2018/05/AAR-Short-History-American-Freight-Railroads.pdf>

⁷ These thresholds are updated periodically to account for the impact of inflation and were last revised in 2017. A railroad is reclassified when its revenues are above or below a threshold for three consecutive years. While Class II and III railroads are not required to report yearly revenue data to the STB, it is the responsibility of any of these railroads to report to the STB if there is a need for reclassification.



III railroads also play an important role in meeting the transportation needs of the country, primarily by connecting customers to the Class I network. Class II railroads often operate across several states, while Class III railroads are much smaller and typically serve a small (local) geographic area. In many instances, Class III railroads provide rural communities with a transportation link to the national rail network to move goods in and out of these areas by rail rather than over highways.

In recent years, there has been a trend toward consolidation of short line and regional railroads under the control of railroad holding companies (i.e., a company that owns multiple railroads and/or railroad-related businesses). As of 2014, 27 holding companies controlled nearly 270 small railroads nationally – approximately half of the total.

The Oklahoma Rail Industry

Rail service is essential to Oklahoma's economy. According to the State's 2018 Rail Plan, when the passenger and freight rail transportation, visitor impact and multiplier job impacts are combined, rail-related employment in Oklahoma accounts for more than 20,000 jobs and yields a total rail-related economic impact of \$1.4 billion paid in income and total economic output of \$6.5 billion. In addition to the direct employment benefits, the availability of rail transport provides cost and logistical advantages to Oklahoma firms that enable the state to compete effectively in the global marketplace. The presence of rail freight is especially important in rural areas where agriculture, mining/drilling, manufacturing, and local industries rely on freight shipping. Railroads are also up to four times more fuel efficient than trucks on the basis of ton-miles transported, and as greenhouse gas emissions are directly related to fuel consumption, every ton-mile of freight moved by rail instead of truck reduces greenhouse gases by up to 75 percent. The diversion of freight traffic to rail also increases the safety of the State's highway system.⁸

Today, the rail system in Oklahoma plays an essential freight transportation role – both within the state and nationally. Oklahoma's location and position on principal rail corridors provides rail access to every region of the United States, as well as to Canada and Mexico. According to statistics compiled by the American Association of Railroads (AAR), as of 2017, Oklahoma ranks in the top half of states in each of the following categories:⁹

- Rail carloads carried: 8th (6.3 million);
- Rail tons carried: 10th (278.2 million tons);
- Total miles of rail: 19th (3,158 miles);
- Total freight railroads: 21st (17 railroads);
- Rail tons originated: 22nd (24.2 million tons);
- Rail tons terminated: 24th (25.4 million tons).

Oklahoma's 17 freight railroads operated more than 4,000 freight railroad miles in 2017. Of the 17, 12 are Class III railroads, 3 are categorized as Class I, and the remaining 2 are switching and terminal railroads (i.e., a carrier whose primary purpose is to perform local switching services or to own and operate a terminal facility¹⁰). Oklahoma does not currently have any Class II railroads.

⁸ Oklahoma Department of Transportation – 2018 Oklahoma State Rail Plan. Accessed electronically at https://www.ok.gov/odot/documents/OK_StateRailPlan_Final_2018.pdf

⁹ American Association of Railroads – State Rankings (2017). Accessed electronically at <https://www.aar.org/wp-content/uploads/2019/05/AAR-State-Rankings-2017.pdf>

¹⁰ Switching generally consists of making up and breaking up trains, storing and classifying cars and serving industries within the limits of a yard. A terminal facility connects larger carriers to other carriers or modes of transport and can include a union freight station, train ferry or bridge.



Table 2: Freight Railroads in Oklahoma, 2017

Railroad Type	Number of Freight Railroads	Miles Operated*
Class I	3	2,670
Class II	0	0
Class III	12	1,152
Switching & Terminal	2	189
Total	17	4,011

Source: Association of American Railroads, *Freight Railroads in Oklahoma*
 * Including trackage rights

As mentioned previously, many Class II and III railroads have been purchased by railroad holding companies in recent years as part of a national trend. In Oklahoma, these companies include Watco, Farmrail, Genesee & Wyoming, OmniTRAX, Patriot Rail and Rio Grande Pacific Corp.¹¹ It is notable that many of the Class III railroads operating in the state (independent as well as those owned by holding companies) are owned by out-of-state firms. As shown in the following table, more than 60 percent of the total miles are owned by these firms, and nearly 55 percent of total miles are operated by them. Critics of railroad tax credits could argue that these incentives benefit non-Oklahoma businesses by subsidizing their maintenance costs, allowing them to keep more of their investments outside of Oklahoma.

Table 3: Oklahoma Class III Railroads Owned by Out of State Firms

Railroad/(Holding Company)	Total Miles Owned	Total Miles Operated	% of Total Miles Owned	% of Total Miles Operated	Corporate Headquarters
Stillwater Central Railroad (Watco)	257	295	24.7%	23.4%	Pittsburg, Kansas
Kiamichi Railroad (Genesee & Wyoming)	156	156	15.0%	12.4%	Darien, Connecticut
South Kansas and Oklahoma Railroad (Watco)	68	73	6.5%	5.8%	Pittsburg, Kansas
Wichita, Tillman and Jackson Railroad (Rio Grande Pacific Corp.)	61	61	5.9%	4.8%	Fort Worth, Texas
Texas, Oklahoma and Eastern Railroad	40	40	3.8%	3.2%	DeQueen, Arkansas
Cimarron Valley Railroad	35	35	3.4%	2.8%	Satanta, Kansas
Sand Springs Railway (OmniTRAX)	8	8	0.8%	0.6%	Denver, Colorado
Arkansas Southern Railroad (Watco)	0	6	0.0%	0.5%	Pittsburg, Kansas
Blackwell Northern Gateway Railroad	0	17	0.0%	1.3%	Lemont, Illinois
Total, Class III Non-Oklahoma	625	691	60.1%	54.8%	
Total, Class III	1,040	1,260			

