



Clayton Kendall

TNW Corporation

Corporate Property & Government Affairs



TEXAS SHORT LINE & REGIONAL RAILROAD ASSOCIATION



- TNW is wholly-owned by Murchison Capital Partners (HQ – Dallas, TX)
- 35 years success
- TNW Corporation owns the largest private railcar storage facilities in the United States and operates three short line railways and logistics centers in Texas
- TXR Railway, TXGN Railway, TXNW Railway
- TNW Logistics
- Key services offered - transportation services, railcar services and real estate development services



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SHORT LINES IN TEXAS



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WHAT IS A SHORT LINE FREIGHT RAILROAD?

- Defined as a Class 3 railroad, annual operating revenue of less than \$37.4M
- Most were once branch lines of larger railroads, abandoned or spun off
- Require significant capital investment to rebuild and maintain
- Entrepreneurial in the truest sense, small businesses focused on customer service and cost control
- Provide labor intensive services that are unprofitable for large railroads



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SHORT LINE AND REGIONAL RAILROAD EVOLUTION

- Short lines were in business as early as the mid-1800's (Granite Railway) (B&O Railroad)
- Staggers Act of 1980 saved the national railroad industry from near total collapse.
- Railroads were now able to operate in a free market system
- Short lines have grown from 8,000 miles of track in 1980 to 47,500 miles today
- In 5 states, short lines operate 100% of the state's total rail network. In 15 states, more than 50%.



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SHORT LINE FREIGHT RAIL INDUSTRY IN THE U.S.

- More than 600 short line railroads
- Employing nearly 18,000 people
- Operating 47,500 miles (29% of freight rail network)
- Serving over 10,000 shippers
- Paying nearly \$1B in taxes annually, average of 20% of revenue
- Infrastructure built and maintained with private funds
- Vital role linking rural America to the Class 1 rail network



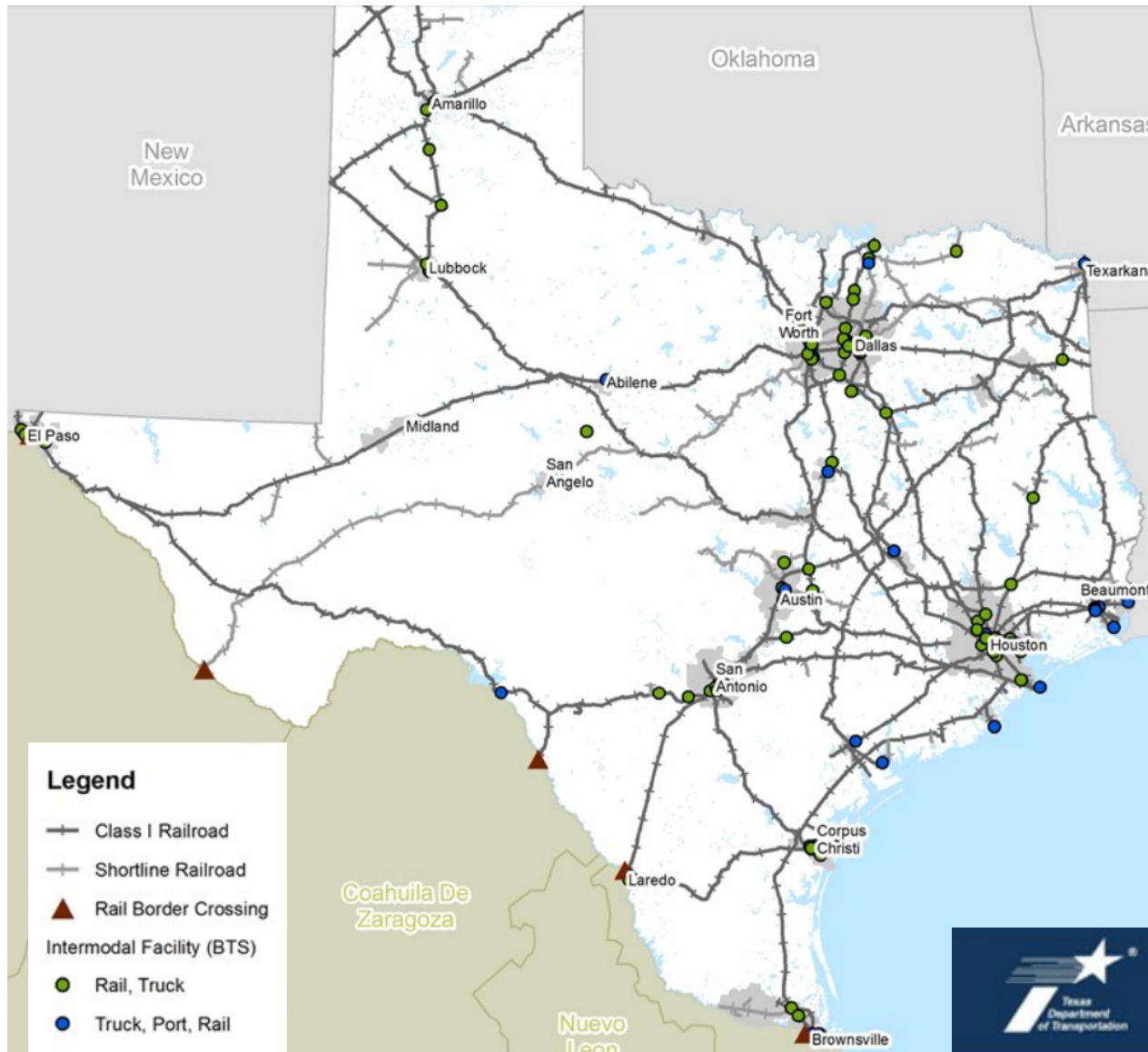
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TEXAS SHORT LINE FREIGHT RAILROAD FACTS

