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TECHSUMMARY

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DOTD Support for UTC Project: Economic Impact Analysis of Short Line Railroads in the State of Louisiana

INTRODUCTION

While relatively small in scope when compared to their national rail counterparts, short line rail operations play a significant role in supporting core industries in Louisiana, namely petrochemicals and agriculture. This is not unlike other states that also depend on short line rail operations to connect major industries to national and international markets. A number of states have initiated state level programs to ensure the continued sustainability and viability of short line rail service. In many respects, short line railroads can be thought of as small but necessary components of the state's business machinery since the primary purpose of these rail lines is to move goods and products from producers to national rail lines and vice versa. This report addresses a number of key factors related to their overall economic impact upon the state's economy, noting their importance to the state's overall transportation infrastructure and export/import process.

OBJECTIVE

The primary objective of this research study was to provide a detailed analysis of the economic impact of short line rail operations in Louisiana. This report is intended to both provide background materials to policymakers on the economic role of short line operations in Louisiana and to provide data on short line rail operations in the state and regional economies. Additionally, this report addresses the impact of short line rail operations on other industries in the state.

SCOPE

The analysis was restricted to short line operations and railroads within Louisiana's boundaries. In terms of the broader economic impact of short line railroads, the following topics related to short line rail operations were addressed: employment, spending, revenue and taxation, environmental savings, and industry support. These estimates included both direct and indirect economic impacts. In an effort to better address how Louisiana might provide a more robust support structure for short line rail operations, the state-level short line funding programs implemented in comparable states with short line rail operations were reviewed.

METHODOLOGY

To obtain data relevant to the broader economic impact of short line rail operations in the state, the authors employed a mix-methods approach that combined the use of an electronic survey of railroads; third party data collection from federal, state, and rail association data sources; discussions with persons who have observed the short line rail industry over many years; and one on-site visit with a short line rail railroad. Indirect economic impacts were derived by using Regional Input-Output Multipliers (RIMS) as derived by the U.S. Department of Commerce. However, even more significant to the economic opportunities of the state is the economic role that the short line railroads play in support of basic industries in the state. The economic importance of these industries is noted, along with estimates of what losing a certain amount of these industries would mean for the state and regional economies.

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PRINCIPAL INVESTIGATOR:

Jared Llorens, Ph.D.
James Richardson, Ph.D.

LTRC CONTACT:

Kirk M. Zeringue, P.E.
225.767.9169

FUNDING:

SPR: TT-Fed/TT-Reg

Louisiana Transportation Research Center

4101 Gourrier Ave
Baton Rouge, LA 70808-4443

www.ltrc.lsu.edu

CONCLUSIONS

Based upon a thorough analysis of primary and secondary data sources, the summary conclusion is that short line railroads play a vital role in supporting some of Louisiana's leading industries. Precisely estimating the economic impact of short line operations, however, is quite challenging due to the diverse customer base of short line rail operations, as well as their direct and indirect impact on key industries.

In terms of the employment impact of short line operations on the state economy, the authors estimate that the short line railroads directly employ approximately 331 individuals on an annual basis in positions that average approximately $67,000 in wages and benefits. Given that Louisiana's mean annual wage across all occupations is only $39,230, positions in the short line rail industry represent relatively high paying jobs that serve a significant role in boosting local economies. Indirectly, short line rail employment supports an additional 1,490 jobs in the state economy, many of which are located in Louisiana's poorest and most economically depressed parishes.

In terms of state and local tax revenue, short line rail operations also provide a substantial contribution to the state economy. The authors estimate that, on average, short line railroads in Louisiana bring in approximately $44.5 million in annual revenues that generate approximately $3.5 million in state tax revenues and $2.86 million annually in local revenues. Additionally, the presence of short line rail operations reduces the need for freight transportation by truck, which results in approximately $21 million in annual pavement damage savings according to outside research groups.

While the direct employment and revenue impact of short line rail operations may be relatively small when compared to economic contributions of the agricultural or petrochemical industries, the critical role that short line railroads play in linking industries to national transportation networks via Class I rail represents what is perhaps their most significant impact upon the state economy. At the end of the day, the presence of short line railroads allows major corporations such as the Albemarle Corporation or Ventura Foods to locate and expand their facilities in the state and, more importantly, in areas of the state that have typically experienced limited employment options. While metropolitan areas such as Baton Rouge and New Orleans may provide a multitude of employment options to state residents within their respective parishes, short line railroads support employment in some of the poorest parishes in the state, such as Acadiana Railroad in Avoyelles Parish or the Delta Southern Railroad in East Carroll Parish. In this respect, short line railroads can be viewed as playing a critical role in the Louisiana economy beyond what their immediate impact might indicate.

Given the economic importance of short line rail operations in the state economy, the authors believe that it is prudent for state policymakers to explore alternatives for ensuring the continued presence of short line rail operations in the state. Previous studies at both the national and local levels have highlighted the need for public support of short line rail operations, and in the following section, we recommend potential alternatives for Louisiana.

RECOMMENDATIONS

Recognizing the predicament faced by many short line railroads and the public benefit that they provide, approximately 16 states, 3 in the Southeastern portion of the U.S., have established publicly sponsored funding programs for short line railroads in further acknowledgement of the role that these rail lines play in supporting business and industry. While the details of state supported programs vary considerably, most short line support plans take on one of three forms: (1) state rehabilitation grants; (2) state loan programs; and (3) state loan/grant hybrid programs.

While each of these three funding programs is unique in form and function, all support the goal of maintaining a viable short line rail network within their state. Given both the importance of short line railroads in Louisiana and their current vulnerability with regards to handling heavier, 286K rail cars, the authors believe it is prudent for state policymakers and transportation administrators to begin the process of designing and implementing a short line railroad support program that could provide needed support to short line railroads in Louisiana. In addition to strengthening the state's existing rail network, potential direct and indirect benefits also include increased economic development opportunities for regions with short line railroads and reduced freight traffic congestion on the state's highways.

In conclusion, grant programs or grant/loan programs—that is, direct investments by a governmental body—have been suggested. This is equivalent to infrastructure enhancement of the state's existing transportation system. However, many states, including Louisiana, have become increasingly focused on tax credits or some form of tax encouragement as a means of encouraging and enticing private investment of a particular nature. It is the author's judgment that tax credits will not be as effective in promoting the necessary improvement in short line infrastructure as a direct expenditure program. If improving the transportation infrastructure is a legitimate public responsibility, then it is much more efficient and timely to focus expenditures on this responsibility rather than persuade private investors to undertake the investment with an expectation of government repayment.

Further, any selected direct investment program must identify a specific short line that is to be improved or rebuilt. Indirect investments such as tax credits will also apply to short rails that the private sector has already decided to fund—sometimes the choice of the public sector will comparable to the dollars that the private investors may be investing in. Lastly, the decision to provide direct investments into targeted short line railroads must also take into account environmental considerations such as the location of jobs within the state and the relationship of specific short railroads to the rest of the state's transportation system.