OPENING THE NORTHEAST CORRIDOR TO PRIVATE COMPETITION FOR THE DEVELOPMENT OF HIGH-SPEED RAIL

(112–33)

HEARING

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[1] Mr. Poole did not present spoken remarks during the hearing.

U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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Chairman

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May 20, 2011

SUMMARY OF SUBJECT MATTER

To: **Members of the Committee on Transportation and Infrastructure**

From: **Majority Staff on the Subcommittee on Railroads, Pipelines, and Hazardous Materials**

Subject: **Hearing on "Opening the Northeast Corridor to Private Competition for Development of High-Speed Rail"**

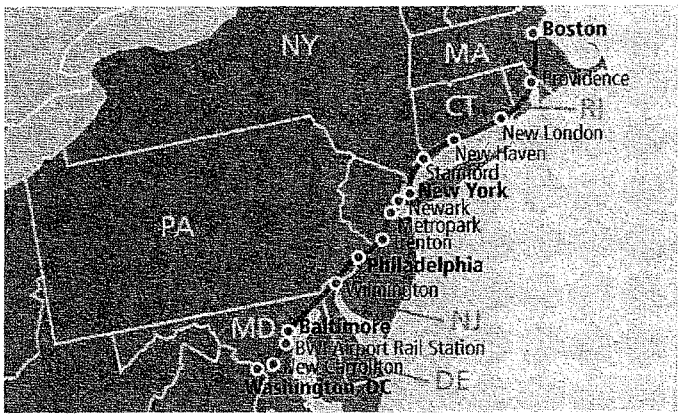
I. Purpose of Hearing

On Thursday, May 26, 2011, at 10:00 a.m. in 2167 Rayburn House Office Building, the Committee on Transportation and Infrastructure will receive testimony regarding developing true high speed rail in the Northeast Corridor (NEC) through private competition under a public-private partnership model. On January 27, 2011, the Committee held a field hearing and roundtable in New York City on high-speed rail in the NEC. Since that time, the Committee and its Subcommittee on Railroads, Pipelines, and Hazardous Materials have received testimony on intercity passenger rail and changes to current law that, among other things, could help develop true high-speed rail on the NEC. This hearing will provide an opportunity to discuss an alternative that would bring true high-speed rail on the NEC through private competition and the economic development opportunities that come with developing improved intercity passenger rail service in the Northeast mega-region.

II. The Northeast Corridor

The NEC is one the most valuable transportation assets in the United States, providing the only continuous physical link, along with I-95, between the major population centers of Washington, DC, Baltimore, Philadelphia, New York City, and Boston. The Northeast mega-region is the most densely populated area in the United States, with 18 percent of the nation's

population living in just 2 percent of its land area. Taken as a whole, the NEC region would be the sixth largest economy in the world with a GDP of $2.59 trillion, and a population equal to the United Kingdom.



Amtrak, the for-profit, yet government-subsidized, intercity passenger rail provider, controls nearly the entire NEC. In 1976, Amtrak acquired most of the NEC assets from the freight rail operator Conrail as part of the disposition of the bankrupt Penn Central Transportation Company's assets. Conrail, the consolidated government-supported freight operator, did not want to operate passenger services and for a relatively minimal amount transferred the NEC to Amtrak. Of the 437 total miles of the NEC, Amtrak owns and controls 363 miles, with states controlling portions of the route north of New York City.

While a for-profit corporation, Amtrak has relied heavily on government assistance and funding. The Federal Railroad Administration (FRA) financed the purchase of the NEC and financed the Northeast Corridor Improvement Project (NECIP) between FY 1977 and FY 1998 for a total cost of about $4 billion. FRA holds a non-interest bearing mortgage in that amount for the NEC, for which payment is due in one lump sum on April 1, 2976. The FRA also holds liens on nearly all Amtrak assets.

Over the last three decades, Amtrak and the FRA have managed two major NEC capital improvement projects at a total cost to taxpayers of nearly $6 billion. However, despite these improvements, the NEC still falls far short of international high-speed standards. The Acela, Amtrak's high speed service, averages only 83 miles per hour between DC and New York and only 72 miles per hour between New York and Boston. Internationally, high-speed trains can average 150 mph and many nations are upgrading systems to achieve top speeds of 220 mph.

