

Tax Incentives for Investments to Revitalize Freight Railroad Infrastructure

ASSOCIATION OF AMERICAN RAILROADS

JUNE 2009

WHAT SHOULD BE DONE?

Pass legislation like H.R. 1806, which provides federal tax incentives for investments in new track, bridges, and tunnels that would allow more freight to move by rail.

WHY?

America's demand for freight transportation will surge in the years ahead. Railroads are the most **affordable** and **environmentally-responsible** way to meet this demand. They've been re-investing record amounts back into their networks, creating the world's best freight transportation system. But to take full advantage of railroads' unparalleled potential to lower shipping costs, take trucks off the highway, save fuel, and reduce harmful emissions, even more is needed. Many transportation experts, business leaders, policymakers, and rail customers agree: tax incentives for rail capacity revitalization are the way to go. The benefits to our economy and environment are real, measurable, and well worth it.

Demand for Freight Transportation Will Skyrocket

- Demand for freight transportation will surge in the years ahead due to population and economic growth. In fact, the U.S. Department of Transportation projects that freight transportation demand will rise **92 percent** by 2035.
- Railroads are the best way to meet this demand. Railroads are **safe, save fuel, keep trucks off overcrowded highways, and reduce greenhouse gas and other emissions**. And they do it while providing affordable, reliable transportation to America's manufacturers, farmers, electricity producers, retailers, and consumers.

Railroads Are Re-Investing Record Amounts — But More is Needed

- Trucks, airlines, and barges operate on publicly-financed highways, airways, and waterways. By contrast, **freight railroads pay nearly all of the costs of their tracks, bridges, and tunnels themselves**. From 1980 to 2008, railroads re-invested some **\$440 billion** of their own funds — more than 40 cents out of every revenue dollar — to maintain and improve their tracks and equipment.
- But more must be done. Railroads will continue to pay the overwhelming majority of the costs of their infrastructure and equipment. However, there is a gap between the level of new rail capacity America needs and what railroads can afford on their own.
- In fact, a recent independent study found that major U.S. freight railroads will be able to generate only around \$96 billion of the \$148 billion in new capacity they will need by 2035 to move the freight America will need moved. Even if the current economic

downturn delays previously projected growth by a few years, if the nation is to have the rail capacity it needs in the years ahead, the issue must be addressed now.

How to Bridge the Funding Gap — and Stimulate the Economy

- A sensible way to help bridge this funding gap is to enact legislation like H.R. 1806, which provides tax incentives for projects — such as new track, bridges, tunnels, and intermodal facilities — that **expand** freight rail capacity. **All** businesses that make capacity-enhancing rail investments, not just railroads themselves, would be eligible for incentives.
- The cost of freight railroad infrastructure tax incentives would be about \$300 million per year. **The stimulatory benefit to the U.S. economy would be much greater.** In fact, based on U.S. Department of Commerce data, **every \$1** of rail infrastructure investment that would be stimulated by a tax incentive would generate **more than \$3** in total economic output. Thus, \$300 million in additional freight rail capacity investment would result in nearly \$1 billion in overall economic stimulus. Moreover, each \$1 billion of new rail investment induced by the tax incentives would **create 20,000 jobs.**
- Many transportation experts, businesses, policymakers, and others support rail infrastructure tax incentives because they know freight rail expansion **is in America's best interests.** Supporters include the American Association of Port Authorities, the American Society of Civil Engineers, the American Council for an Energy Efficient Economy, the National Retail Federation, U.S. Chamber of Commerce, and many others.

Huge Benefits to the American Public

The public benefits of freight rail tax incentives would far exceed their cost:

- **Fuel efficiency** – On average, railroads are three or more times more fuel efficient than trucks. In 2008, U.S. railroads moved a ton of freight an average of **457 miles** per gallon of fuel. If 10 percent of the long-distance freight that currently moves by truck moved by rail instead, fuel savings would exceed **one billion gallons** per year.
- **Greenhouse Gases** – Moving freight by rail instead of truck reduces greenhouse gas emissions by **two-thirds or more.** In fact, the greenhouse gas emissions saved if 10 percent of long-distance truck freight moved by rail instead would be equivalent to taking **2 million cars off the road** or **planting 280 million trees.**
- **Highway Congestion** – Highway gridlock costs the U.S. economy more than **\$78 billion** per year — and that's just in wasted fuel and time. Lost productivity, cargo delays, and other costs add tens of billions of dollars to this tab. But a train can carry the freight of **280** or more trucks. That means railroads reduce highway gridlock, the costs of maintaining existing highways, and the pressure to build costly new highways.
- **Pollution** – According to the EPA, a typical truck emits three times more nitrogen oxides and particulates per unit of freight than a locomotive. The EPA has released new regulations that will mean even greater reductions in locomotive emissions.
- **Safety** – Simply put, **trains are safer.** Rail freight transport incurs about 12 percent of the fatalities and 6 percent of the injuries that trucks do per trillion ton-miles. The employee injury rate for railroads is half that of trucks.