- 41 short line railroads
- 20% of rail network in the State
- 2028 miles of short line railroad track [*more than total miles of track in 17 states*].
- Employ almost 800 people (*TX Dot Study 2016)
- Handle over 387,000 carloads of freight annually (*ASLRRRA)
- Take 1,024,000 trucks off the road (*ASLRRRA)
- Savings of an estimated \$45M in pavement damage (*ASLRRRA)
- Estimated \$354M in Economic Output Impact (*TX Dot Study 2016)



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SHORT LINE RAILROADS – GOOD FOR TEXAS!

- Make substantial Capital Investments in transportation infrastructure
- Drive Economic Development - new Jobs and Tax base Growth
- Pay significant Property and Franchise Taxes
- Connect Rural Texas to National Rail Network
- Relieve Highway Congestion
- Reduce Taxpayer Burden - Protect public road infrastructure – heavy truck road and damage
- Provide Environmental Benefits – reduced emissions



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TEXAS SHORT LINE INDUSTRY

RECENT PROGRESS

- TSLRRA set a record in 2017 for railroad and associate members
- In 2017, Rep. Trent Ashby introduced a Texas short line bill for the first time ever
- In 2017, a short line railroad company sat on the TxDOT Freight Advisory Committee for the first time ever. [Texas Freight Mobility Plan]
- For the first time ever, funds for short line improvement projects have been recommended [Freight Mobility Plan]
- Record amount of attendance today



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2017 TEXAS FREIGHT MOBILITY PLAN



“TxDOT should continue to work with private-sector rail industry and other stakeholders to identify strategies that expand rail capacity, improve rail fluidity and ease traffic congestion to accommodate projected growth in imports and exports.” *11.2.15 Policy Recommendations*



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2017 TEXAS FREIGHT MOBILITY PLAN



- The objectives of this policy are to:
 - Foster rail freight as a practical modal option that relieves freight congestion on Texas highways.
 - Support partnerships for public-private funding and financing opportunities that expand rail capacity and connectivity.
 - Support strategies that reduce the number of at-grade highway/rail crossings, improve the efficient movement of freight and increase the quality of life through reduced congestion and improved safety.



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2017 TEXAS FREIGHT MOBILITY PLAN



- “Given the critical role that short line railroads play and the fact that the short lines connect to and interchange with Class I railroads to form a network, the TxDOT FAC recommended that all rail assets be designated as part of the Texas Multimodal Freight Network.”
- “The state should continue to address freight transportation issues critical to the rural areas that support economic development.” *11.2.6 Rural Connectivity*



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Customer First Foundation Principles



Customer First - Safety Always!

Value Our Customers

- Earn their business every day by providing Safe, Accurate, and Timely Service
- Create solutions that deliver value for our Customers and Watco over the long term

Value Our People

- SAFE Service, ALWAYS
- Be Honest and Fair

Safely Improve Every Day

- Always do the right thing and always try to find a better way
- Build a tremendous future by making decisions that protect our Customer, Team, Community, and Environment



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WATCO by the Numbers

TRANSPORTATION

5,100

MILES OF TRACK



37 RAILROADS



1.1mm

CARLOADS MOVED



33

CONTRACT SWITCHING OPERATIONS

MECHANICAL SOLUTIONS



A 50/50 JOINT VENTURE WITH THE GREENBRIER COMPANIES CREATED GBW RAILCAR SERVICES



12

TANK CAR SHOPS

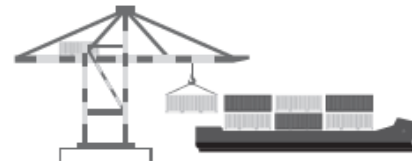


31

MECHANICAL FACILITIES

FULL SERVICE FACILITIES

TERMINALS & PORTS



85
TERMINALS & PORTS



35 MARINE TERMINALS



47 TRANSLOAD TERMINALS

3 SPECIALITY TERMINALS

37 CONTRACT FACILITIES

37 of 85 dedicated customized bulk, break bulk, intermodal and material processing services