III. The Need for Improved and Expanded High-Speed Rail in the Northeast Corridor

Without question, the NEC represents the best opportunity for true high-speed rail in the United States. In general, the highest demand for high speed rail occurs in city pairs that are located 100 – 500 miles apart with large populations and economies, along with the presence of regional and local transit networks to provide connectivity for intercity passengers. The NEC region is home to four of the ten most populous metro regions in the nation – New York, Philadelphia, Washington, DC, and Boston – and 18 percent of the nation's population living in just 2 percent of its land area.

Similarly, some of the competitive advantages of high-speed rail compared to air travel include the ability to bring passengers directly into a city center and to connect local and regional transit networks. High-speed rail systems attract greater numbers of riders if they end in central downtown locations and tie into existing commuter rail and transit systems. The NEC region is home to eight commuter rail systems carrying approximately 350 million annual riders and is home to the two busiest subway systems in the nation (New York and Washington, DC, respectively). From a potential ridership perspective, coupling these factors with the population numbers makes the NEC an ideal candidate for the development of true high-speed rail.

Business travel is also critical to sustaining the ridership of high-speed rail systems, and business travel is highest in places with the most productive economies. Gross Domestic Product (GDP) per capita is the broadest measure associated with both economic productivity and personal income. The Northeast Corridor accounts for four of the ten most productive metro regions in the national and accounts for one-fifth of the nation's GDP. As noted above, the NEC region alone would be the world's sixth largest economy. Developing true high-speed rail in this region, not only makes sense for business travel, but could help grow the economy of the region.

Furthermore, reducing congestion, both at airports and on highways, is another important motivating factor for building high-speed rail. In the NEC region, the I-95 Corridor Coalition estimates that over 60% of the urban road miles of Interstate 95 are heavily congested. Additionally, the airspace above New York is the most complex and congested in the nation. All three New York metro airports are among the five airports in the nation with the worst on-time arrival rate. In total, there are five Northeastern airports in the bottom ten performing airports in the nation for on time performance, including Philadelphia and Boston. With highway routes in a near perpetual state of congestion, and approximately 75% of the nation's chronically delayed flights flying through the New York airspace bottleneck, a more effective intercity passenger rail network, with increased capacity and operating at higher speeds, is needed.

10.5 million passengers rode Amtrak Acela and Regional NEC trains in fiscal year 2010, capturing approximately 60 percent of air-rail market share between Washington, DC, and New York. Amtrak, the University of Pennsylvania, and other organizations have performed ridership studies showing that, with the necessary infrastructure improvements, passenger rail ridership on the NEC could double or triple, significantly reducing air and highway congestion by inducing passengers to switch from one mode to another.

All the factors that point to a successful high-speed rail system, be it regional population, regional economy, interconnectivity, or congestion concerns, exist on the NEC. Population density in the NEC region is higher than anywhere else in the Nation, it is home to extensive transit and regional rail systems that complement intercity passenger rail traffic, and boasts productive economies with an extensive existing travel market. Additionally, New York and Washington, DC, are separated by just over 200 miles with two major cities in between – Philadelphia and Baltimore. In summary, the NEC typifies the ideal corridor for high-speed rail.

IV. Private Sector Financing and Public-Private Partnership Models

While the need and opportunity for a successful true high-speed rail project exists, the Federal government cannot carry the full financial burden of public infrastructure projects. Private industry must step up and help fill the gaps in high-speed rail funding and operations.

Recent U.S. Treasury estimates show $400-$500 billion in available uncommitted capital in the U.S. investment community. The investment community has indicated strong interest in participating in high-speed rail development.

Successful public-private partnerships share financing between the public and private partners. The private sector is incentivized to participate in financing a project when risk is minimized and there is a consistent federal or state partner. Incentives such as guaranteed loans, tax credits, and possibly deferring payments on loans until profits are made may also make private financing more attractive. Private sector financing will allow high-speed rail projects to be developed and constructed with less reliance on public funds, which can speed up the process and result in lower-cost projects. In these arrangements, the public partner retains some control and management of the overall rail program to ensure that public requirements and governments standards are met.