Source: Oklahoma State Rail Plan 2018

¹¹ Oklahoma Department of Transportation – 2018 Oklahoma State Rail Plan. Accessed electronically at https://www.ok.gov/odot/documents/OK_StateRailPlan_Final_2018.pdf



Rail Infrastructure

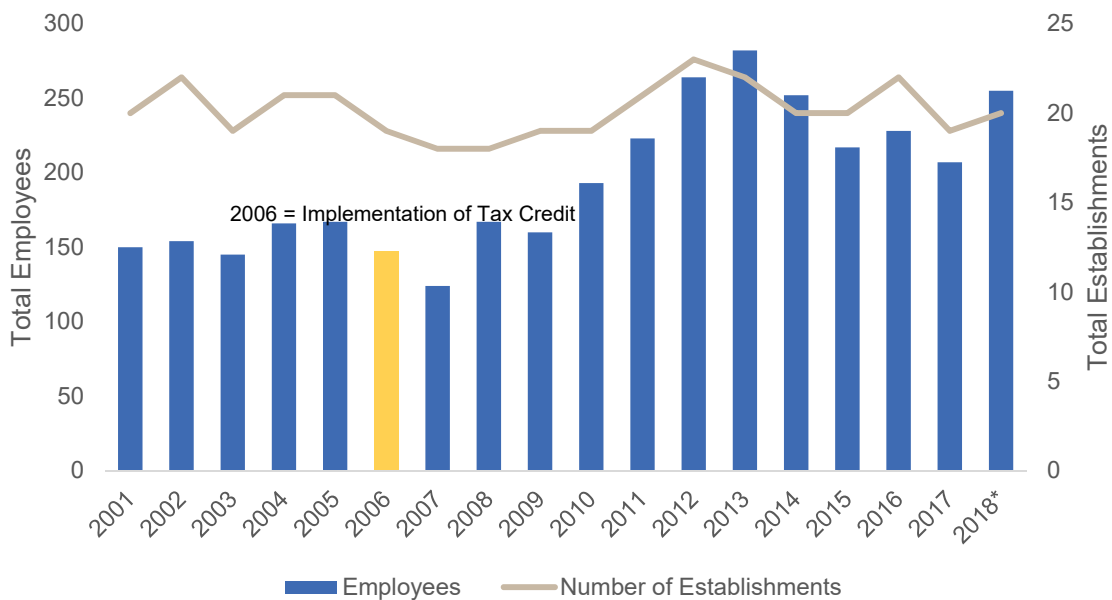
In its 2013 Report Card for Oklahoma’s Infrastructure report, the ASCE gave the state’s rail system a ‘B’ based on its infrastructure needs, capability and funding (the nation as a whole received a ‘C+’ for rail infrastructure in that year).¹² The evaluation found that segments of the short line network could not accommodate the high-capacity freight cars common to Class I railroads, and while the short line industry generally had the resources to maintain basic operations, increasingly higher funding would be required to maintain operations in accordance with escalating industry standards.¹³

Railroad Industry Employment

The following discussion relates to Oklahoma’s railroads collectively. It is not exclusive to employment associated with the State’s short line railroads (those railroads eligible for the tax credit).

As shown in the following figure, total employment in the rail transportation support activities industry was relatively stagnant in the years prior to the establishment of the tax credit, averaging just over 150 employees between 2001 and 2006.¹⁴ Industry employment increased in the years following the implementation of the incentive, growing to 282 by 2013, nearly double the 2006 level. In the four years that followed, however, industry employment declined, though preliminary results for 2018 reflect a meaningful increase. The number of establishments – which ranged between 18 and 23 between 2001 and 2018 – does not appear to be impacted by the establishment of the tax incentive.

Figure 2: Oklahoma Rail Transportation Support Activities Industry, 2001-2018



Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages
 * 2018 figures are preliminary

¹² 2013 is the most recent year for which Oklahoma data is available.

¹³ American Society of Civil Engineers – 2013 Report Card for Oklahoma’s Infrastructure. Accessed electronically at <https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-OK-2013-Report-Card.pdf>

¹⁴ Per North American Industry Classification System (NAICS) code 488210, Support Activities for Rail Transportation, comprises establishments primarily engaged in providing specialized services for railroad transportation including servicing, routine repairing and maintaining rail cars, loading and unloading rail cars and operating independent terminals.



The following table highlights the compound annual growth rates (CAGRs) in employment, number of establishment and wages for the rail transportation support activities industry as compared to the annual growth observed in all private industry in the state over the same time periods. Industry employment growth, effectively flat prior to the establishment of the credit, has increased by 4.7 percent annually in the years since – while growth across all private sector industry has remained nearly flat. Total industry wages, which increased at a CAGR of 5.8 percent prior to the credit, have increased at an annual rate of 9.0 percent since 2006 – while annual growth across all private industry has slowed. While the increase in average annual wage within the industry has slowed, it still surpasses the growth seen across all private industry. The number of establishments – both within the industry and across all private industry – has generally been stagnant since 2001.

Table 4: Oklahoma Compound Annual Growth Rates by Industry, Before and After Tax Credit Implementation

	2001-2006	2006-2018*
Total Employees		
Rail Transportation Support Activities	-0.4%	4.7%
All Private Industry	0.4%	0.6%
Total Wages		
Rail Transportation Support Activities	5.8%	9.0%
All Private Industry	4.7%	3.3%
Average Annual Wage		
Rail Transportation Support Activities	6.2%	4.1%
All Private Industry	4.3%	2.7%
Number of Establishments		
Rail Transportation Support Activities	-1.0%	0.4%
All Private Industry	1.4%	1.2%

Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages

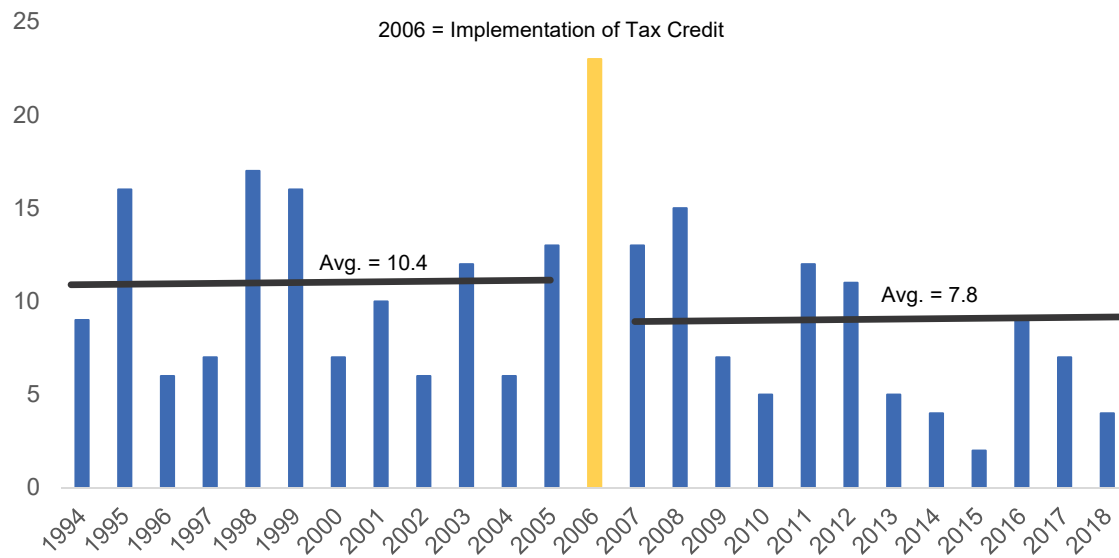
*2018 figures are preliminary

Railroad Safety

As shown in the following figure, the number of annual derailments on short line railroads in the state peaked in 2006 at 23 – the year the tax credit was enacted. In the years prior to the credit (between 1994 and 2005), the State averaged 10.4 derailments per year, and in the years since, that average has decreased to 7.8 annually. Other factors may also be responsible for this downward trend, such as advances in train safety – though it could be argued that incentives such as the tax credit have helped railroads to implement these features.



Figure 3: Derailments Occurring on Oklahoma Class III Railroads, 1994-2018



Source: Federal Rail Administration Office of Safety Analysis



Incentive Usage and Administration



Tax Incentive Characteristics

Since January 1, 2006, State law (68 O.S. § 2357.104) has provided for an income tax credit equal to 50 percent of qualified expenditures for the reconstruction or replacement of Class II or Class III railroad infrastructure.¹⁵ Qualified expenditures include owned or leased track, roadbed, bridges, industrial leads and track-related structures and the new construction of industrial leads, switches, spurs and sidings and extension of existing sidings.

Initially, the amount of the credit was limited to \$2,000 multiplied by the miles of railroad track owned or leased within the state by the taxpayer. Beginning January 1, 2016, HB3204 reduced the value of the credit by 25 percent. As a result, credits earned since that time are limited to \$1,500 multiplied by the miles of track railroad owned or leased. The change did not apply to credits carried forward from prior tax years.

Between July 1, 2010 and June 30, 2012, there was a moratorium on this credit (among others) as part of a two-year budget balancing deal when no credit could be claimed for eligible expenditures. Taxpayers could still use credits earned and carried forward from prior projects during this time.

Effective January 1, 2018, HB1036 capped the amount credits available to offset tax liability at \$2.0 million annually. The OTC is directed to calculate and publish a percentage by which the credits are reduced so the total amount of credits used to offset tax liability does not exceed the annual cap. The formula used for the percentage adjustment is \$2.0 million divided by the credits claimed in the second preceding year. In the event the total tax credits exceed \$2.0 million in any calendar year, the OTC is directed to permit the excess but factor it into the percentage adjustment formula for subsequent years.

Taxpayers can elect to increase the limit to three times the amount specified but may only claim one-third of the credit in any one taxable period. A taxpayer who elects to increase the limit does not earn additional credits during the election period. Unused credits (i.e. credits earned that are greater than the amount of taxes owed) are not refundable, but can be transferred and/or carried forward for five years following the year of qualification.

