

From: Stuart Nicholson [Stuart.Nicholson@dot.state.oh.us]  
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All,

This article was sent to me by Rob Greenlese at the Toledo-Lucas County Port Authority. It is one of the best pieces I've seen on how the future of passenger rail might be approached successfully. The author is a fairly well-known and politically conservative transportation expert and two of the people mentioned in the article, James Coston and Fritz Plous a good friends of mine and people I respect for their knowledge.

Thought you'd all be interested in reading this.

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Paul Weyrich  
January 25, 2005

Amtrak is in trouble again. Congress didn't give Amtrak the money Amtrak says it needs to solve many of its problems. Recently the majority of members of the Amtrak Reform Council, which went out of business a couple of years ago, returned to Washington to make a plea to Congress to consider the reforms which the Council had recommended. (I was a member of the Council.) Among the reforms was a call for public/private partnerships.

One member of the Council, Jim Coston, has formed a company that could be the basis for public/private relationships not only with Amtrak but with many of the commuter agencies around the nation. Coston's company is called New Trains Leasing System and is an exciting step in the right direction for solving at least a part of the problem we have with under-funded rail operations.

For years we have had public/private partnerships in the automobile and airline industries. A brilliant paper on the subject by Coston's associate, Fritz Plous, points out that the Highway Trust Fund has not always been able to pay for highway projects. The Highway Trust Fund is paid for by, in effect, a user fee. You buy gasoline to ride on the highways and the fee (tax) you pay per gallon of gas fills the coffers of the Trust Fund.

Unfortunately, there are often cost overruns that the Trust Fund will not pay for. Even then local and state governments must come up with at least 10% of the entire project cost and these projects can run into the billions of dollars.

The entire air traffic control system is funded by the Federal Government. If it had not been, and the airlines were forced to add that cost to the price of a ticket, none but a few elite millionaires would be able to afford to fly...and they probably would have their own aircraft.

Despite what truly can be called a public/private partnership most airlines are near bankruptcy. In fact, since the end of World War II, when flying became popular, few airlines have made money even in prosperous times. There are reasons for that, and Southwest Airlines, the only major airline not to take a government bailout after 9/11, has shown that the business can be profitable but, of course, it still is subsidized.

The point is that both highway and air transportation are subsidized. Yet the public perception is that in the case of highways the user fees take care of everything. Airlines are seen as private companies and the government's contribution to their ability to carry lots of people largely is forgotten or ignored.

As Plous points out in his paper, "The other reason large losses are accepted in the civil aviation and highway system is that the financing of these systems were [sic] ingeniously designed to make sure that whatever possibilities for profit were identified in the system, those possibilities could be exploited and realized by private entrepreneurs."

Plous highlights the very successful trucking industry, which has been encouraged by not only the construction of highways but by undercharging user fees to the trucking industry. The government, he says, has "encouraged the growth of a large, diversified, and for the most part, economically successful trucking industry which in turn has enabled millions of entrepreneurs to succeed in businesses of their own which depend on a strong trucking industry for their success."

Plous goes on to make the case for true public/private partnerships in several aspects of rail operations in this country today. The first is the rail fleets themselves. Amtrak and most commuter lines are starved for capital and long-term leasing (30 to 50 years) will enable them to get more cars on the road (in many places demand is significantly increasing) without waiting for a reluctant Congress or state legislatures to come up with the money.

The second is maintaining rail equipment. The same companies which finance the fleet can be responsible for maintaining it at costs often lower than government owned facilities.

Next is real estate and infrastructure. Many of the facilities for maintaining trains are owned by Amtrak or the state transit authorities. These buildings can be sold for cash or new trains and can be leased back, thus putting new flexibility in the hands of the rail operators.

The next, and this applies primarily to Amtrak, are the on-board food and beverage services. This is one of the most costly aspects of operating long-distance trains. As Plous points out, "If food service cars were privately owned, the operator, not Amtrak, would be free to operate the cars with its own employees and provision them with products of its own choosing from vendors able to meet its higher standards." Plous points out that the Maine Department of Transportation already employs non-Amtrak employees on its four daily Portland-to-Boston roundtrips for food service and is using a private caterer in Portland to furnish the food, which has been met with "great public acceptance."

Finally, there are ticketing and reservations. Maine has dispensed with the national ticketing system that Amtrak maintains and for which every state agency using Amtrak to run its trains gets charged. With the ability to order most tickets online without the benefit of a railroad ticket agent there is no reason to maintain this costly overhead, especially for state agencies.

In his paper Fritz Plous says that Amtrak remains in many ways not only a typical state-owned corporation, modeled on the now obsolete mid-20th Century European-Socialist template, but also to a large extent modeled on the even more obsolete private-American railroad model. Plous points out that Amtrak must be tied to government in order to maintain its privileged access to America's privately owned freight railroads. If it weren't for the law that allows Amtrak access passenger trains would be put on a siding for hours while freight trains had priority of passage. The connection with government also helps the passenger train industry obtain insurance at reasonable rates. For these reasons, Plous says, "these essential resources cannot be unbundled from Amtrak or from Government."

He concludes, "a great deal of Amtrak can - and should - be unbundled, and most of the unbundled components can be successfully relocated in the private sector. The first and most important of these - and the key to the successful unbundling of all the others to follow - is the ownership of the next generation of American Passenger cars. Amtrak and the states cannot provide them. The rapid development of a privately owned fleet of railroad passenger cars for lease to Amtrak and the states that sponsor Amtrak trains must be the first priority in 'Amtrak Reform.'"

Plous is exactly right. Further, his associate Jim Coston is in a position to do something about this situation. Whether it is Coston's company or some other company, Congress should insist before it gives another dime to Amtrak that Amtrak begin to negotiate with a private company for the next generation of rail cars which can be leased by Amtrak at a fraction of the cost of ownership.

The clock is ticking on Amtrak reform.