Economic Impact Analysis of Short Line Railroads

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Short line (Class III) rail is often characterized as providing the “first mile” and “last mile” of rail service

- Class I – Large Railroads
- Class II – Regional
- Class III - Local

Class III rail is generally defined as those rail operations with revenues of $31.9 million or less and those handling terminal and switching operations.

Class III rail operations are generally responsible for moving commodities from manufacturing sites to interchange points with Class I rail operations where they can be transported to transnational locations.
Key Facts – National Class III Rail Operations

<table>
<thead>
<tr>
<th>Class</th>
<th>Number</th>
<th>Miles Operated</th>
<th>Employees</th>
<th>Revenue (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I</td>
<td>7</td>
<td>95,573</td>
<td>151,854</td>
<td>$56.3</td>
</tr>
<tr>
<td>Class II</td>
<td>21</td>
<td>10,407</td>
<td>5,334</td>
<td>$1.2</td>
</tr>
<tr>
<td>Class III</td>
<td>537</td>
<td>32,596</td>
<td>12,092</td>
<td>$2.1</td>
</tr>
</tbody>
</table>

Class III

- Average freight revenue per railroad: $5.6 million
- Average freight revenue per mile: $89,000
- Average employment per railroad: 23
- 81% of Class III rail owned by independent business entities
- Traffic Type: Local (14%), Forwarded (33%), Received (34%), Bridged (19%)
Overall, approximately 2,830 miles of freight railroad mileage are maintained by seventeen freight railroads in the state.

On an annual basis, roughly 25 million tons of goods are shipped from the state with Chemicals, Pulp & Paper, Petroleum and Food Products representing the leading shipped commodities.

Over 30 million tons of commodities are shipped to the state on an annual basis with Coal, Farm Products, Chemicals and Stone, Sand and Gravel representing the primary commodities.

There are currently six Class I railroads operating a total of 2,610 miles of track within Louisiana:

- BNSF Railway Company (348 miles)
- CSX Transportation (43 miles)
- Grand Trunk Corporation (263 miles)
- Kansas City Southern Railway Co. (737 miles)
- Norfolk Southern Corp (81 miles)
- Union Pacific Railroad Co. (1,138 miles)
Approximately eleven Class III rail operations (8 freight and 3 switching & terminal) maintain approximately 829 miles of track, representing nearly a quarter of the state’s total rail mileage (AAR, 2011a). Non-switching, Class III rail operations include the following:

- Acadiana Railway Company, Inc. - 87 miles
- Arkansas, Louisiana & Mississippi Railroad - 40 miles
- Delta Southern Railroad, Inc. - 15 miles
- Louisiana & Delta Railroad, Inc. - 400 miles
- Louisiana & North West Railroad Co. – 37 miles
- Louisiana Southern Railroad, Inc. - 157 miles
- Ouachita Railroad – 9 miles
- Timber Rock Railroad, Inc. – 22 miles
Louisiana Rail Snapshot – Part 3

Rail Traffic Originated, 2010

- **Chemicals**: 59%
- **Pulp & Paper**: 11%
- **Petro/Coal**: 10%
- **Food**: 6%
- **Intermodal**: 3%
- **Other**: 11%
- **Pulp & Paper**: 11%
Rail Traffic Terminated, 2010

- Stone, sand, gravel: 21%
- Coal: 19%
- Farm products: 19%
- Chemicals: 17%
- Other: 18%
- Food: 6%
Louisiana Rail Snapshot – Map (AAR)
Economic Concerns Facing Louisiana Short Line Rail

- Growing concern about the capacity of Class III rail in the state to handle heavier 286,000 pound rail cars
- Concern by Class III operators over their inability to solicit higher fees from Class I operators in those cases where they only connect to a single Class I rail network
- Public safety concerns in those instances where their tracks pass through high density populations
- Concern among operators regarding the loss of business during economic downturns
- Concern over the ability to obtain funding for capital improvement projects and the quality of interchange service provided by Class I operators
- Alternative transportation options: truck, barge, etc.
Overwhelming majority of Class III rail operations are privately owned (81.2%)

Class III rail operations play a vital role in connecting local agricultural and industrial operations to Class II and Class I rail networks

Class III rail operations provide a valuable benefit to regional communities by reducing traffic on more congested highway transportation networks when truck-based transportation might be the only viable alternative for businesses to move their goods to market

(2010 ASLRRRA) Louisiana Annual carloads handled: 164,000
- Truck Equivalents: 472,000
- 75% reduction in greenhouse gas emissions when using rail
- Estimated Pavement Damage Savings: $21,000,000
Nationally, the average small rail customer has approximately 100 employees and there are over 1 million individuals nationwide employed in companies serviced by short line rail operations (2010).

Nationally, it is estimated that small rail accounted for over $900 million in pavement damage savings, with an estimated $21 million in savings for the State of Louisiana (2010).

Locally, the average rail employee in the state of Louisiana earns approximately $102,940 per year in wages and benefits, and nationally, one rail job indirectly supports 4.5 jobs in the broader economy (2010).

Locally, there are approximately 7,000 railroad retirees in the in the state of Louisiana receiving approximately $133 million in paid benefits (2010).
Project Justification

- Given the critical role that Short Line rail operations play in connecting State industries with larger rail networks, it is imperative to have an accurate assessment of their total economic impact within the State.

- For example, an economic analysis of short-line rail operations in western Kansas projected $50 million in annual state savings due short-line operations. The Kansas study also “found that rail line abandonment would cause grain prices to fall, shipper costs to rise, and development opportunities in rural communities to decline” (ASLRRRA, 2012 p. 41).

- It is the aim of this research project to replicate this type of analysis for the State of Louisiana in an effort to provide policymakers with an accurate assessment of the direct and indirect benefits of short line rail operations.
Project Description – Phase I

- **Project Goal:** To provide a comprehensive assessment of the economic role and impact of Class III rail operations, this research project will employ a mix-method analytical approached staggered across three core research phases.

- **Phase I:** This phase of the research project will focus on the identification of all Class III rail operations within the state, along with their direct customer base, indirect customer base and potential business interests.

- The primary goal of this component of the research project will be to determine the **scope of Class III rail’s impact** within the state by collecting critical data on how many business interests are served by Class III rail as well as which industries (agricultural, manufacturing, natural resources, etc.) are directly impacted by Class III rail access.
Phase 2: During Phase II, the survey instrument developed in Phase I will be distributed to all identified customers and Class III rail operators. Next, this phase of the research project will be followed up by in-depth, qualitative interviews with Class III operators, customers of Class III operators and local community leaders in those areas serviced by Class III operators.

Research collected during this phase of the project will also include the evaluation of the economic state of those communities where Class III rail operations are currently in place.

Specifically, the research team will seek to determine the extent to which certain local communities rely upon employers supported by Class III rail and the potential costs to these communities that would result from a loss of Class III rail access.
Phase 3: The third and final phase of the research project will entail the analysis of collected survey and qualitative interview data, as well as the composition of the final project report.

Ultimately, the results of this research project will directly contribute to existing research on the scope and importance of short line rail in rural communities.

Additionally, it is expected that this research project will serve as a worthwhile resource for local and state policymakers seeking to explore potential targets for economic development investments in rural communities.

Last, the results of the analysis provided in the project will be made available to stakeholders in three primary formats – (1) a formal report provided to the UTC, (2) related conference presentations and (3) a condensed executive summary to be provided to interested policymakers.