SUPPLY CHAIN SERVICES



25,000+

LICENSED MOTOR CARRIERS UNDER CONTRACT

GLOBAL INTERNATIONAL AGENT NETWORK



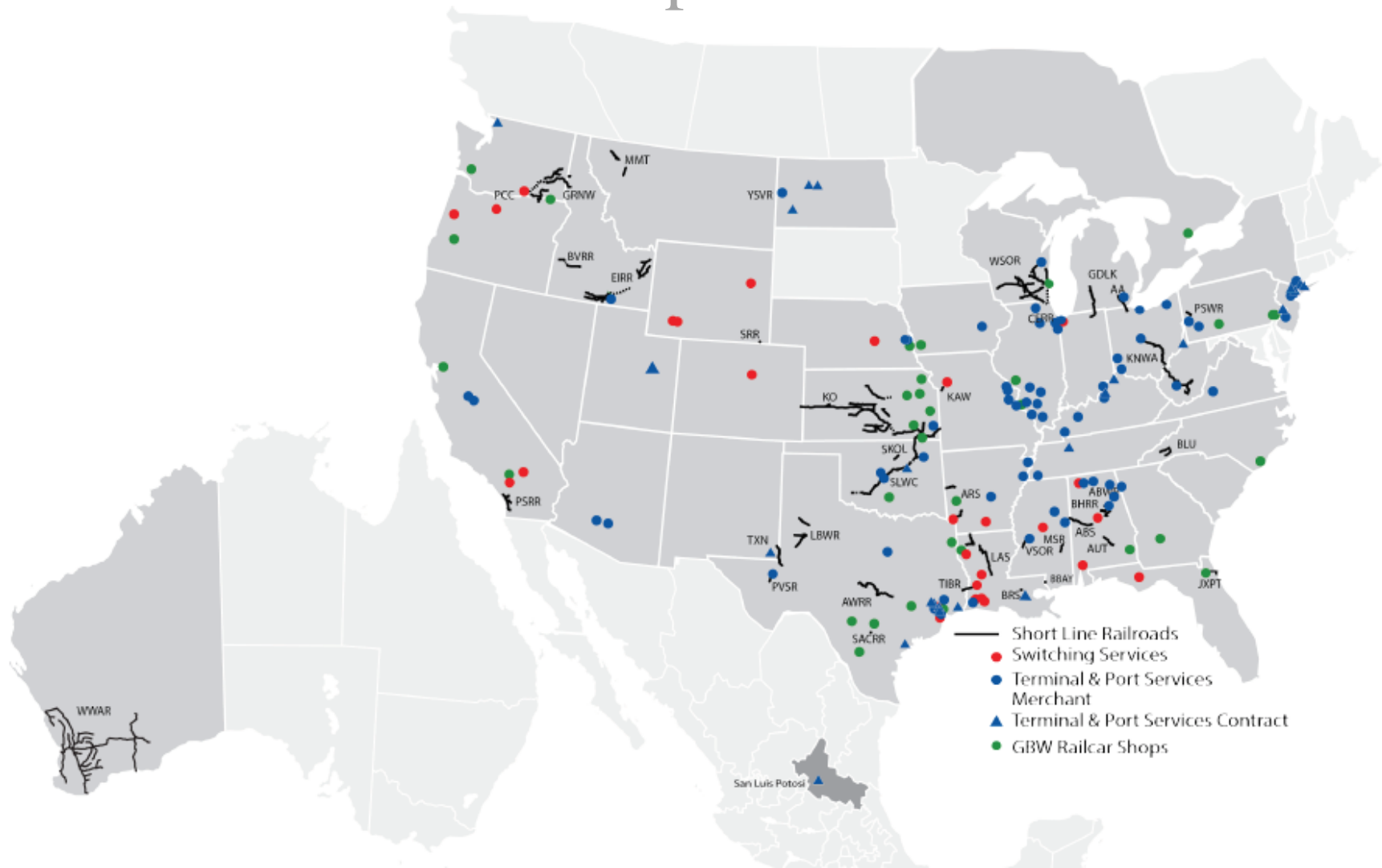
13

LOCATIONS WITH NATIONWIDE COVERAGE



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WATCO'S Global Footprint



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WATCO in Texas

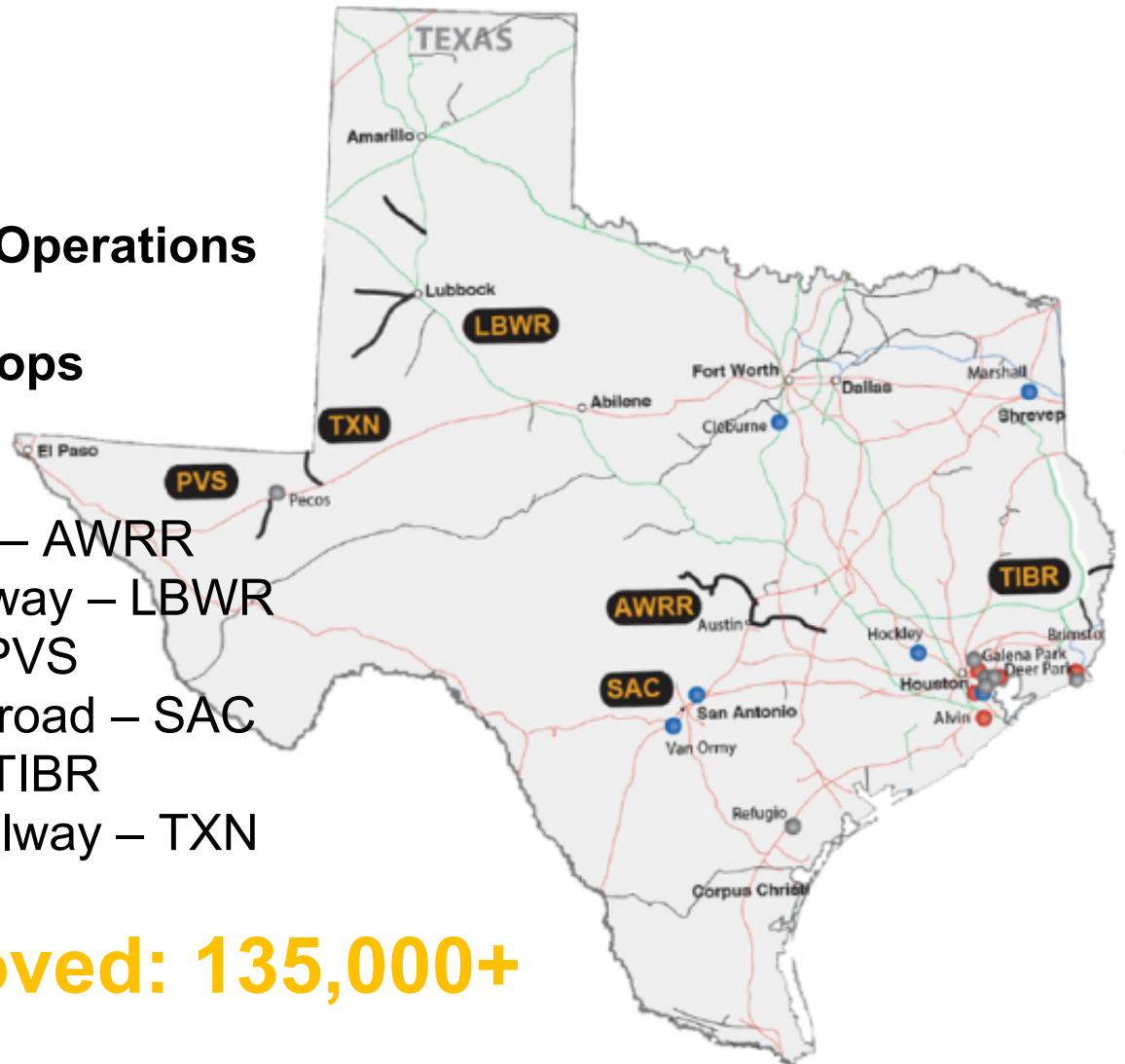
Four Terminals

Four Industrial Switching Operations

Six Railcar/Mechanical Shops

Six Railroads

- Austin Western Railroad – AWRR
- Lubbock & Western Railway – LBWR
- Pecos Valley Railway – PVS
- San Antonio Central Railroad – SAC
- Timber Rock Railroad – TIBR
- Texas & New Mexico Railway – TXN



