

- 5) Requires that any bill which provides a new tax credit must contain the following (RTC 41):
 - a) The specified goals, purposes, and objectives that the credit will achieve;
 - b) Detailed performance indicators that may be used to determine whether or not the credit meets these goals, purposes, and objectives;
 - c) Data collection requirements that will inform these performance indicators; and,
 - d) Specification of the state agencies that will collect and remit this data.
- 6) Establishes the Trade Corridor Enhancement Program (TCEP), funded at \$300 million annually, for infrastructure improvements on federally designated Trade Corridors of National and Regional Significance, on the Primary Freight Network, and along other corridors that have a high volume of freight movement. (SHC 2192)

This bill:

- 1) Declares this bill to be titled the Shortline Railroad Modernization Act of 2026.
- 2) Defines a “qualified taxpayer” as a person or entity engaged in a trade or business that operates a Class II or Class III railroad located wholly or partly in California.
- 3) Defines a “qualified shortline railroad expenditure” as non-reimbursed costs paid by a qualified taxpayer used for railroad infrastructure maintenance or capital improvements of infrastructure or capital used to operate a Class II or Class III railroad.
- 4) Defines a “qualified new rail infrastructure expenditure” as non-reimbursed costs paid by a qualified taxpayer to construct or improve new rail infrastructure included with servicing customer locations or expansions by any railroad located in California.
- 5) Establishes a corporate and personal income tax credit for 50% of a qualified taxpayer’s qualified shortline railroad expenditures, subject to the following conditions:

- a) The credit is eligible for tax years from January 1, 2027, through January 1, 2032.
 - b) The amount of the credit allowed may not exceed the product of \$5,000 and the number of miles of railroad track owned or leased within the State of California by the qualified taxpayer.
 - c) The aggregate amount of credits issued may not exceed \$7 million in a single tax year.
 - d) The credit may not be applied to expenditures used as the basis for a federal tax credit or paid for by a federal grant.
 - e) The credit may not be applied to an expense incurred more than 12 months before the date of certification.
 - f) Any excess credit may be carried over for up to five years.
 - g) The credit may be sold to an unrelated party.
- 6) Establishes a corporate and personal income tax credit for 50% of a qualified taxpayer's qualified new rail infrastructure expenditures, subject to the following conditions:
- a) The credit is eligible for tax years from January 1, 2028, through January 1, 2033.
 - b) The amount of the credit allowed may not exceed \$1 million per new rail infrastructure project.
 - c) The aggregate amount of credits issued may not exceed \$10 million in a single tax year.
 - d) The credit may not be applied to expenditures used as the basis for a federal tax credit or paid for by a federal grant.
 - e) The credit may not be applied to an expense incurred more than 12 months before the date of certification.
 - f) Any excess credit may be carried over for up to five years.

- g) The credit may be sold to an unrelated party.
- 7) Requires that in order to claim the credit a taxpayer must submit an application to Caltrans containing, among other items, a description of the taxpayer's qualified shortline railroad expenditures or qualified new rail infrastructure expenditures.
- 8) Requires Caltrans to issue a credit certificate upon receipt of an application and upon determining that the taxpayer qualifies for the credit, stating the amount of allowed credit.
- 9) Requires Caltrans to issue the credit on a first-come-first-served basis.
- 10) Requires Caltrans to provide to the California Franchise Tax Board (FTB) a list of qualified taxpayers to whom a certificate has been issued and the tax credit amounts allocated to each qualified taxpayer each year, among other items.
- 11) Requires Caltrans, for the new rail infrastructure credit, to additionally:
 - a) Establish quarterly pre-application windows and to review applications received in the same window concurrently.
 - b) Issue pre-certifications for qualified taxpayers who will have qualified new rail infrastructure expenditures.
 - c) Include the maximum amount of allowed credit in the issued precertification.
 - d) Give priority to applications for projects that provide critical rail access to industrial parks, ports, or economic development projects located adjacent to rail, or serve certain specified industries.
- 12) Authorizes Caltrans to prescribe rules, guidelines, or procedures necessary to carry out these duties.
- 13) States that the specific goals, purposes, and objectives of the tax credit are to:
 - a) Improve the safety, reliability, and efficiency of shortline and regional rail service, consistent with the 2024 California State Rail Plan.