The following are some examples of private sector financing models and public-private partnerships that have been utilized in financing rail projects elsewhere.

Great Britain HS1

The British high-speed rail line running 67 miles from London to the British end of the Channel Tunnel known as HS1 was built by the British government. In 2009, the UK government auctioned off a 30-year concession for the right to own and operate the corridor. The sale generated approximately $3.4 billion and was sold to a consortium of two Canadian pension funds – Borealis Infrastructure and Ontario Teachers' Pension Plan. The concession sale is estimated to return 40 percent of the construction cost to the British treasury. At the end of the concession period (in 2040), the railway reverts back to the government, which anticipates re-bidding it for an equal or higher price. While the UK government plans to recoup much of its upfront capital costs by using the concession model, it still had to provide those costs upfront.

Denver Eagle P3

The Denver Regional Transit District (RTD) is partnering with a consortium of private companies to design-build-operate-maintain and finance two new light commuter rail lines (the East Corridor and the Gold Line) and a new commuter rail maintenance facility under a single contract. Under this public-private partnership, RTD will retain all assets while shifting much of the risk of building the projects on time and on budget to the private partners. In return, RTD will make lease payments to the private partner over a number of years, allowing the agency to spread out large upfront costs over a longer period of time. The total cost of the Eagle P3 projects is $2 billion. The Federal Transit Administration will pay one-half of the capital costs, and approximately $848 million of the cost will be financed through private equity, with the remainder coming from local sales tax revenues and other local funding sources. This project is expected to break ground in May 2011 under a full funding grant agreement. While it is a transit project, the Denver Eagle exhibits the availability of private equity funds for the development of rail projects.

Japanese Shinkansen Model

Japan introduced the world's first high-speed rail service in 1964. The Shinkansen network was developed with performance levels that are a benchmark for rail performance in terms of reliability and punctuality. The initial high-speed rail lines were funded and operated by the government, but by 1987, due to increasing debt, the rail system had to be privatized. While the government still owns and constructs the infrastructure, private operators pay a leasing fee and procure the rolling stock and vehicles. New construction costs are paid for by the federal government and the local governments that will benefit from the new lines, at a two-third, one-third split, respectively. The federal government's portion is funded, in part, by the leasing fees it annually collects from the current operators. A key feature of the Shinkansen network has been the development/redevelopment of stations along the route, which has brought local communities major economic and cultural benefits.

V. Development Opportunities and Value Capture Strategies

The benefits of the successful development of high-speed rail through public-private partnerships can extend beyond the rail line. New and redesigned stations can create economic development opportunities in urban centers along the line, while the use of value capture strategies in relation to those stations can produce new revenue streams that, in turn, can be used to improve the corridor or support operating expenses.

Rail stations can leverage their accessibility to transform urban centers and catalyze transit-friendly development around them. Increasing accessibility by building a high-speed rail line is not enough to achieve these goals, as economic incentives and public-private partnerships are necessary for a comprehensive development strategy. Well-planned and well-designed stations can then become destinations unto themselves. Indeed, while not a true high-speed rail station, Washington's Union Station has become the capital's most-visited tourist destination, with its 130 restaurants and shops, and connection to commuter trains and local transit modes.

In other countries high-speed rail stations have helped transform the cities where they are located. For example, the Euralille urban transportation complex at the center of Lille, France, opened in 1994. As an international high-speed train station, it has converted a postindustrial city into an international business center. The 288-acre site around the station is home to 24 acres of parkland, one of the country's largest shopping centers, and a commercial corridor for international businesses offering a more affordable alternative to sites in London, Paris, or Brussels with easy access to those locales via the Eurostar line and French TGV network.

Similarly, in the northern area of Central London, St. Pancras International is creating a compact urban center around high-speed rail. While the area around the station was once home to heavy industry, the 67-acre brownfield is being transformed into a mixed-use development, with 2,000 apartments, 5 million square feet of office space, retail and public space, and a new campus for the University of the Arts, London. The development has been feasible because of the enhanced land values the high-speed rail station has created. And because the railway company controls the land, the revenues from the real estate can be used to recoup the costs associated with high-speed rail construction.