2017 Railcars Moved: 135,000+



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Operating Short Lines in Texas

Challenges

- No competitive state funding program
- Not many policy makers know about short line railroads
- Bigger trucks

Opportunities

- Short Line Tax Credit
- Strong business climate
- Pro-growth state
- Federal funding programs





Overview

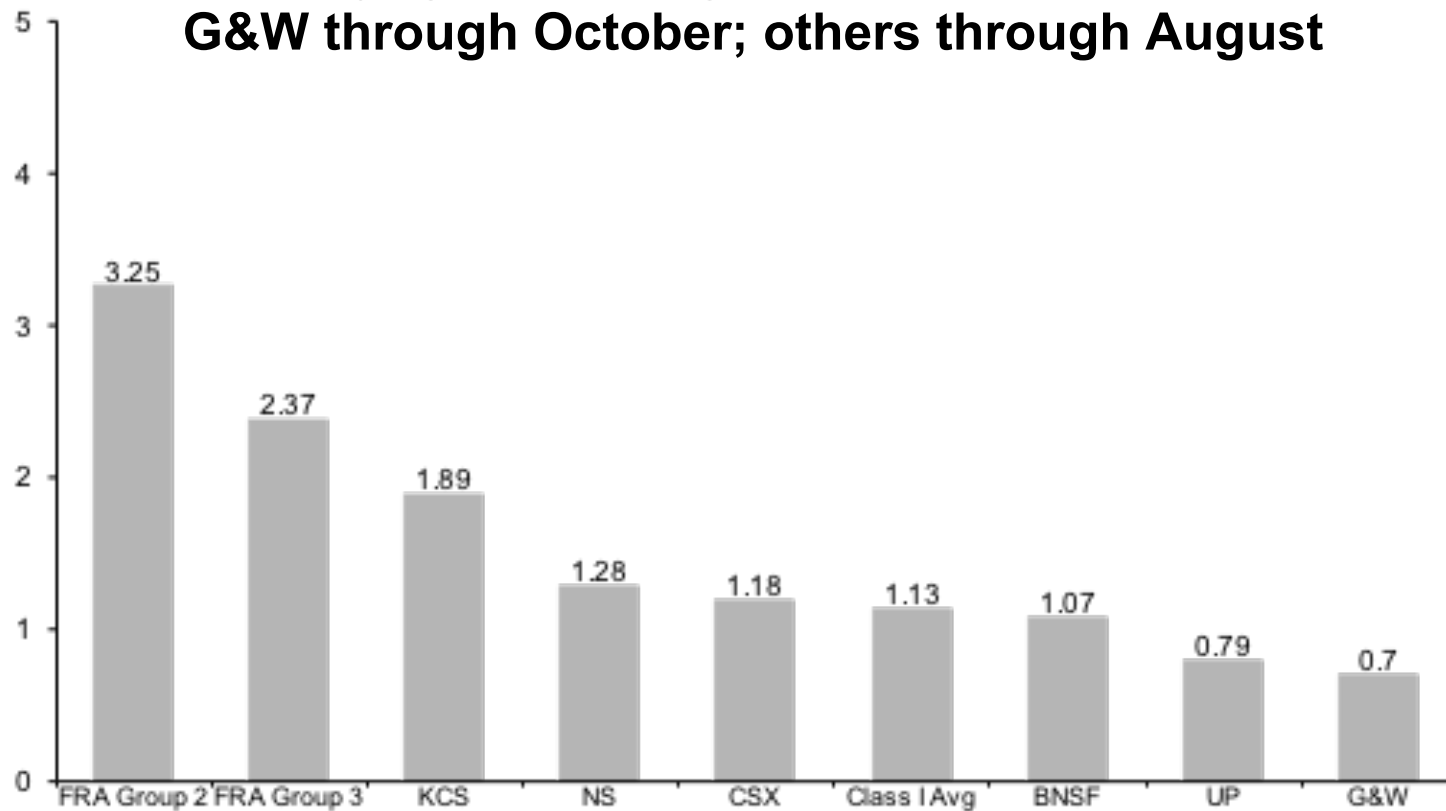
- **NYSE:** Listed as GWR with ~\$4.0B market capitalization
- **Railroads:** 122 railroads with ~16,000 track miles (80% North America; 20% Australia/Europe)
- **People:** 8,000
- **Customers:** 3,000
- **Equipment:** 1,350 locomotives
- **Carloads:** ~3.4 million annually