- b) Preserve and enhance rail access for existing industrial, agricultural, and commercial shippers, and facilitate new rail-served economic development.
 - c) Support the diversion of freight movement from trucks to rail by preserving and expanding rail infrastructure capacity, thereby reducing highway congestion, pavement damage, and vehicle emissions.
 - d) Support job retention and job creation in rail-dependent industries and associated supply chains through increased private capital investment in rail infrastructure.
- 14) States that the detailed performance indicators to be used for measuring whether the credit meets its objectives will include:
- a) The number of miles of railroad track improved, rehabilitated, or constructed as a result of projects receiving the credit.
 - b) The number and type of rail infrastructure projects completed, including track, bridges, sidings, and spurs.
 - c) Private capital investment leveraged by the tax credits, expressed as a ratio of private dollars invested per dollar of tax credit claimed.
- 15) Requires, in order to assess these performance indicators, that Caltrans, in collaboration with FTB, submit a report to the Legislature by June 30, 2028, and every June 30 thereafter that contains:
- a) A description of each project for which the credit was claimed, including project location and general scope of work, and, where applicable, the approximate number of track miles improved or constructed.
 - b) The amount of qualified expenditures incurred and the amount of credit claimed.
- 16) Contains a sunset of January 1, 2032, for the qualified shortline railroad expenditures credit.
- 17) Contains a sunset of January 1, 2033, for the qualified new rail infrastructure expenditures credit.

COMMENTS:

- 1) *Purpose of the bill.* According to the author, “Short line railroads are a vital part of California’s freight network, both for local industries and rural communities that depend on reliable rail access to reach statewide and global markets. The most recent California State Rail Plan underscores the importance of strengthening freight rail infrastructure to support economic growth, improve system resilience, and advance the state’s climate and equity goals. SB 1287 provides a targeted tax credit that helps short lines modernize aging track and bridges, which will help reduce truck traffic on highways, and ensure small and mid-sized shippers have dependable, low-emission freight options. This bill supports cost-effective investments that keep goods moving efficiently while aligning with California’s long-term vision for a cleaner, more integrated transportation system.”
- 2) *Short Line Railroads.* Short line railroads are commonly defined as any Class II or Class III railroad. These classes are based on definitions set by the US Surface Transportation Board (STB) and classify railroads according to their annual operating revenue. As of January 2024, Class I is defined as revenue greater than roughly \$1 billion annually, Class II is defined as revenue between roughly \$47 million and \$1 billion annually, and Class III is defined as revenue less than roughly \$47 million annually, or any switching company or terminal company regardless of revenues.

Functionally, this equates to short line railroads being a specific type of railroad that operate relatively short-distance rail lines throughout the country. Their primary purpose is to handle the “first mile” and “last mile” of the freight rail network, serving as a distribution and feeder system for the overall freight rail network. Unlike the larger Class I rail operators which run expansive interstate rail operations, short lines typically focus on providing access to smaller markets and moving goods between origin points, processing points, and final points of sale. As such, a single short line train can be carrying goods as varied as timber and flatscreen TVs.

In general, short line rail is an efficient form of freight transportation. Each short line freight container can transport a load equivalent to three to five standard semitrucks. Furthermore, a single gallon of diesel fuel can move one ton of freight over 450 miles via rail, translating to a 75% reduction in greenhouse gas emissions as compared to trucking.¹ Overall, short line rail thus provides broad societal benefits, not only by providing connections between local industries and the national rail network, but also by helping to lower emissions, relieve highway congestion, and reduce wear on publicly funded roads.

¹ <https://dot.ca.gov/-/media/dot-media/programs/rail-mass-transportation/documents/20220520-tr-slipr-to-a11y.pdf>

Short line rail is particularly important in California. According to the California Public Utilities Commission (CPUC), although there are no Class II operators in the state, California is home to 24 Class III railroads. Collectively these short lines operate over 1,200 miles of rail in the state, representing roughly a third of the state's rail network.

