Mr. Chairman and members of the Subcommittee, thank you for the opportunity to provide testimony on these important issues.

As a Member of the Committee on Transportation and Infrastructure and the Chairman of the Subcommittee on Railroads, Pipelines, and Hazardous Materials, I appreciate the chance to offer my support for the 45G short line rehabilitation tax credit and am proud to be a cosponsor of H.R. 721, legislation to extend this credit that is set to expire at the end of the year.

Small, privately owned and operated freight railroads play an important and critical role in moving goods and raw materials. Extending the Section 45G short line maintenance tax credit is critical to preserving and improving the private sector’s ability to maintain these important services.

Across the country, Section 45G has shown tremendous results. Short line railroads connect over 10,000 customers across America to the national freight railroad network. By maximizing private infrastructure investment, Section 45G has allowed these railroads to provide their customers with more customized and competitively priced service. There are 550 short line railroads operating some 50,000 miles of light density rail line in 49 states. The purpose of the 45G credit is to allow these small businesses to invest more of what they earn in track rehabilitation. Put simply, the credit lowers tax rates on businesses that create jobs and generate economic growth.

Most short lines operate track that was once owned by large railroads. This track received little investment by its previous owners and Section 45G is helping small businesses overcome their infrastructure shortfalls and ensure that the vital link between local communities and the national freight railroad network will be preserved from abandonment. All of this is accomplished by 550 small companies with an average of 34 employees and median annual gross revenues of less than $5 million. As smaller, local businesses, short lines have been very successful in turning these into profitable lines on a profit and loss basis. But they serve small customers that do not ship in volumes large enough to fund the enormous cost of eliminating this deferred maintenance. Today, short line railroads reinvest on average nearly 30 percent of their annual gross revenues in repairing and upgrading their infrastructure.
Increasing private investment by keeping taxes low strengthens our local economies, benefits customers who depend on efficient and competitive rail service, and maximizes the ability to invest in private sector transportation assets. The 45G credit is not a federal grant nor is it a subsidy paid for by the taxpayers at large. It simply allows these small businesses to keep more of what they earn to help them meet this huge capital requirement. And there is strong evidence that it is working as intended.

The primary beneficiaries of the credit are railroad shippers. When their short line railroad upgrades track they receive faster, safer and more competitively priced service. Most important, they can utilize the newer heavier load railroad cars that have become the standard for the Class I railroad industry. These heavier cars require a much stronger track structure and if the short line track is not upgraded to handle them, the shipper must send his product by much more expensive truck transportation.

The rehabilitation tax is first and foremost about maximizing capital investment. But in so doing, it is also about jobs. Most short lines do not have the in-house manpower to undertake rehabilitation projects and must hire contractors and laborers to do the work. In the best tradition of American free market capitalism they have taken on considerable financial risk. In so doing they have preserved local rail service for shippers, created good paying railroad jobs for workers and rebuilt valuable railroad infrastructure. What they have earned they have done through hard work and determination. The 45G tax credit allows them keep more of their own earnings so they can continue the task of rebuilding and strengthening local railroad service.