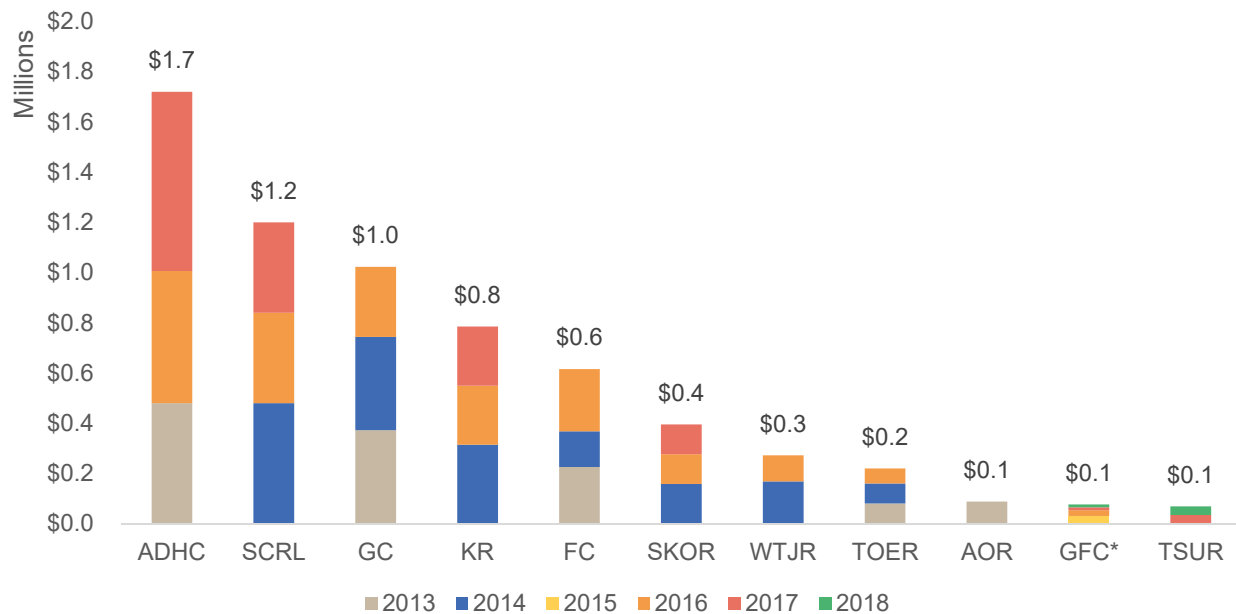
Historic Use of the Tax Credit

The OTC requires taxpayers to report annually the tax credits which are transferred or allocated. As shown in the following figure, 12 taxpayers transferred and/or allocated credits between 2013 and 2018, and in the aggregate, these credits totaled approximately \$6.5 million. The Atwood Distributing Holding Company (ADHC) allocated and/or transferred the most tax credits during the time period (\$1.7 million; \$1.4 million allocated at \$0.3 million transferred), with Stillwater Central Railroad LLC (SCRL) and Grainbelt Corporation (GC) following, at \$1.2 million (all transferred) and \$1.0 million (all transferred), respectively.

¹⁵ Class II or Class III as defined by the U.S. Surface Transportation Board.



Figure 4: Tax Credit Allocations by Taxpayer, 2013-2018



Source: OTC Tax Credit Reports, 2013-2017

Note: A list of abbreviations is provided in Appendix A.

* GFC includes credits under the name "George F. Collins Jr. 1969 Trust B-2" and "GF Collins Trust B3 DTD 061369"

Beginning in 2014, the OTC began collecting and reporting more detailed data on tax credit usage, including unused credit carried over from the prior year(s) and credit established during the current tax year. The following table summarizes historic use of the tax credit between 2012 and 2017. As mentioned previously, between 2010 and 2012, there was a moratorium on the credit. Because only credits previously earned could be used during this time, the total claimed in 2012 (\$0.5 million) was lower than in the years since, though preliminary 2017 results indicate the amount claimed in that tax year may also be low.

Table 5: Railroad Reconstruction Tax Credit Detail, Tax Years 2012-2017

Tax Year	Number of Returns	Unused Credit Carried Over from Prior Year(s)	Credit Established During Current Tax Year	Total Amount Claimed	Amount Used to Reduce Tax Liability
2012	8	N/A	N/A	\$531,372	\$351,838
2013	10	N/A	N/A	\$1,899,372	\$1,545,619
2014	12	\$503,787	\$341,753	\$845,540	\$544,597
2015	16	\$284,401	\$3,417,691	\$3,702,092	\$151,727
2016	22	\$2,055,760	\$2,042,503	\$4,098,263	\$1,527,574
2017*	8	\$102,057	\$259,950	\$362,007	\$305,075

Source: Oklahoma Tax Commission Form 511CR (Other Credits)

* 2017 based on preliminary, unverified data

Tax credits are often transferred. The following table displays the number of transfer requests approved by the OTC between tax years 2015 and 2018, as well as the value of the credits transferred and value of the tax credits used to reduce tax liabilities.



Table 6: Railroad Modernization Tax Credits Transferred, Tax Years 2015-2018

Tax Year	Number of Transfer Requests Approved	Value of Transferred Credits	Value of Credits Used to Reduce Tax Liabilities
2015	8	\$1,699,473	\$1,526,173
2016	8	\$1,473,925	\$1,439,500
2017	6	\$1,278,101	\$782,850
2018	8	\$1,281,104	TBD*

Source: Oklahoma Tax Commission

* Credits may be utilized prior to October 15, 2019

A few beneficiaries make up the large majority of total credit claimants – and most are not railroad companies. As shown in the following table, six taxpayers are responsible for \$29.3 million of the \$35.1 million in claims made during the past five fiscal years – equal to a share of more than 83 percent of total claims. Among the six, only one – Rio Grande Pacific Corp. – is in the railroad industry. Wal-Mart Stores East LP is the single largest beneficiary of the program, with claims totaling nearly \$10.0 million over the past five fiscal years.

Table 7: Top Tax Credit Claimants, FY2014-FY2018

Beneficiary	Total Claims	% of Total Claims
Wal-Mart Stores East LP	\$9,959,779	28.4%
Green/Green Family Trust ¹⁶	\$6,645,127	19.0%
Halliburton	\$4,370,798	12.5%
Atwood Family	\$2,968,189	8.5%
Rio Grande Pacific Corp.	\$2,673,633	7.6%
Cooper	\$2,651,448	7.6%
Total	\$29,268,974	83.5%

Source: OMES via data.ok.gov

Critics of transferrable tax credits question whether it is prudent for tax breaks to be sold to companies in industries the tax credits were never meant to incent. Additionally, selling the credits generally deflates their value, as they are typically sold by those companies at 85 to 90 cents on the dollar. Instead of making credits transferrable, it would be more impactful to make them refundable. Refundable credits provide a larger benefit to the original recipient at the same cost to the State, as these taxpayers would not sell them for less than full value.

Incentive Administration

The OTC is primarily responsible for the administration of the tax credit program, which is relatively straightforward. There are two key components to overall program administration: determining eligibility and reporting.

1. **Determining eligibility.** The Oklahoma Department of Transportation (DOT) provides verification of eligibility of an eligible taxpayer's expenditures for the purpose of claiming the credit. As part of this process, taxpayers complete an application package, which is submitted to the DOT's Rail Programs Division for approval. Qualified railroad reconstruction or replacement expenditures must be approved

¹⁶ The "Green/Green Family Trust" total includes claims made under the following names: 2012 Green Family Dynasty Trust; the David and Barbara Green Trust; David and Barbara Green; Mart and Diana Green; and Steven and Jackie Green.



prior to commencement of a project. The DOT provides a certificate of verification upon completion of a qualified project, which is then provided to the OTC as proof of eligibility to claim the credits.

