

MPC-375

January 1, 2012 – December 31, 2012

Project Title:

Small Railroad Capital Investment Needs and Financial Options

University:

North Dakota State University

Principal Investigators:

Dr. Denver Tolliver

Associate Director/Senior Research Fellow

Upper Great Plains Transportation Institute

North Dakota State University

Email: Denver.Tolliver@ndsu.edu

Phone: 701-231-7767

Doug Benson

Associate Research Fellow

Upper Great Plains Transportation Institute

North Dakota State University

Email: Doug.Benson@ndsu.edu

Phone: 701-231-8388

Research Needs:

Small railroads form a critical component of the national transportation system, connecting every region of the country. In particular, small railroads may provide rural and agricultural regions the only transportation opportunity to compete in the national economy.

However, the required capital investments by small railroads to maintain and improve this service are not easily obtained. Small railroads, with large capital investment needs and limited resources, have unique challenges competing in capital markets.

Recognizing this challenge, the House Committee on Appropriations directed the Secretary of Transportation to report a summary of small railroad capital investment needs. As well, an analysis of non-federal governmental sources of capital, and the extent to which they are utilized by small railroads, is critical for developing national and regional public policy.

Two earlier studies, one by the Federal Railroad Administration (FRA) delivered to Congress in 1993 and the other by the Upper Great Plains Transportation Institute (UGPTI) in 2002, contributed to Congressional development and support for the Railroad Rehabilitation and Improvement Financing (RRIF) loan and loan guarantee program.

This new study is required to respond to current capital and investment markets. Small railroad's capacity to meet the needs of their shippers and to maintain viable transportation options to all areas of the country, is directly impacted by access to capital markets. If small railroads cannot

find funding for their capital investment needs, the national transportation system will be diminished. Public policy must be informed by a current assessment of small railroad investment requirements and the financial options available for responding to those needs.

Research Objectives:

Congress seeks to make informed judgments of our national transportation system. This project will provide Congress with a summary of small railroad capital investment requirements and the financial options available to meet those needs. This research will directly respond to Congress, via the Federal Railroad Administration, and provide current investment and financial market information.

This research is particularly important to understanding the capital investment issues for small railroads in rural and agricultural areas. Rural and agricultural area small railroads are vital for maintaining the connectivity of the national economy.

In addition to the summary of small railroad investment needs, the analysis of non-Federal government capital sources will respond to these questions: 1) What funding sources are available, 2) How much funding is available, 3) Is any funding process limiting to small railroad participation, and 4) Are small railroads needs being met?

Research Methods:

The research will be conducted using surveys of the small railroad industry and financial institutions supporting the industry. The American Short Line and Regional Railroad Association (ASLRRA) will provide current data on their membership and will have an important contribution in survey design and survey administration. As well, small railroad statistics developed by the ASLRRA will be used. Small railroad data, recently collected by the ASLRRA, will be made available to the study.

Capital Investment needs be will summarized from the project survey. Moreover, historical data exists on small railroad capital investments at the ASLRRA and the UGPTI and may be employed in an historical capital investment analysis.

Interviews and/or surveys of financial institutions will be conducted. Financial institutions or financial will be identified by the small railroad survey, industry officials, the ASLRRA, and other sources.

The Federal Railroad Administration (FRA) will assist with survey design and with project guidance for meeting the Congressional directive noted in the Research Needs section of this proposal. Furthermore, the FRA has identified small railroad experts affiliated with the agency who may be available for project input and/or participation.

Expected Outcomes:

The project will produce a report document which will respond to Congress's directive for information on small railroad investment needs and financial options. The report will be incorporated into the FRA's report to Congress.

The research will develop a summary of small railroad investment needs and an assessment of the financial options available to the small railroad industry. Congress and public policy will be informed by the research.

Relevance to Strategic Goals:

Adequate funding for small railroad capital investment directly impacts the state of good repair of a critical link in the national railroad network. Moreover, adequate small railroad funding directly affects the economic competitiveness of the thousands of shippers and businesses utilizing small railroads, particularly in rural America. Specific commodity economics (for example, metallic ores) in rural America depend heavily on small, local railroads. Safety concerns are directly addressed with small railroad capital investment. Small railroad infrastructure engineered to modern standards significantly contributes to safety as well as to operational efficiencies.

Educational Benefits:

Graduate students will be involved in small railroad survey design, survey administration and data validity and summarization. Students will be involved in assessing and developing background information on the financial entities identified in the small railroad survey. Moreover, student involvement in data analysis will be emphasized.

Work Plan:

- | | |
|--|--------------|
| 1. Organizational (UGPTI,FRA,ASLRRRA) Meetings | One Month |
| 2. Small Railroad Survey Design | Two Months |
| 3. Survey Administration | Four Months |
| 4. Non-Federal Gov't Capital Survey Design | Five Months |
| 5. Conduct Financial Entities Survey/Interview | Six Months |
| 6. Analysis | Eight Months |
| 7. Report development | Nine Months |
| 8. FRA/UGPTI Congressional Report Coordination | Nine Months |

The completion date is December 31, 2012. The first work task will be initiated and completed in March, 2012. Work tasks three through six may run concurrently.

Project Cost:

Total Project Costs: \$ 300,000

MPC Funds Requested: \$ 150,000

Matching Funds: \$ 150,000 Source of Matching Funds: NDDOT

In-kind: Federal Railroad Administration

In-kind: American Short Line and Regional Railroad Association

TRB Keywords: Small Railroads, National Transportation System, Railroads, Rural and Agricultural Regions, National Economy, Capital Investments, Public Policy, Railroad Administration, Investment Markets

References: NA