- 3) *Maintaining rail infrastructure.* Like with all rail, maintaining the physical rail infrastructure is one of the most important, and hardest, tasks for short line railroads. Many short line railroads initially acquired their rail from Class I railroads who no longer saw economic benefit in operating the lines themselves. As such, many short lines are in possession of aging and outdated infrastructure, sometimes dating to as far back as the early 20th, or even 19th, century. Thus, most short lines are faced with the need to not only upkeep their existing infrastructure, but also to update it to keep pace with the increasing weights and speeds utilized by the Class I operators.

For example, most short line railroads currently have rails that are designated as Class 1 quality. Not to be confused with the classification of the rail operators, this classification is set by the Federal Railroad Administration (FRA) and aims to describe overall track quality, taking into account rail weight, condition, signaling capability, and the number of grade crossings across a line. These classes range from Class 1, which is the lowest, to Class 6, which is the highest. The primary consequence of these ratings is that they dictate the speed at which trains can operate. Class 1, which makes up the majority of short line rail, is limited to speeds of 10 miles per hour. Currently, short lines are interested in upgrading to Class 2 rail, which would permit speeds of 25 miles per hour.

Beyond rail upgrades, short lines also face issues maintaining and upgrading other parts of their infrastructure. These include bridges, tunnels, and other crossings utilized by their lines, as well as their locomotives themselves. Most short lines primarily operate the oldest, and thus least fuel efficient, locomotives in use today. Not only does this decrease efficiency and increase operations cost, but can make it difficult to comply with emissions and other environmental regulations.

Addressing any of these infrastructure issues, be they rail, crossings, or locomotives, can be very costly. This makes it particularly difficult for short lines, often operating on tight margins, to meaningfully address these problems. Although Class III railroads, which all short lines in California are, are defined as having annual revenues of up to \$47 million, the average annual revenue of short lines in California is only \$6 million. Furthermore, according to the short lines, on average 75% of all revenue is used to support operations, leaving little

left over for repairs and infrastructure investments.

Overall, this leaves a significant gap between what the short lines need and what they are able to address. Indeed, writing as the sponsors of the bill, the California Short Line Railroad Association writes, “Many short line operators face ongoing challenges maintaining and upgrading aging infrastructure due to the significant costs associated with track rehabilitation, bridge repairs, and other essential improvements. Without support, many of these lines cannot accommodate modern railcars, operate at higher speeds, or provide the level of service that California’s shippers require.”

- 4) *Short Line Railroad Improvement Program*. In an effort to address these funding challenges, in 2019 the Legislature passed SB 87 (Hurtado, Chapter 32, Statutes of 2019), which created the Short Line Railroad Improvement Program (SLRIP). This program, operated by the California Transportation Commission (CTC), included a one-time appropriation of \$7.2 million from the Trade Corridors Improvement Fund (TCIF). SLRIP was designed to fund projects such as railroad reconstruction, maintenance, upgrade, or replacement for short line rail infrastructure. Class III railroads were eligible to apply, but had to do so with either Caltrans or a regional transportation planning agency acting as a project sponsor. Furthermore, all projects had to be matched with at least 30% private funds.

Ultimately, the program received eight applications and dispersed roughly \$6.5 million in funding. These projects were dispersed across the state and were roughly evenly split between track repair and upgrades, and bridge maintenance. All projects that applied were fully funded. Although widely supported by the industry, short line railroads did note that the requirement for partnering with a sponsoring agency limited the types and locations of projects that could be submitted.

- 5) *Short Line Rail Improvement Plan*. As part of SLRIP, Caltrans was directed to analyze the needs of short line railroad operators across California. The goal of this study was to investigate how short line rail is supported in other states and make recommendations on strategies to support short line rail operators in the state and improve the efficiency of their operations. This report, the Short Line Rail Improvement Plan (SLIP), was released in 2019.² SLIP contained an analysis of the state of short line rail in California and conducted an extensive survey of short line operators in the state.

Overall, the report validated the needs reported by short line rail operators.