For taxpayers electing to increase the limit to three times the amount specified, the OTC's Compliance Division audits tax returns and validates the credits based upon information provided by taxpayers. In the event the taxpayer wishes to transfer the credit, the original owner and the transferee jointly file with the OTC a copy of Form 572 (Transfer Agreement for Income Tax, Rural Electric Cooperatives Tax or Insurance Premium Tax Credit) within 30 days of the transfer. The agreement must contain the name, address and taxpayer identification number of the parties to the transfer, the amount of credit being transferred, the year the credit was originally allowed and the tax year or years for which the credit may be claimed.

Eligible taxpayers claim the credits on their corporate income tax returns and also must populate the "Credit for Railroad Modernization" line of Form 511CR (Other Credits), identifying unused credit carried over from prior years, credit established during the current tax year and total available credit (equal to the sum of the two).

2. **Reporting.** Once the tax year is complete and timely returns have been filed and processed, the OTC is the source for data associated with the use of the tax credit. Estimated tax expenditures and number of returns related to this and other tax credits are published in the OTC's biennial Tax Expenditures reports.

Additionally, in May 2018, Governor Fallin signed into law HB3225, which directs the OTC to make tax credit data available on its website no later than January 1, 2020. The information must be available free of charge, downloadable and offer users the ability to systematically sort and search the data. The bill also sets the minimum standards for what type of information must be disclosed about each tax credit, including a brief explanation of the credit and the following information for tax year 2013 and each tax year thereafter:

- a. The amount of credits claimed;
- b. The amount of credits used to reduce tax liability or refunded to taxpayers;
- c. The amount of credits carried over to a future tax year, if available;
- d. The number of taxpayers claiming the credit; and
- e. The annual growth rate in the number and amount of credits claimed.

Because complying with this new law will require the development and maintenance of a new website or webpage, it is reasonable to expect that the system will have some associated administrative effort and cost.

Administrative Challenges

The lack of high quality data makes it difficult for the State to accurately report on the impact of the incentive. As a best practice, States should collect high-quality data related to incentive usage in order to anticipate costs and long-term fiscal impacts and, if necessary, give policymakers time to prepare or change the design of their incentives.

Iowa, for example, has developed a consistent approach for forecasting the costs of incentives. Its Department of Revenue uses data from business tax returns to project the costs of each tax credit five years into the future, updating the estimates three times per year. These estimates are incorporated directly into the revenue forecasts used in development of the State's budget.



Additionally, the data OMES publishes on the State's data and statistics website, while useful, is difficult to summarize and analyze because there is no consistent identifier for unique taxpayers. To analyze credits claimed by taxpayers, one must use the taxpayer name, which may or may not be consistent. For example, Wal-Mart made nine claims associated with this credit between FY2014 and FY2018. There are three variations of the name in the system: "WAL-MART STORES EAST, LP," "WAL MART STORES EAST LP" and "WAL-MART STORES EAST LP." As a result, data must be cleaned and streamlined carefully and thoroughly before it can be used. As a result of this manual manipulation, the possibility of human error is increased.



Economic and Fiscal Impact



Economic Impact Methodology

Economists use a number of statistics to describe regional economic activity. Four common measures are **Output**, which describes total economic activity and is generally equivalent to a firm's gross sales; **Value Added**, which equals gross output of an industry or a sector less its intermediate inputs; **Labor Income**, which corresponds to wages and benefits; and **Employment**, which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of effects: **direct, indirect, and induced.**

Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services. The taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic output of other local merchants.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which increased income is spent in the local economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, all other sectors produce an additional \$400 in output. The larger the multiplier, the greater the impact will be in the regional economy.

Figure 5: The Flow of Economic Impacts



Fiscal Impact

To evaluate the economic impact of the railroad modernization income tax credit, the project team examined the credits established annually between FY2014 and FY2017 (a total of just over \$6.0 million). For purposes of calculating the economic and tax impact, this amount was doubled, as the credit is equal to 50 percent of qualified track improvement expenditures.¹⁷ The annual economic impact of associated activity was calculated using IMPLAN Sector 64 – Maintenance and Repair Construction of Highways, Streets, Bridges and Tunnels.

¹⁷ Because the cap on the program limits credits earned to \$1,500 x the miles of railroad track owned or leased, it is possible that total track improvement expenditures are more than double the total credits established. However, because information regarding total qualified expenditures is not currently collected, this approach serves as a reasonable proxy.



Table 8: Impact of Railroad Tax Credits

		Output	Value Added	Labor Income	Employment	Estimated Oklahoma Tax Revenue
2014	Direct Effect	\$683,506	\$306,328	\$261,329	5	
	Indirect Effect	\$371,173	\$189,123	\$130,324	2	
	Induced Effect	\$285,898	\$157,293	\$88,190	2	
	Total Effect	\$1,340,577	\$652,744	\$479,844	9	\$32,637
2015	Direct Effect	\$6,835,382	\$3,063,424	\$2,613,418	46	
	Indirect Effect	\$3,711,905	\$1,891,315	\$1,303,298	20	
	Induced Effect	\$2,859,116	\$1,573,006	\$881,946	21	
	Total Effect	\$13,406,403	\$6,527,745	\$4,798,662	86	\$352,498
2016	Direct Effect	\$4,085,006	\$1,830,784	\$1,561,848	27	
	Indirect Effect	\$2,218,333	\$1,130,300	\$778,886	12	
	Induced Effect	\$1,708,684	\$940,070	\$527,074	12	
	Total Effect	\$8,012,023	\$3,901,154	\$2,867,808	51	\$191,157
2017	Direct Effect	\$519,900	\$233,004	\$198,777	3	
	Indirect Effect	\$282,328	\$143,854	\$99,129	1	
	Induced Effect	\$217,465	\$119,643	\$67,081	2	
	Total Effect	\$1,019,693	\$496,501	\$364,987	7	\$22,839

Source: TXP, Inc. IMPLAN analysis output, July 2019

Table 9: Annual Tax Revenue Generated

	Credits Established During Tax Year	Estimated Oklahoma Tax Revenue	Net Impact
2014	\$341,753	\$32,637	(\$309,116)
2015	\$3,417,691	\$352,498	(\$3,065,193)
2016	\$2,042,503	\$191,157	(\$1,851,346)
2017	\$259,950	\$22,839	(\$237,111)
Total	\$6,061,897	\$599,131	(\$5,462,766)

Source: TXP, Inc. IMPLAN analysis output, July 2019

The preceding tables highlight the economic and tax impact by year. Over the past four years, approximately \$6.0 million in credits was earned, compared to \$0.6 million in State tax revenue generated. Since the economic impact of construction is finite (versus a business that is assumed to operate for the foreseeable future), the tax impact of this program is negative.

