

WebMemo



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Chairman Mica's New Amtrak Proposal Would Use the Private Sector to Reform Passenger Rail

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At May congressional hearings, Representative Jon Mica (R-FL), chairman of the House Committee on Transportation and Infrastructure, proposed (1) that 363 of the 456 miles that comprise the Northeast Corridor (NEC) owned by Amtrak be transferred to the U.S. Department of Transportation (DOT) or a newly created government entity and (2) that the U.S. DOT seek competitive bids from private-sector investors/operators to provide the funds and expertise to reconstruct the corridor and provide genuine high-speed rail (HSR) service over the newly renovated line.¹

One witness at the hearing claimed that as much as \$50 billion to \$60 billion could be attracted from private investors to accomplish the plan, which Amtrak claims will cost \$117 billion.² While the obstacles facing the project are substantial, Mica should be applauded for this bold step to end to the death grip that the Federal Railroad Administration, Congress, rail unions, and Amtrak management have on passenger rail in America.

A Major Challenge. Experience indicates that public-private partnerships (P3s) for major transportation projects can be complicated to assemble, finance, and implement, and the prospect for financial success can be elusive. Amtrak's exotic legal existence—it still has common shareholders, is a government corporation, and is a party to numerous and costly labor contracts—could be a deterrent. On top of these liabilities, passenger rail throughout the world—high-speed or slow-speed—is mostly a money loser.

Thus, overcoming these many obstacles will involve significant challenges. Nonetheless, good-

government types, fiscal conservatives, and advocates of cost-effective mobility should support Mica's effort to shift responsibility to the private sector.

Taking It Step-by-Step. While this is an effort worth making, it will take time, involve complicated legal issues, create intense political battles with entitled unions, and require a costly construction project to rebuild the NEC roadbed to accommodate HSR. As plans for this challenging restructuring get underway, Congress and the President have an opportunity to create and implement a companion program that would boost the quality of service, reduce Amtrak's operating costs, and allow the U.S. DOT to sharpen its skills in working cooperatively with the private sector.

Implement Mandatory Competitive Contracting. Specifically, Congress should require Amtrak to contract the operation of its existing lines competitively with private-sector providers that have been displacing and/or substituting for Amtrak in operating a number of commuter rail lines throughout the nation, most of which do not use Amtrak to run the service. Examples include:

Virginia. In 2009, the Virginia Railway Express (VRE), a two-line commuter rail system con-

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necting the Virginia suburbs with the District of Columbia, issued a Request for Proposal (RFP) seeking qualified bidders to operate the system. Amtrak had been the contract operator for the previous 17 years, but under a sole-source contract, as no other operators existed when VRE began service. Now that other firms do exist, a competitive procurement was required. VRE subsequently put the operating/maintenance contract out for bid, and the American subsidiary of the French company Keolis won a five-year contract with a bid to provide better service at a cost below that proposed by Amtrak. Keolis took over operations in July 2010.

Massachusetts. The commuter rail operations of the Massachusetts Bay Transportation Authority (MBTA) had been operated under contract with Amtrak since 1987, but in 1999 the MBTA split its commuter operation into three segments and prepared an RFP for the smallest: train cleaning and maintenance. Four companies including Amtrak submitted bids, and a partnership of two U.S. companies won the five-year contract with a bid of \$175 million, compared to Amtrak's \$291 million. Amtrak and its unions complained, and the Clinton Administration forced MBTA to continue with Amtrak for three more years, at which time the contracts were again put out for bid and Veolia, another French firm, won the contract.³ Veolia still holds the contract and is in discussions with the MBTA for a third five-year extension.⁴

Maryland. The Maryland Area Rail Commuter (MARC) system operates three commuter rail lines connecting its suburbs with Washington, D.C., and Baltimore. Two of the lines (Camden and Brunswick) have been operated by private providers (most recently CSX) since the Maryland government assumed financial responsibility for the service in 1974. CSX informed MARC that it would not be renewing its contract, which expires in 2012, and MARC put the contract out for bid. Keolis was the only bidder after Amtrak, which operates the third MARC line, withdrew from the competition. MARC is planning to rebid the contract once a series of political issues are resolved.⁵

Make Amtrak Compete for Its Routes. Given that these three and other U.S. commuter rail systems have opted to contract with private operators to achieve better service at lower cost to riders and taxpayers, Congress should impose the same process on Amtrak. At present, Amtrak operates about 23 lines within its own system and about 21 lines that are financially supported by the states.⁶ Some of these lines—say between five and 10 per year—should be subject to competition, in which Amtrak would be permitted to participate. In the event a privately financed and operated HSR service can be established on the NEC, DOT will have become skilled at working with competitive contracts.

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1. Press release, "Transportation Leaders Propose New Direction for High-Speed Rail," House Transportation and Infrastructure Committee, May 26, 2011, at <http://transportation.house.gov/news/PRArticle.aspx?NewsID=1280> (June 10, 2011).
2. Ashley Halsey III, "House GOP Proposal Would Privatize High-Speed Rail Along Amtrak's Northeast Corridor," *The Washington Post*, May 26, 2011, at http://www.washingtonpost.com/local/house-gop-proposal-would-privatize-high-speed-rail-along-amtraks-northeast-corridor/2011/05/26/AGBEZKCH_story.html (June 10, 2011).
3. Amtrak submitted no bid for the contract when the three-year extension expired in 2002.
4. At the committee hearing where Chairman Mica proposed his plans, Senator Frank Lautenberg (D-NJ) argued that the private sector's requirement for profits would lead to higher train ticket prices—a statement that is hard to square with nonprofit Amtrak's failure to offer a bid lower than those offered by its for-profit competitors.
5. Allegations that Keolis' largest shareholder (SNCF, the French national railroad) carried French victims to German concentration camps in 1942–1944 have held up an award of the contract. Efforts are underway to seek a resolution of the dispute, and CSX has agreed to continue to operate it until such time as a new operator is selected. For more information, see editorial "No Way to Run a Railroad," *The Washington Post*, June 5, 2011, at http://www.washingtonpost.com/opinions/no-way-to-run-a-railroad/2011/06/03/AGk2gmJH_story.html (June 10, 2011).
6. Amtrak no longer provides a separate reporting category for state-supported lines and instead combines them with Amtrak short-distance routes. As some lines are created and old ones get new names, an accurate delineation of Amtrak-operated lines can be a challenge; hence the use of the word "about."