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Industry-Leading Safety Performance

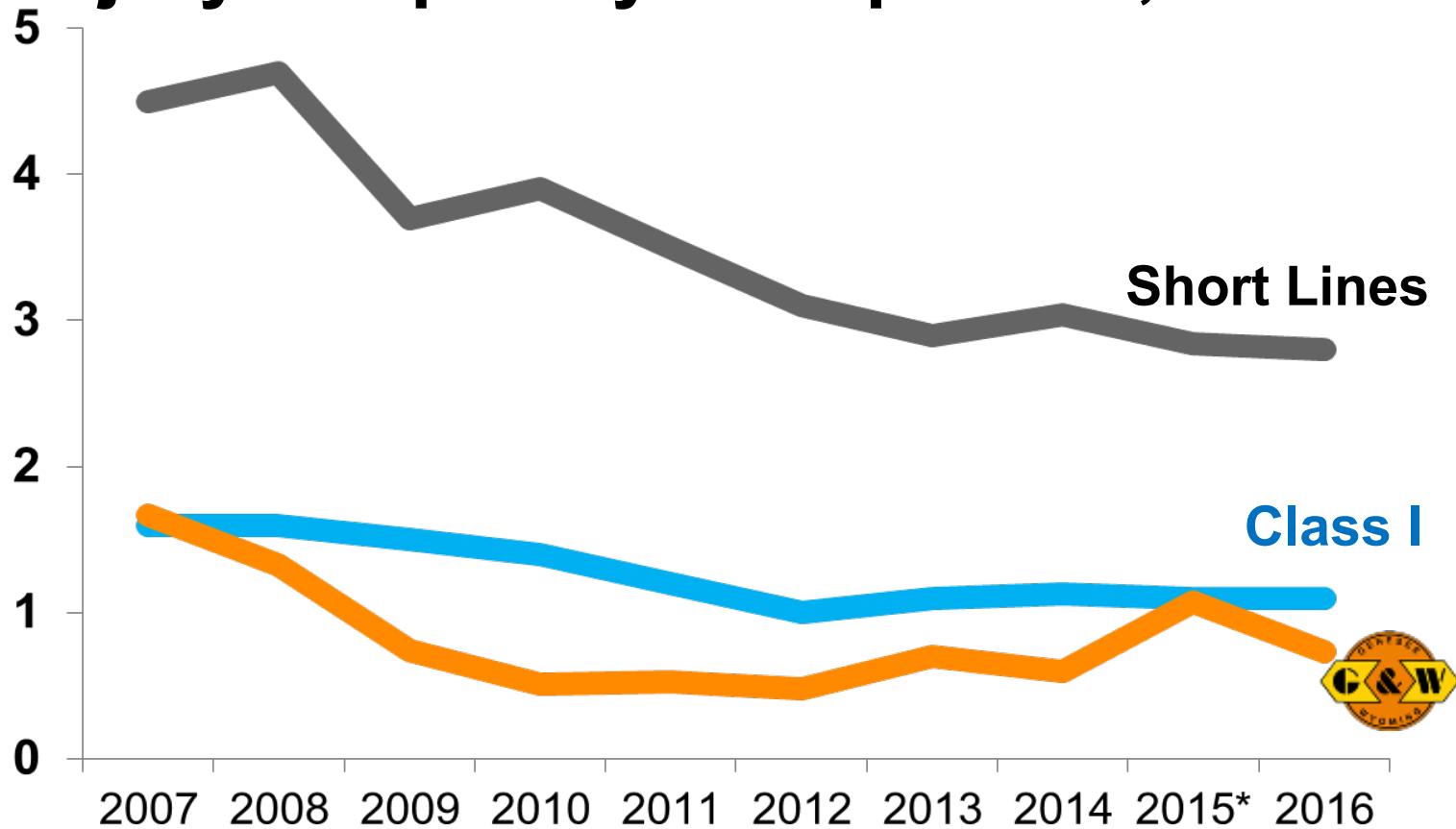
2017 Injury-Frequency Rate per 200,000 man-hours
G&W through October; others through August



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Industry-Leading Safety Performance