It should be noted, however, that a traditional economic impact analysis does not capture the full benefits of the qualified expenditures. For example, improved transportation infrastructure can reduce travel time and costs. Railroad transportation reduces the amount of trucks on the highway, which can slow road deterioration and reduce traffic bottlenecks and other delays. In addition, new rail capacity might attract a new firm to the region. However, the information currently collected by the State does not allow for this type of analysis. To understand the full economic impact, data regarding total eligible expenditures – as well as whether an eligible project was linked to an economic development project (retention or expansion) – would be required.



In 2019, a similar economic impact analysis was performed on the State of Alabama’s then-proposed Tax Credit for Qualified Railroad Track Maintenance Expenditures. This study found that the average cost of track replacement/repair is approximately \$385,000 per mile.¹⁸ A 2015 study by the Washington State Department of Transportation found that the cost rehabilitation estimate for rail replacement was \$80 per track foot, equal to \$422,400 per mile. Given these values, it is reasonable to assume that more than \$12 million (double the credit value of \$6 million) was spent in Oklahoma on railroad track replacement and maintenance projects. While the net impact of this program may be positive, without more information on what was actually spent, this is difficult to validate.

¹⁸ StrategyWise – Economic Impact Analysis: Tax Credit for Qualified Railroad Track Maintenance Expenditures (February 15, 2019).



Incentive Benchmarking



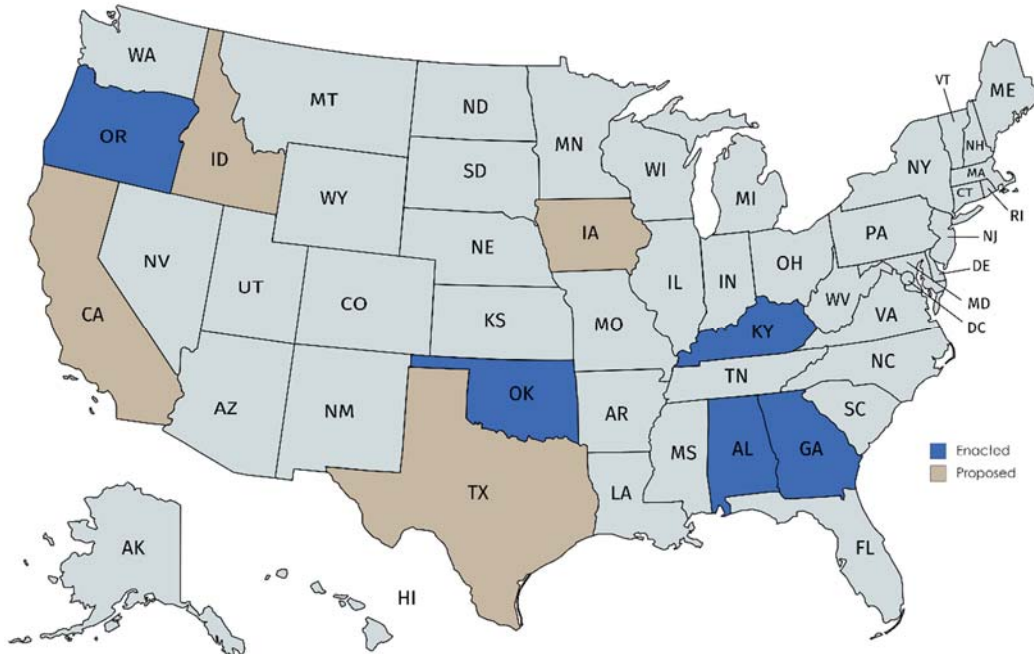
Benchmarking

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are ‘perfect peers’ – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.¹⁹ These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison.

In the case of railroad infrastructure tax credits, however, the comparison is not limited to neighboring states, as each state has Class II and/or III railroads. Only four states were found to have active programs comparable to Oklahoma’s: Alabama, Georgia, Kentucky and Oregon. Several other states have attempted to enact similar tax credits in recently years or are currently considering them, including California, Idaho, Iowa and Texas. The federal government has also historically offered a similar credit, and though it is currently expired, two current proposals would re-establish the program.²⁰ A detailed description of these comparable programs can be found in **Appendix BA**.

Figure 6: State Railroad Infrastructure Improvement Tax Credits



¹⁹ The primary instances of exactly alike state incentive programs occur when states choose to ‘piggyback’ onto federal programs.

²⁰ First enacted in 2004, the federal government’s Railroad Track Maintenance (“Section 45G”) Tax Credit program was first set to expire on December 31, 2009 but was extended numerous times over the years, finally expiring on December 31, 2017. A July 2019 U.S. Senate Finance Committee Business Cost Recovery Task Force report stated that the credit was “proven on its merit to receive a permanent extension.” The Building Rail Access for Customers and the Economy (BRACE) Act (HR510) would make the credit permanent while reducing the value of the credit from 50 percent of qualified expenditures to 30 percent. A separate bill, the Taxpayer Certainty and Disaster Tax Relief Act (HR3301) would extend the credit to January 1, 2021 and retroactively to January 1, 2018. As of September 2019, both proposals are outstanding.