² <https://dot.ca.gov/-/media/dot-media/programs/rail-mass-transportation/documents/20220520-tr-slipr-to-a11y.pdf>

Two-thirds of the short lines surveyed indicated that track condition and infrastructure rehabilitation and maintenance were high importance issues. Only “identifying new business opportunities” ranked higher in this regard.

Additionally, the state’s short lines collectively identified roughly \$140 million in infrastructure and equipment needs. These projects ranged from \$500,000 to add 2,500 feet of new track to alleviate rail congestion, to \$6 million to upgrade to lower emission locomotives, to \$30 million to fully upgrade 60 miles of track to Class 2 rail.

Finally, SLIP outlined three potential strategies for further supporting short line railroads. These were a tax credit, a competitive grant program, and a loan program.

- 6) *Short line support across the country.* SB 1287 seeks to implement a tax credit to support short line railroads. Specifically, the bill would offer a 50% tax credit for both maintenance of short line rail infrastructure and the construction of new short line rail infrastructure. The maintenance credit would be capped at \$5,000 per mile of track owned by a short line operator, and the new infrastructure credit would be capped at \$1,000,000 per project. Each credit comes with additional restrictions, such as the amount of aggregate credit available every year, the time the credit will be available, and what sort of projects the credits can be claimed for.

Not only is this broadly similar to the first strategy recommended by SLIP, but it also mirrors other tax credits that exist across the country. At the federal level, the first short line railroad tax credit was enacted in 2005. That credit was extended and altered several times until it was eventually made permanent in 2020. Under the current rules it is a 40% credit capped at \$3,500 per mile of track owned. The credit can be claimed for any project undertaken by a short line rail operator that invests in track and bridge improvements. Currently, industry groups are lobbying the federal government to increase the cap to \$6,100 per mile and index the cap to inflation moving forward.

Over the past several years many states have also considered or taken up similar versions of this credit. Although the exact credit amounts and types of qualified projects vary from state to state, generally these programs follow the same contour as the federal credit and the credit proposed by SB 1287. States that currently have such a credit include Alabama, Arkansas, Florida, Georgia, Indiana, Kansas, Kentucky, Minnesota, Mississippi, Nebraska, Oklahoma, and Oregon. At least three other states, including Illinois, Missouri, and West Virginia are also currently considering a similar measure.

The second strategy suggested by SLIP was to implement a competitive grant program, like SLRIP. Currently however, no such program like this exists in California. The closest is TCEP, administered by CTC. TCEP is designed to provide funding for infrastructure improvements across the state in important trade corridors, which would theoretically include short line railroads. However, recent awards have generally benefited larger corridors most commonly used by Class I's, with very little of the money going to projects relevant to short lines.

Outside of California, several other states have pursued grant programs to support short line rail. These states include several states that have implemented tax credits as well. Currently, states with short line rail grant programs include Florida, Idaho, Illinois, Iowa, Kansas, Maine, Maryland, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia, Washington, and Wisconsin.

- 7) *Tax credit or grant program or neither?* The key question surrounding SB 1287 is what form, if any, state support to the short line railroads should take. It is worth considering if the state should be directly supporting for-profit rail companies. However, given the importance of short lines to the overall rail network and the movement of key goods, both the federal government and many states across the country have decided to invest in these companies.

The next question is what form should this support take? SLIP offered multiple strategies for investing in short line railroads. The two primary recommended strategies were tax credits and grant programs. While each ultimately comes at a direct cost to the state, each strategy has its own pros and cons. As discussed above, both strategies are widely used across the country.

Tax credits, by their nature, require companies to put forward their own funds to invest in projects before claiming the benefit. This also reduces the barrier to entry, allowing companies to identify the projects of highest importance to them. However, the lack of competition and the first-come-first-served nature of the tax credit also creates the potential that better resourced companies that can more quickly initiate projects will disproportionately benefit from the funds. Making note of these issues, the California Tax Reform Association, writing in opposition, states “We do not believe that the use of tax credits is the appropriate way to further the development of short-line railroads. Rather...a direct grant program, authorized through the budget process, is less complex and likely to be more helpful.”