Injury Frequency Rate per 200,000 Hours

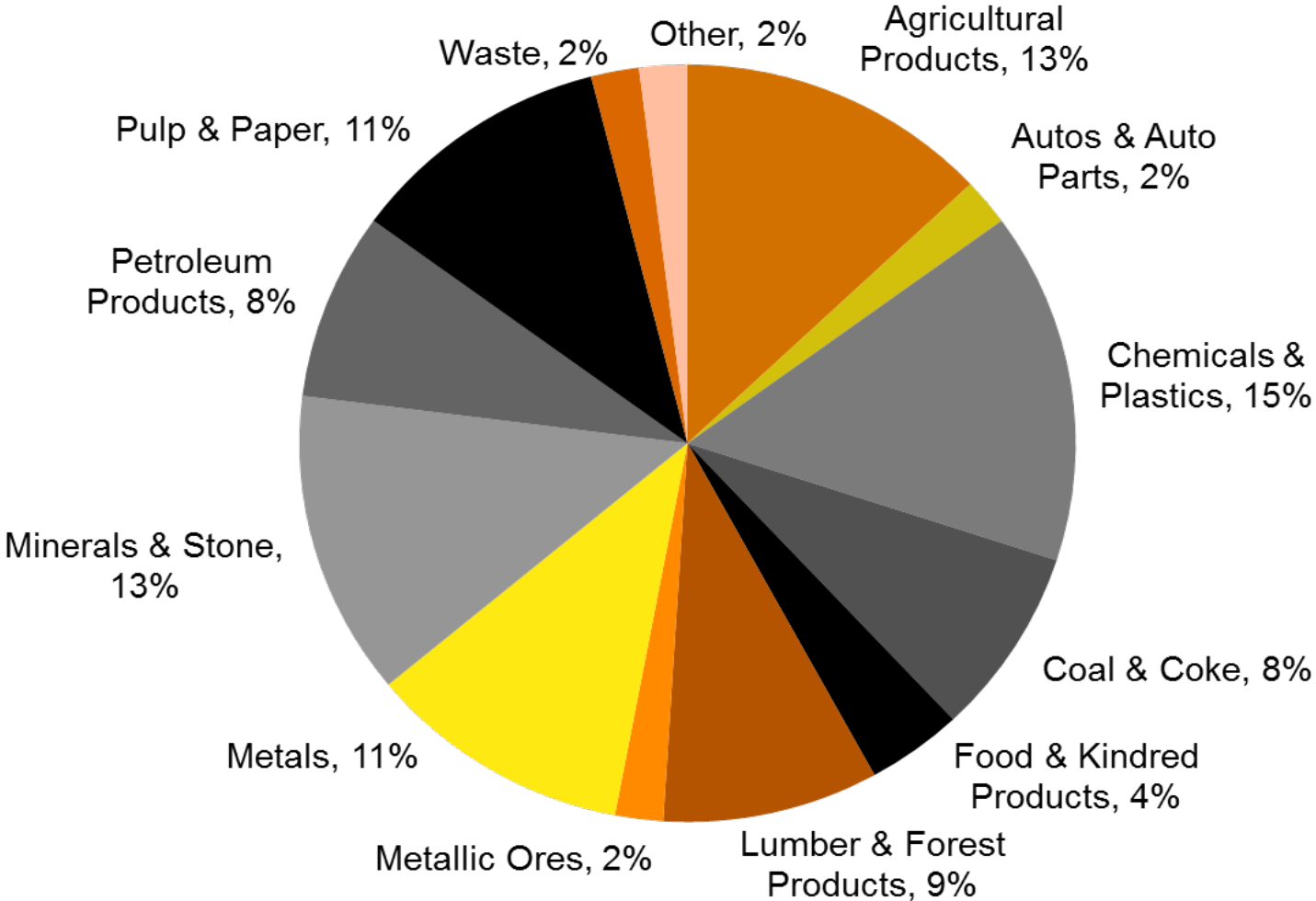


* G&W results include April 2015 acquisition of Freightliner Group

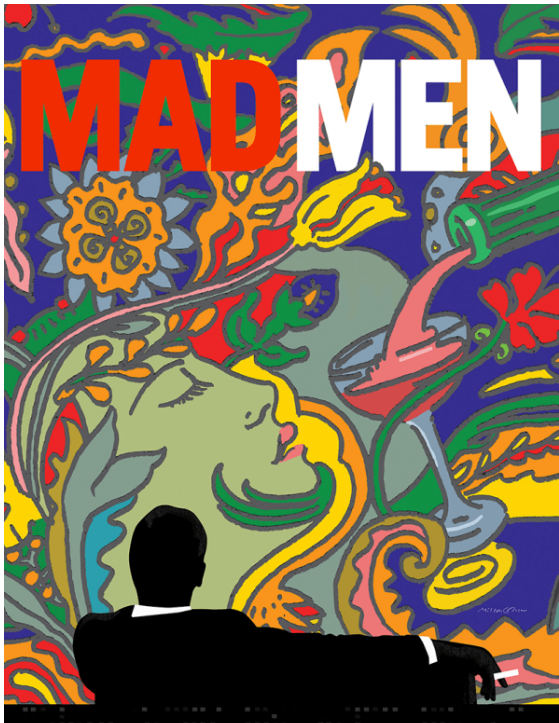


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2016 North American Freight Revenue by Commodity



