

## HB 2978 -3, -4 STAFF MEASURE SUMMARY

### House Committee On Revenue

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**Prepared By:** Kyle Easton, Economist

**Meeting Dates:** 3/18, 4/1, 5/28

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#### WHAT THE MEASURE DOES:

Creates income tax credit for owners or lessees of short line railroads that complete a certified short line railroad rehabilitation project in Oregon. Credit equal to lesser of: \$3,500 multiplied by the number of miles of short line railroad track the taxpayer owns or leases in Oregon or fifty percent of the certified short line railroad rehabilitation project costs. Specifies transferability of tax credit and allows unused portion of credit to be carried forward up to five succeeding tax years. Provides for certification and administration of tax credits by Department of Revenue. Limits total amount of potential tax credits at time of preliminary certification to no more than \$\_\_\_ for any biennium. Defines terms. Applies to tax years 2020 through 2025.

#### ISSUES DISCUSSED:

3/18/2019 - Public Hearing

- Federal credit expiration, background of federal credit
- Transferability of proposed credit makes credit available to publicly owned railroads
- Potential sale of short line railroad in Coos Bay area, was purchased by Port
- Freight moving by rail has potential to replace freight otherwise moved by truck
- Regional and statewide importance of Port of Coos Bay
- Information requested of staff to be provided to committee members.

4/1/2019 - Work Session Discussion

- Number of short line railroads in Oregon, those that are private and publicly owned
- Potential rehabilitation costs of short lines, large range depending on type of rehabilitation or replacement of existing infrastructure
- Review of similar federal credit that has currently sunset
- Background on transferability of a tax credit, possible policy reasons for transferability
- Contents of the -1 amendment
- Annual limit remains an unspecified amount
- Oregon Department of Transportation is certifying agency per -1 amendment, potential interaction with Department of Revenue and claiming of the credit
- Federal legislation that would retroactively reinstate the federal credit without future federal credit sunset
- Ability of public railroads to claim the federal credit
- Ability of short line railroads to claim credits in successive years.

#### EFFECT OF AMENDMENT:

-3 Eliminates requirement to complete construction, requires costs to be actually paid or incurred during the tax year in which the credit is claimed. Requires taxpayer to receive written certification from Department of Transportation (ODOT) prior to receiving credit. Provides Department of Revenue (DOR) rule making authority regarding information about certifications. Replaces introduced language regarding transferability of credit with different transferability language. Specifies conditions and procedures for collecting credit proceeds in instances where fraud, mistake, or violation of credit conditions is found.

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For purposes of determining short line railroad rehabilitation project costs, disallows costs used to qualify for or used to claim any state or federal grants or federal tax credit. Creates two tiers of tax credit benefit. Specifies tier 1 as person that cumulatively owns or leases short line railroad track in Oregon in excess of 200 miles. Limits credit allowed for tier 1 taxpayers to least of \$1,000 multiplied by number of short line track miles owned or leased in Oregon or fifty percent of short line rehabilitation project costs. Specifies tier 2 as any person that is not a tier 1 or is a public entity. Requires ODOT to establish by rule process of preliminary and final certification. Specifies prioritization process by which ODOT will allocate preliminary certified tax credits in instances where tax credit demand exceeds biennial limitation. Limits potential tax credits to no more than \$1 million per biennium.

-4 Identical to -3 amendment except that biennial limit is \$2 million rather than \$1 million.

### **BACKGROUND:**

The Oregon Department of Transportation identifies twenty-one total short line railroad lines in Oregon. These short lines range from less than one mile (terminal rail lines) to nearly 450 miles in length. Five of these lines are publicly owned by either a port, city or county government.

According to the Final Recommendation of the Oregon Rail Funding Task Force (December, 2011):

Estimates to improve short line track, tunnels, and bridges to handle today's heavier and taller trains and increase speeds beyond 10 mph range from \$324 million to \$2.1 billion. The range is large primarily because of the different approaches to bridge and tunnel improvements. The costs increase significantly when opting to replace bridges so that they are in top shape and can handle higher speed trains and heavier rail cars. In addition, upgrading tunnels to handle taller, double-stack container cars also adds significant costs to this investment category.