

Kansas Short Line Railroad Tax Credit

Testimony by Mark Mickelson, CEO of Mickelson & Company

In support of HB 2460

Kansas Short Line Railroads

There are 13 class III railroads in Kansas operating a total of 1,744 track miles across the state. According to the Kansas Freight Rail Plan, only 30% of the Class III track mileage is capable of handling the industry standard 286,000 lb. railcar loads.

Purpose of the Tax Credit Program

The Kansas Short Line Tax Credit creates a policy incentive for track reinvestment and maintenance into Kansas's short line railroad infrastructure to adequately meet the needs and demands of customers. Short lines are small businesses that face significant challenges: capital-intensive operations, deferred maintenance from previous owners, extraordinarily competitive market conditions (i.e. truck competition) and challenges accessing capital to modernize infrastructure and improve operational efficiencies.

Why this is needed – It's all about Economic Development!

Kansas's short line railroads are small, local job creators that serve hundreds Kansas rail customers and move over 190,000 carloads annually. 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. It is typical for short line railroads to invest over \$10,000 per mile annually on maintenance and capital improvements, while receiving limited state assistance or direct funding like highways. Improved rail infrastructure will allow short lines to handle heavier and fully loaded rail cars and will increase safety, operational efficiency and reliability. Additionally, by having adequate infrastructure short lines will be positioned to meet industry demands and facilitate economic development opportunities.

Key Policy Provisions:

- Eligible taxpayers are class II and III railroads (smaller local RRs).
- 50% income tax credit on value of investment capped at \$5,000 per mile of track owned/operated by the Class II or Class III railroad in Kansas.
- Not a handout, railroads must spend the money to generate the tax credit
- Tax credit is transferable to another Kansas taxpayer if not used by the railroad
- Tax credit carry forward for five (5) years.
- Eligible investments are rail, ties, ballast, bridges, roadbed, sidings, switches, and spurs.
- Effective January 1, 2021; Sunset in five (5) years - 2025
- KDOT/Department of Revenue promulgates rules and determines eligibility and compliance.
- Tax Credit Program will work in conjunction with the KDOT's RSIF Program

Fiscal Impact

The fiscal impact is estimated at \$8.7 million annually (\$5,000 per mile x 1,744 track miles). The high-end estimate of the fiscal impact assumes Kansas's short line railroads would spend the requisite amount of \$17.4 million on infrastructure improvements or maintenance to generate the maximum tax credit amount (50% tax credit).