The value of these new or redesigned stations apply outside the station walls, and can be captured through a number of different strategies. The phrase "value capture" refers to strategies that allow governments or agencies to dedicate to a particular project a portion of the increased revenue generated through assessments or fees based on the value expected to accrue as a result of the project. Some examples of value capture strategies include joint development, special assessment districts, tax increment financing, and development impact fees.

- Joint development: Generally, real estate development projects involve a cooperative arrangement between public and private sector partners. Joint developments can take a variety of forms including lease of land, air rights, or space to a developer; sale of land for a particular type of development; and joint construction of a rail facility and private development. Depending upon the arrangement, the public and private partners can share costs, revenues, and the financial risks involved in the development.

- Special assessment districts: These are formal districts where special taxes or fees are assessed because the properties are expected to see a projected benefit based on geographic proximity to the station development. The revenues collected from the districts are then used to fund the facility.

- Tax increment financing: This is a public financing technique used by governmental entities to encourage economic development. Typically, the public-sector entity issues a special bond to help finance the development and related costs. The incremental increase in property values within the financing district from the development is then used to fund repayment of the bonds.

- Development impact fees: These are one-time charges collected by local governments from developers. The fees are used to defray the costs of new and/or expanded infrastructure and services associated with the development.

These value capture strategies have been used overseas, as noted above in terms of development, and are also being used here in the United States in the transit sector. For example, the Seattle South Lake Union streetcar project used the special assessment district to generate $25 million of revenue to offset the total project cost of $53 million, or 47% of project costs. Even more impressive, the planned Atlanta Beltline is using tax increment financing to generate an estimated $1.7 billion of revenue, or 61% of the total project cost of $2.8 billion.

While high-speed rail will connect the metropolitan centers along the NEC, if leveraged properly, it can also add value to those cities through the increased development opportunities and value capture strategies related to those new or redesigned stations and the surrounding areas. Doing so contemplates a valuable role for the private sector to partner with the public in making these developments a success.

VII. An Alternative Northeast Corridor High-Speed Rail Development Proposal

In September 2010, Amtrak released its "Vision for High-Speed Rail in the Northeast Corridor". This proposal, much like a Spring 2010 study by the Department of City and Regional Planning at University of Pennsylvania, lays out a true high-speed rail alternative for the Northeast Corridor utilizing a dedicated right-of-way for 220-mph service, with 96 minute trip time from Washington DC to New York, and 93 minute trip time from New York to Boston. The plan is estimated to cost $117 billion and would take 30 years to fully implement. Amtrak estimates revenues from the new services under the Vision Plan, which include significant increases in train frequency as well as new high-speed service, to generate an annual operating surplus of $928 million.

This is clearly a bold plan, but the cost is staggering, and 30 years is a very long construction and implementation period.

An alternative strategy has been discussed by key stakeholders in the Northeast and the wider transportation and infrastructure community that would allow the Northeastern States to manage the Northeast Corridor infrastructure and operations, using a request for proposals solicitation to attract competitive bids to finance, design, build, operate and maintain high-speed and enhanced intercity passenger rail service on the NEC. Under this public-private partnership alternative, consortia made up of worldwide experts in designing and building high-speed rail, financial management and investment companies, rail manufacturers, and operating companies would develop detailed performance-based proposals, competing head-to-head to provide the highest level of improved service at the lowest cost to the federal government. There is clearly a need for ongoing federal financial support for a project of this scope and magnitude, but competition will keep those costs as low as possible.

VIII. Invited Witnesses

Carlos Bonilla
Adjunct Fellow
Reason Foundation

Ignacio Jayanti
President
Corsair Capital

James H. Richardson
Senior Vice President, Real Estate Asset Services
Forest City Enterprises

Thomas Hart
Vice President, Governmental Affairs
U.S. High Speed Rail Association

Michael Goetz
Executive Director
Railroad Cooperation and Education Trust

Edward Wytkind
President, Transportation-Trades Department
AFL-CIO

OPENING THE NORTHEAST CORRIDOR TO PRIVATE COMPETITION FOR THE DEVELOPMENT OF HIGH-SPEED RAIL

THURSDAY, MAY 26, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
WASHINGTON, DC.