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I ♥ NY

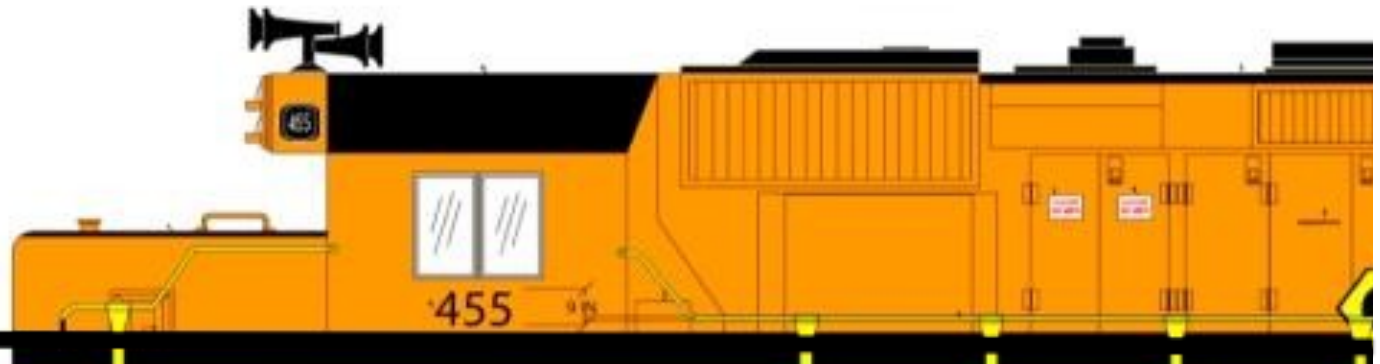


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G&W didn't copy the BNSF color scheme

1979

G&W design schematic
by Milton Glaser:



1979

BN Schematic
BN and SF formally
merged in 1996



2005

BNSF Design
Schematic

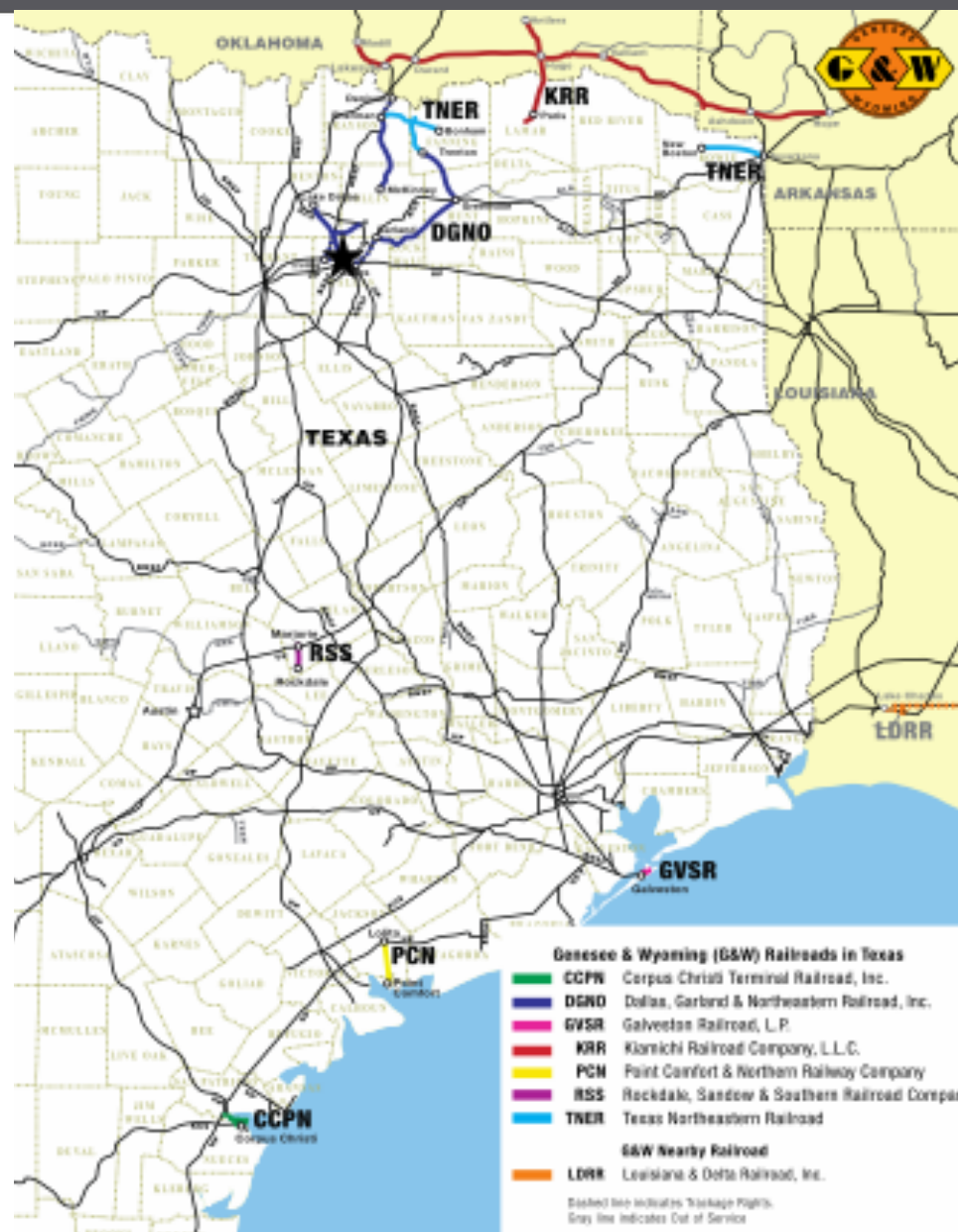


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in Texas

- **Operations:** Seven short line railroads
- **Mile of Track:** 338
- **Employees:** 225
- **Origin Carloads:** ~14,000/year
- **Destination Carloads:** ~54,000/year
- **Track Capacity:** 263k and 286k