In comparing the basic provisions of each comparable program, Oklahoma’s incentive is generally not as generous. While its cap is \$1,500 multiplied by track miles, most comparable programs are capped at \$3,500 multiplied by track miles. Oregon’s cap is \$1,000 for tracks greater than or equal to 200 miles and \$3,500 for tracks under 200 miles; Iowa would have capped Class II railroad projects at \$2,000 and Class III projects at \$7,000. Other notable nuances in program provisions exist, including:

- **Robustness:** In addition to the credit Kentucky offers to railroad companies for infrastructure improvements, it also provides a 25 percent railroad expansion tax credit to rail facilities who own fossil energy or biomass resources or railway companies that service those businesses; the credit is provided for railroad expansion or upgrades to accommodate the transportation of those resources. Kentucky also allows for an economic development tax credit of up to 100 percent for the construction and installation of railroad spurs to connect economic development projects to existing railroads. The credit is available to businesses engaged in manufacturing, agribusiness, non-retail service, technology or national or regional headquarters operations.
- **Administrative cost recovery:** Alabama imposes a fee equal to one percent of qualified expenditures, up to \$10,000, for processing the taxpayer’s application for a credit.
- **Layering:** Idaho’s proposal limited a railroad to applying either for the federal credit or the Idaho credit – not both.
- **Transfer limitations:** Idaho’s proposal (HB0061 failed) stipulated that a credit can be transferred only to a customer or vendor of the railroad, and any funds received from that transfer must be reinvested in rail infrastructure. Alabama requires that credits be transferred at a value of at least 85 percent of the present value of the credit, and credits can be transferred only once. The State also collects a transfer fee of \$1,000 per transferee.
- **Performance measures and reporting:** California is considering a proposal (AB 1397) that would require claimants to report performance measures, including a specific list of improvements and the number of miles improved, a timeline specifying when the taxpayer will be 286k capable,²¹ a list of improvements made only as a result of the credit and an explanation of the market failure that the credit attempts to correct.

As shown in the following table, the prevalence and use of Class II and III railroads in Oklahoma is generally comparable to other states that have implemented or attempted to implement similar tax credit programs. With 12 Class II/III railroads, it ranks 7th among 11 states, and with 1,152 miles operated, it ranks 4th.

Table 10: Freight Railroads in States with Comparable Tax Credits

State	Program Status	Number of Freight Railroads			Miles Operated*		
		Class II	Class III	Total	Class II	Class III	Total
Oklahoma	Enacted	0	12	12	0	1,152	1,152
Texas	Proposed	0	29	29	0	1,274	1,274
Georgia	Enacted	0	23	23	0	1,373	1,373
Alabama	Enacted	1	18	19	390	704	1,094
California	Proposed	0	15	15	0	1,062	1,062
Oregon	Enacted	1	13	14	393	981	1,374

²¹ “286k capable” means able to accommodate heavier-weight railcars (i.e., loaded car weights of 286,000 pounds). This has been a Class I railroad standard since 1994.



State	Program Status	Number of Freight Railroads			Miles Operated*		
		Class II	Class III	Total	Class II	Class III	Total
Iowa	Proposed	1	8	9	349	385	734
Idaho	Proposed	1	7	8	81	655	736
Kentucky	Enacted	1	6	7	265	270	535
<i>Oklahoma Rank</i>				<i>7 of 11</i>			<i>4 of 11</i>

Source: Association of American Railroads

* Including trackage rights

Other Tax-Based Incentives

In addition to the tax credits discussed in the preceding section, several states provide other tax-based incentives for railroad infrastructure improvements, including exemptions, special tax treatment and other relief mechanisms. While some of these tax preferences do not directly support the funding of railroad infrastructure improvements, they do “free up” financial resources through reduced tax burden. Examples include:²²

- **Exemptions:** Massachusetts and New Jersey, for the most part, exempt railroads from property tax, and New York allows an exemption from income and franchise tax for railroad redevelopment corporations.
- **Special tax treatment:** Connecticut, North Carolina and Pennsylvania impose statewide gross earnings or receipt taxes on railroads (rather than property taxes).
- **Other relief mechanisms:** New York and Virginia provide railroads property tax relief by using an individual classification rule, which inventories each item of taxable property and values it separately regardless of the cooperative effect it may have on the railroad’s other properties. New York provides additional relief by combining the individual classification rule with an established railroad property value ceiling that is adjusted upward based on railroad profitability.

Grant and/or Loan Programs

State grant and loan programs provide support for railroad maintenance, construction and rehabilitation, with some allowing for purchase and/or preservation for future use. Benefits may include lower interest rates, longer loan terms and, in some instances, the opportunity to combine grants with matching funds as a loan down payment. Funds are typically competitively awarded, and many states require applications to quantify the benefits stemming from potential projects for which funding is requested, including job creation, environmental improvements and truck diversion. Examples of state grant and loan programs targeted to short line railroads include (but are not limited to):

- Idaho’s Rural Economic Development and Integrated Freight Transportation revolving loan program assists businesses and qualified short line rail or intermodal freight shippers with loans for upgrading, expanding, rehabilitating, purchasing or modernizing equipment for the Idaho freight shipping community. There is a \$100,000 funding cap on individual projects.
- The Oregon Short Line Credit Risk Premium Account provides grants that can cover up to 100 percent of the Credit Risk Premium set forth in the granting of a federal RRIF loan. In determining which projects receive funds, the Oregon State DOT considers the amount of funds available and the demonstrable public benefits of the project, including enhanced safety, air quality, rural development and reduced demand for the expansion of highway capacity (among other factors).

²² Discussion is taken primarily from Federal Railroad Administration – Summary of Class II and Class III Railroad Capital Needs and Funding Sources: A Report to Congress (October 2014).