The committee met, pursuant to notice, at 10:04 a.m., in Room 2167, Rayburn House Office Building, Hon. John L. Mica (chairman of the committee) presiding.

Mr. MICA. Good morning. I would like to call this hearing of the House Transportation and Infrastructure Committee to order. I am pleased to welcome everyone today.

The topic of today's discussion and hearing is opening the Northeast Corridor to private competition for the development of high-speed rail. We have some distinguished witnesses today, and we are expecting Senator Lautenberg to join us shortly. There is a vote in the Senate.

And then we will hear from some of the witnesses that we have called to hopefully provide us with some insight into achieving the objective of today's hearing, and that is to try to develop our most expansive, congested, and probably ready corridor in the United States that would be conducive to using true high-speed rail.

The order of business will be as follows. We will have opening statements by Members, and then we will turn to our witness panels as they join us.

Let me take a few minutes and begin today's hearing by kind of reviewing where we are and where we would like to go. Most people don't realize this, but the Northeast Corridor is one of the actual pieces of infrastructure that Amtrak and the Government own. It is a 437-mile corridor stretching from just a few blocks from Union Station all the way up to Boston, through the principal and most congested, heavily populated areas of the United States.

The interesting thing about this corridor is that it has been available since 1971 for the development of passenger rail service. As most people don't understand, Amtrak has all of the franchise for passenger rail service in the United States.

We are not talking about commuter or light rail or local transit, but intercity passenger services, a sole prerogative under existing statutes of Amtrak. But the only real corridor on which they own the infrastructure that also would be conducive to developing high-speed rail is the Northeast Corridor—again, some 437 miles.

I think you hear a number of stories from Amtrak about how ridership has improved. And overall, they have gone up a small per-

centage in ridership; I think it is from 27 million passengers to 29 million passengers for the entire country. That is all of their service across the land.

What is very interesting is the development of so-called high-speed service in the Northeast Corridor. And unfortunately, it is not truly high-speed; we are only operating about 83 miles an hour from Washington to New York, and a much slower speed, somewhere between 65 and 70 miles an hour, I am told—I get various figures—from New York to Boston.

But this in fact is not high-speed rail. By Federal statute, under the PRIIA law, we define high-speed as 110 miles per hour average.

I have got a copy of a picture of the Shinkansen. This travels 167 miles an hour, which is about twice the speed of the Acela. The Acela top speed—we will put a little Acela up here—which we refer to as high-speed, again, is running 83 miles an hour, ironically, about half the speed.

Amtrak has come forward with a couple of measures in a positive vein. First, they finally designated the Northeast Corridor as a high-speed rail corridor, and that was after decades of pleading that that corridor should have that designation and that, in fact, it has the greatest potential for high-speed service in the United States. That was several months ago.

After, again, a lot of chiding by this committee, myself and others who are interested in true high-speed service, Amtrak has come forward with a proposal. That proposal is to develop high-speed rail in the corridor. However, it takes 30 years, would cost $117 billion, and their initial proposal came that forward was that would be all Government money. And I know they are looking at some options.

But that kind of sets the stage for today. Now, they will tell you that they have—again, going back to the ridership numbers—that they have increased ridership substantially. Let's put the chart up here. This is one of the most fascinating charts I have seen that actually shows what Amtrak has done and hasn't done.

Yes, we have gone from 27 million to 29 million passengers in the last year. What is interesting, in the Northeast Corridor—and these figures are all from Amtrak's data provided to the committee—in 1977, the Northeast Corridor had 10.6 million passengers. In 2010, again from Amtrak's report, then had 10.5 million passengers, actually down from 1977. To me, that is one of the most pitiful statements of achievement, after putting billions of dollars into the corridor, to see how underutilized that service is.

Another interesting point: If you look at the highlighted area, we did go up to 12.9 million passengers in 2000 in the Northeast Corridor. So we have actually dropped from a peak, and that is even before 9/11.

If you look at long-distance service, they went from 4 million passengers in 1977—again, the first record we have from Amtrak—and we are at 4.5 million passengers, long-distance service, another absolutely pitiful record of service.