Competitive grants do eliminate some of these issues by allowing an outside

agency to select which projects will receive funding. This process also allows the state to have greater control over exactly how taxpayer dollars are spent on these projects. However, the increased overhead of administering the program increases costs. Furthermore, the competitive process slows down implementation and delays the distribution of funds.

Finally, it is worth noting that SLIP also highlighted a third strategy of targeted loan programs. However, these come with unique challenges regarding the repayment of funds that generally make them a less attractive option. To the extent they are implemented across the country, they are generally done alongside grant programs.

- 8) *Who should manage the reporting?* The second question regarding SB 1287 has to do with the agency tasked with enforcing the Section 41 requirement. This is a special requirement of all tax credits in California which says the enacting legislation must specify the specified goals, purposes, and objectives that the credit will achieve. As part of this, data collection requirements for detailed performance indicators to measure these objectives must be described, and a specific state agency must be tasked with collecting and remitting this data.

SB 1287 states that the performance indicators to be measured for this tax credit include the number of miles of railroad track worked on as a result of the credit, the number rail infrastructure projects completed, and the amount of private capital investment leveraged by the tax credits. To assess these indicators, SB 1287 states that a report should be provided to the Legislature annually that contains a description of each project for which the credit was claimed and the amount of qualified expenditures incurred, and the amount of credit claimed.

Based on these requirements, SB 1287 specifies Caltrans as the responsible agency. This is due to Caltrans' previous involvement in the implementation of SLRIP and compilation of SLIP. Caltrans has expressed concern about having the requisite experience working with the short line railroads to act as the Section 41 agency, however it is unclear what other agency would be best suited for this role. For instance, although CTC was also heavily involved with SLRIP and currently administers programs like TCEP, they lack the required in-house expertise to properly administer SB 1287. Furthermore, other agencies like FTB or CPUC do not have a history of working with the short line rail operators.

- 9) *Double Referral.* This bill was double referred to the Senate Revenue and Taxation Committee where it passed out on a 5-0 vote on April 8, 2026.

RELATED/PREVIOUS LEGISLATION:

SB 667 (Archuleta, 2025) – Would require certain railroads, including those operating at speeds above 10 miles per hour, to install wayside detector systems. *This bill is pending in the Assembly.*

SB 87 (Hurtado, Chapter 32, Statutes of 2019) – Created a competitive funding program for short line railroad infrastructure projects and included a one-time appropriation of \$7.2 million for the program from TCIF.

AB 1397 (Burke, 2019) – Would have created a 50% tax credit for short line railroads for reconstruction or replacement projects, capped at \$3,500 per mile. *This bill was held in Assembly Revenue and Taxation Committee.*

AB 2658 (Conway, 2010) – Would have required the California Business, Transportation, and Housing Agency to prepare a five-year Short Line Commercial Rail Haul Connectivity Plan for the state, due on September 1, 2012 and every five years thereafter. *This bill was held in Assembly Transportation Committee.*

AB 1093 (Strom-Martin, 1999) – Would have created the Short Line Railroad Improvement Account in the State Transportation Fund to fund grants to short line railroads, including for capital improvement and rehabilitations projects. *This bill was vetoed by the Governor.*

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

POSITIONS: (Communicated to the committee before noon on Wednesday, April 15, 2026.)

SUPPORT:

California Short Line Railroad Association (Sponsor)
Genesee & Wyoming Railroad Services, INC. (Sponsor)
Arizona & California Railroad Company
Association of California Egg Farmers
California Grain & Feed Association
California Northern Railroad Company
Central Oregon & Pacific Railroad INC.
Central Valley Ag Group
City of Oakdale
Huron Transfer

JS West and Companies
Pacific Egg & Poultry Association
Patriot Rail
Quality Transport, INC & Truck-rail Handling, INC
San Diego & Imperial Valley Railroad Company, INC.
San Joaquin Valley Policy Council
Sierra Northern Railway
Titan Terminal and Transport
Tuolumne County Transportation Council
Ventura County Railroad Company
Ventura Transfer Company

OPPOSITION:

California Tax Reform Association

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