- North Carolina's Short Line Railroad Improvement program supports short line rail infrastructure health and performance throughout the state by providing matching grants to short line rail companies. Grants do not exceed 50 percent of the non-federal share and must be matched by equal or greater funding from the applicant. Total grants do not exceed \$5 million per fiscal year.
- Tennessee's Short Line Railroad Preservation Grants preserve rail service to local communities and expand rail connectivity to sites along existing rail corridors. The focus of the program is on facilitating the efficient and economical movement of freight within Tennessee by strengthening the network of short line railroads in the state. Projects have a 90/10 funding split (90 percent State funds/10 percent local funds).
- The federal Railroad Rehabilitation and Improvement Financing program provides loan opportunities to improve or rehabilitate intermodal facilities and rail equipment. Initially, the program's ceiling was set at \$3.5 billion, with \$1.0 billion directed toward non-Class I railroads. In 2005, the ceiling was increased to \$35.0 billion, with \$7.0 billion set aside for non-Class I railroads.

Benchmarking Program Evaluations

Several evaluations of similar programs exist that provide additional context related to the effectiveness of the various approaches to railroad infrastructure support. Evaluations in support of tax credit programs include:

- A 2014 South Dakota State Rail Plan indicated that a short line tax credit is an ideal program to support short lines because it is difficult for small short line railroads to demonstrate adequate business in order to obtain loans.²³
- As mentioned previously, in 2019, an economic impact analysis was performed on the State of Alabama's then-proposed (now enacted) Tax Credit for Qualified Railroad Track Maintenance Expenditures. The evaluation found that the projected \$3.6 million in maximum claims per year would be far exceeded by direct capital expenditures for track replacement and repair, estimated at between \$20 million and \$40 million.²⁴
- A 2018 evaluation of the federal Section 45G tax credit commissioned by the railroad industry (the American Short Line and Regional Railroad Association) cited an increase in industry investment as a result of the credit. The report used railway tie purchases as a proxy for investment; purchases have increased at an annual rate of 6.3 percent since the enactment of the credit, compared to 0.1 percent prior to the credit. The report also cited improved safety as a benefit of the program, with train derailments declining by 50 percent between 2004 and 2017. In addition, the evaluation identified that a 63 percent decrease in the cost of capital was associated with a 47.3 percent increase in capital expenditures by short line railroads. In other words, if railroads are planning track replacements, the tax credit would encourage additional track improvements.²⁵

While the preceding analyses were favorable regarding use of the credits, other evaluations have suggested that tax credits are not the ideal vehicle for achieving infrastructure improvement goals. For example, a 2014 economic impact analysis of short line railroads by the National Center for Intermodal Transportation for Economic Competitiveness found that tax credits are not as effective as a direct expenditure program to support short line railroads (i.e. grant and/or loan programs), stating that it would be more efficient and timely

²³ South Dakota Department of Transportation – South Dakota State Rail Plan (September 2014). Accessed electronically at http://www.sddot.com/transportation/railroads/railplan/DR2_Vol1_SDDOT_StateRIPIIn.pdf

²⁴ StrategyWise – Economic Impact Analysis: Tax Credit for Qualified Railroad Track Maintenance Expenditures (February 15, 2019).

²⁵ ASLRRRA – The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry (July 26, 2018). Accessed electronically at http://files.aslrra.org/images/news_file/PwC_ASRRRA_final_report.pdf



to focus expenditures on directly addressing the need for improvement in short line infrastructure, rather than on persuading private investors to undertake the investment with an expectation of government repayment.²⁶

²⁶ National Center for Intermodal Transportation for Economic Competitiveness – Economic Impact Analysis of Short Line Railroads (2014). Accessed electronically at https://www.ltrc.lsu.edu/pdf/2014/FR_527.pdf



Appendices



Appendix A: Abbreviations of Taxpayers Claiming Credits, 2013-2018

1. Arkansas-Oklahoma Railroad Company (AOR)
2. Atwood Distributing Holding Company (ADHC)
3. Farmrail Corporation (FC)
4. George F. Collins (GFC)
5. Grainbelt Corporation (GC)
6. Kiamichi Railroad Company LLC (KR)
7. South Kansas & Oklahoma Railroad Inc. (SKOR)
8. Stillwater Central Railroad LLC (SCRL)
9. Texas, Oklahoma & Eastern Railroad LLC (TOER)
10. Tulsa-Sapulpa Union Parkway Company LLC (TSUR)
11. Wichita, Tillman & Jackson Railway (WTJR)



Appendix BA: Comparable Enacted and Proposed Railroad Improvement Tax Credits

State	Eligible Railroad Classes	Percent of Expenditures	Credit per Track Mile Cap	Annual Program Cap	Start Date	Sunset Date	Carry Forward	Transferrable	Refundable
Oklahoma	II, III	50%	\$1,500	\$2 million	January 1, 2006	None	5 Years	Yes	No
Alabama	II, III	50%	\$3,500	\$5 million*	January 1, 2020	December 31, 2022	None	Yes	Yes
Georgia	III	50%	\$3,500	None	January 1, 2019	December 31, 2023	None	Yes	No
Kentucky	II, III	50%	\$3,500	None	January 1, 2010	None	None	No	No
Oregon	II, III	50%	\$1,000 for tracks \geq 200 miles; \$3,500 under 200 miles	\$4 million (per biennium)	January 1, 2020	December 31, 2025	5 Years	Yes	No
California (proposed: AB1397)	II, III	50%	\$3,500	None	January 1, 2020	December 31, 2024	5 Years	No	No
Idaho (proposed: HB0061)	II, III	40%	\$3,500	\$3.1 million	January 1, 2020	December 31, 2024	5 Years	Yes	No
Iowa (proposed: HF655)	II, III	50%	\$2,000 (Class II); \$7,000 (Class III)	None; estimated FY2020 impact \$4.8 million;	January 1, 2019	None	5 Years	Yes	No



State	Eligible Railroad Classes	Percent of Expenditures	Credit per Track Mile Cap	Annual Program Cap	Start Date	Sunset Date	Carry Forward	Transferrable	Refundable
				FY2022 and after \$11.4 million					
Texas (proposed: HB1068)	II, III	50%	\$3,500	None	January 1, 2020	None	5 Years	Yes	No
Federal	II, III	50%	\$3,500	None	January 1, 2005	December 31, 2017	None	Yes	No

* If the full \$5 million is not used, unused amounts may be rolled forward to future years but cannot exceed \$15 million