The only area in which we have had an increase in passengers is the 14.1 million passengers, which have grown from the 1977 data that you have here. And again, these are some partnership initiatives that actually show successes in providing intercity pas-

senger rail service. But this is probably one of the most dismal records on earth for any rail service, particularly in the Northeast Corridor. And again, it is not high-speed service.

The 30-year plan is not acceptable. I want to just point out and give one illustration of what we can do. We met for an update; every couple of years, we hear from people around the world who have undertaken various projects. Let's put up the Virgin Rail picture here.

I met yesterday with executives of Virgin Rail, and we are going to ask them to come back and talk to us. This is an absolutely remarkable story. Let me have the statistics on Virgin Rail. And we will distribute them to all the Members here.

In 2004 they took over two rail lines when England put all of their money-losing routes up for privatization. Various corporations bid on the service, and they had to come in with the lowest possible subsidization to the Federal Government there.

They took two of the lines and put them up for bid, one from London to Manchester, the other one from London to Glasgow. In 2004, these lines had 14 million passengers. In 2010, they had 28.6 million passengers. They went from 14 to 28 million passengers, a 100-percent increase, a not-too-dissimilar distance between London and Manchester as from Washington to New York. The travel time was dramatically improved. And they told me for every dollar in infrastructure that was improved, the private sector contributed 50 percent, or 50 cents on the dollar.

This line in England went from a loss of about a quarter of a billion dollars when it was inherited—that was a subsidization by the Federal Government of the U.K.—to a net positive of nearly a quarter of a billion dollars this past year. And it is on its way to providing about a half a billion dollars a year in income. That means with no subsidization, so they have doubled the service.

For the union representatives that are here, and labor that is interested in what took place here, they had 2,500 approximate employees, all union, of course, when they started this. They now have 3,800 employees. They have less hassles, better wages, and again, over 1,300 more people employed with the private sector operation.

So this can be done. It can be done in a congested corridor—if London isn't a congested corridor, I would like to know what is—and you can provide, again, outstanding service without being a burden to the taxpayers.

In addition to money coming into the U.K. Treasury from this operation as opposed to money going out, they paid a dividend of $50 million to Virgin Rail holders, the private sector investors in this. That to me is a remarkable model, and we can take others from Japan and from Germany. We don't have a lot of time to go into that right now. But we will submit some of that for the record.

So I believe that we have great potential in the Northeast Corridor. The only thing standing in the way right now is Amtrak or the Federal Government or Congress. And let me say what we plan to do in closing.

First of all, we will be offering up in the next few weeks legislation. And right now, again, we are trying to mold the final version. But right now we are looking at taking the Northeast Corridor out of Amtrak's purview, probably transferring it to DOT, but what we

would end up doing is putting the Northeast Corridor up for private sector bid.

We would take offers from the private sector to control and operate its infrastructure and also operate the train sets. And we are looking at combinations, whatever would be the most beneficial to the taxpayer, in the structure that we will propose.

We believe and we have heard, as you will hear today from some folks from the private sector, that you could probably do this with very little or no Federal Government taxpayer money. And if you are waiting for Congress to approve $117 billion over the next 30 years to bring service in 30 years to the high-speed corridor, you are going to turn blue because it is not going to happen.

I think that we will have a plan that will attract private sector investment; that we will have a plan for development, financing, building, and operating the corridor with the private sector. We will retain the infrastructure assets for the taxpayer and we can also return money, we believe, to the Treasury because of the incredible opportunity to increase service.

And finally, we look to speed up the approval process for developing the Northeast Corridor, so that will be another element of the legislation and proposal we are coming up with. And finally, as part of what we proposed in the PRIIA Act, we will insist on service of 2 hours or less from Washington, DC, to downtown Manhattan.

We have assembled people today who we think can help us launch America into true high-speed rail service. I couldn't imagine, as a strong advocate of high-speed rail, a more disappointing start to high-speed rail in the country than we got off to.