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TSLRRA IN AUSTIN

Increase our presence in Austin

Ensure modal equity among transportation modes

Push back against overreaching regulatory initiatives

Promote healthy investment in short line infrastructure



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TSLRRA IN AUSTIN

Increase our presence in Austin

Working to educate legislators and administrative departments on the operations and subsequent value short lines provide to local communities.

- **TX Rail Day**
 - In partnership with TRA
- **Texas Freight Advisory Committee**
 - Ex Officio member
 - Projects, TFMP, presentations
- **Texas Rail Plan partner**
- **Legislator meet and greets**



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TSLRRA IN AUSTIN

Ensure modal equity among transportation modes

Being a leading voice in Austin on the impacts that bills and regulations have on short line railroads and the customers they serve

- **Truck size and weight (bill, diversion in OH, CO)**

Push back against overreaching regulatory initiatives

- **Two person crew**
- **Eminent domain**



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TSLRRA IN AUSTIN

Promote healthy investment in short line infrastructure

- Creation of grant programs and tax credits with demonstrated public benefits
 - Rail eligible, rail specific, other functions
 - Short line specific tax credit



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SHORT LINE AND REGIONAL RAILROADS OF U.S.

- 603 Short Line Railroads
- 48,000+ track miles; 49 states
- First mile/Last mile
- Connect to national freight network
- Serve 10,000+ rail customers
- Local rural job creators



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IT'S ALL ABOUT THE CUSTOMERS!

Railroads cannot exist without their customers

- Customers come in all shapes and sizes
- Service must be safe, reliable, and efficient
- Connect customers to the national freight network

Biggest challenge

- Maintaining and upgrading rail infrastructure to meet customer needs/demands
- Meeting infrastructure needs presents tremendous opportunity



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INVESTING IN RAIL INFRASTRUCTURE

Railroading is capital intensive:

- New track: Estimated \$1.5 million per mile
- Rehab/Upgrade Track: Estimated \$400,000 per mile
- Bridges: Varies widely; \$100k (maintenance) to \$1 million (rebuild)

\$630 billion reinvested from 1980 to 2016

- Estimated \$130 billion from 2012-2016, alone! (20%)

Reinvestment critical for:

- Safe and reliable freight service
- Economic development (286k railcars)

**Source – Association of American Railroads, Industry provided information*



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PROVEN SOLUTION - 45G TAX CREDIT

- Developed in 2005 for short lines to upgrade infrastructure
- Federal tax credit equal to 50% of eligible expenditures
- Tax credit capped at \$3,500 per track mile
- Tax credit may be claimed or assigned
- Assignability feature is unique to the IRS code
- Over \$3+ billion improving rail infrastructure since 2005
- Legislative uncertainty: 45G tax credit expired 12/31/16



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REPLICATING SOMETHING THAT WORKS...

Oklahoma State Railroad Tax Credit

- Enacted in 2006 for short line railroads
- Historically, 50% tax credit capped at \$2,000/mile
- Tax credit can be claimed, carried forward, or assigned
- \$2 million annual cost; \$40+ million in additional investment

Kentucky State Railroad Tax Credit

- Enacted in 2009; 50% tax credit; \$3,500/mile
- Tax credit can be claimed, carried forward, or assigned
- \$3 million annual cost; \$50 million in additional investment



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EXAMPLE TAX CREDIT PROPOSAL

- 50% tax credit for eligible track expenditures
- Tax credit amount capped at \$3,500/mile track mile in State
- Example for 100 mile railroad:
 - 100 miles x \$3,500 = maximum tax credit of \$350,000
 - Railroad must spend \$700,000 + to generate tax credit
 - Tax credit could be claimed or assigned to another taxpayer
- Estimated annual cost is easy to identify
- Tax credit is a private sector solution for rail shipper needs



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REPLICATING A PROVEN SOLUTION

Market Development Factors

- High concentration of railroads and track miles
- Existing state tax credit markets (helpful)
- Railroads willing to actively engage in the process
- Legislators who like railroads and economic development

Railroad Tax Credit Legislation Update:

- 2017: Texas (introduced; did not pass)
- 2018: Georgia, Oregon, Idaho, and Indiana
- 2019: Top Target: Texas (need to start the work NOW!!)



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TEXAS STATE RAILROAD TAX CREDIT?

FOOD FOR THOUGHT....

- \$210 billion state budget; \$28 billion for transportation
- No dedicated funding source for short line railroads

Estimated annual cost @ \$3,500/mile?

- 40 Short Line; 2,900 track miles
- \$ 10.1 million annual cost
- \$20.2 million in additional railroad investment
- Tax credit is private sector solution to a public problem
- Not a handout or line item in the budget
- Program would drive private investment made by short lines
- QUESTIONS?



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