We have seen most of the proposals, which are not true high-speed rail. We have seen Amtrak hijack 76 of 78 projects, and then I believe 20 out of 21 additional awards, for basically slow-speed trains. But this is not high-speed rail, and it is a shame that we have squandered most of $10.5 billion and still will not have it, particularly in the corridor that we need it the most and in which the rest of the country can benefit by its example.

As you may know, the Members that are here, more than 70 percent of our chronically delayed flights in this Nation start in the Northeast Corridor. So no matter where you come from across the country, you will benefit by the improvement of service here for high-speed rail, not to mention how you will benefit the taxpayers by eliminating a huge subsidy, in fact having net positive revenue coming into the Treasury. That would be a very unique approach for Congress and for the Federal Government, but I think we can do it.

So with those long opening remarks and taking the privilege of the chair, I wanted to lay out where we are and where we hope go to. Let me now yield to Mr. Rahall.

Mr. RAHALL. Thank you, Mr. Chairman, and I congratulate you for having these hearings this morning in regard to high-speed rail service in the Northeast Corridor.

Despite wide recognition that high-speed rail creates jobs, reduces congestion on highways and airways, and decreases our dependence on foreign oil, the United States offers no high-speed passenger rail service, unlike other major industrialized nations.

In 2008, Congress chartered a new course for passenger rail in America. The bipartisan Passenger Rail Investment and Improvement Act created two national programs for the development of high-speed rail and intercity passenger rail in the U.S. That legislation laid the tracks for President Obama's vision for high-speed rail, which called for historic investment in the development of high-speed rail and the $9.3 billion that was included for that purpose in the ARRA Act of 2009, the most significant investment in passenger rail since the creation of Amtrak in the 1970s.

I think it is worth noting with my colleagues and reminding them that we created Amtrak because the private sector—the private sector—did not want to operate unprofitable passenger rail service. Private companies did not want to run passenger rail service then, and I am not convinced that they want to do it now. But here we are again, and this time we are told that the private sector is beginning to take it over.

Today we will learn about a proposal to privatize high-speed rail in the Northeast Corridor. While we have not yet been provided the details of this proposal, I fear that it is just another veiled attempt to derailing Amtrak under the guise of better service and cost savings.

Just 2 years ago the DOT issued a request for proposals for private companies to develop high-speed rail in the U.S. Guess how many companies were just chomping at the bit to get their hands on these projects? Not a one. Not one single proposal was submitted by the private sector for development of high-speed rail in the Northeast Corridor.

We also heard at the committee roundtable in New York, Mr. Chairman, which you convened January, from several private investors who clearly stated that they would need to see substantial Federal funding in order to consider investing. The fact is, it is easy to criticize Amtrak, and it is easy to criticize its development in the Northeast Corridor, when for decades we have deprived Amtrak of the consistent and adequate funding that they need, and any business would need, to operate.

Despite repeated efforts to derail Amtrak through starvation budgets, congressional efforts to eliminate routes, and a Bush administration budget proposal to destroy Amtrak through bankruptcy, Amtrak has survived. Ridership is up 200 percent, and Amtrak is turning a profit in the Northeast Corridor.

Amtrak is making great efforts toward building high-speed rail in the Northeast. The Acela, although it may only average 83 miles per hour from Washington to New York, has made significant improvements over the past several years. It now boasts 3 million riders annually in the Northeast Corridor, and it has captured 69 percent of the air/rail market.

In September 2010, Amtrak unveiled a plan for development of the true high-speed rail in the Northeast Corridor, to reach speeds of 220 miles per hour. Their bold vision would cost $117 billion over 30 years, or $3.9 billion annually.

Some on this side of the aisle have criticized these estimates, but that investment pales in comparison to what other countries are spending on high-speed rail and the $1.8 trillion this country has spent on our world-class highway and aviation systems. Amtrak es-

timates construction of the system would support 44,000 jobs annually over the 20-year construction period, and approximately 120,000 permanent jobs.

So in conclusion, Mr. Chairman, we ought to be looking at ways to help Amtrak achieve this goal, not looking at ways to dismantle it. We should be celebrating Amtrak's 40th birthday, not trying to kick it in the caboose by selling off its assets to private companies.

Thank you, Mr. Chairman.

Mr. MICA. Thank the ranking member.

Let me recognize Mr. Shuster as the chair of the Rail Subcommittee.

Mr. SHUSTER. I thank the chairman, and thank all of our witnesses that we are going to hear from later today.

I appreciate us having this hearing before we roll out the transportation bill, and I think that what the chairman has done in working with us, I think it is absolutely the right way to go, to deregulate passenger rail in this country.

You heard what the chairman had to say. Some of it I will repeat because I think it is important that we hear it. But internationally, there are private sector companies out there, as you heard the chairman say, that are running private rails; turning money back to the Government, not taking it from the Government; creating jobs, union jobs, I might add. And as we recently heard in New York, there are investors that are interested in operating and investing in the Northeast Corridor.

The ranking member is correct. There were no bids for the Northeast Corridor. But there were many attempts to make bids, but they were blocked at every turn. And then, of course, the stimulus came out, and there are billions of dollars of free money. So who is going to invest their money until they see where this free money is going to flow? So, really, it is not fair to say there is no interest in it because there certainly is interest in the Northeast Corridor.

As I said, the stimulus money that came out was also misguided. The President said he had a vision for high-speed rail. I believe his vision is blurred. It is not possible, in my view, to have high-speed rail in 80 percent of the country, nor do I think Americans need or want high-speed rail in 80 percent of the country.

Where we should have focused is where 20 percent of the country is: the Northeast Corridor, about 2 percent of our land mass. The congestion is there. We own the tracks. We should have focused that stimulus money on the Northeast Corridor. That is where the money should have gone.

Let's get at least one place in America where we have high-speed rail, or something approaching high-speed rail. Let's have a success story, then roll it out around the country, because there are corridors in this country that I believe would sustain high-speed rail.

As I said, the President put out dribs and drabs, sprinkled that money around the country, and it is not going to have a significant impact. However, because of Florida rejecting their high-speed rail money, there is going to be a significant investment in the Northeast Corridor, or at least more significant than there was.

But if you know the region like I know the Senator does, he knows that there are really three major choke points in the North-

east Corridor. There needs to be a new, expanded tunnel in Baltimore, an improved bridge from New Jersey into New York, and the catenaries need to be improved.

When you do those three things, then you can start to talk about high-speed rail in the Northeast Corridor. You have to do some other things, but those are the three major investments that have to occur. And we haven't really done that and haven't been serious about it in the past couple of years, the past 40 years.

And when it comes to Amtrak, it has been 40 years. It has taken billions and billions of Government dollars, and has not even approached a break-even point. When you look at the concessions on the railroad, they lose money. There is no reason in the world for this. You have a monopoly on the train selling concessions—there is only one place to buy water—and you can't make a profit selling water on the Amtrak system, in the Northeast Corridor or anywhere, for that matter.

The chairman did mention Virgin Rail. The numbers are staggering. They were receiving £300 million–£250 million in subsidy, now they are giving that much money back to the Government. They are returning money because the operations are turning a profit, going from 14 million riders to 28 million riders.

In the Northeast Corridor, there are 10 million riders, and that hasn't changed significantly over the past decade. But here you have a corridor in England that is probably about a third to a half the size of the Northeast Corridor, and they get 28 million passengers. And they are not doing it with high-speed rail, mind you. They are doing it at 92 miles an hour, and doing it very well at those lower speeds—again, but turning a profit.

Also, for my friends in the union, the labor movement, that are here today, they added a third of the jobs. So let me forewarn you, I am going to ask the question when you testify today. You have gone from 29,000 workers in Amtrak to 19,000 workers over the past decade. Now, in most corporations—I won't say all corporations—but in most corporations in America, if you lost a third of your business, you would probably be fired.

We need the labor movement on board—excuse the pun—but we need you on board. These are going to be union jobs. We are going to create jobs in the Northeast Corridor. We are going to create jobs in the passenger rail system if we run it effectively so that everybody will benefit.

As I said, the Northeast Corridor is the place to focus on. In our bill that we are going to put forward, we are going to move forward and move to deregulate. And, as I said, I think it is going to be good for all of Americans. Those that work in the system, those that use the system, and those that pay taxes are going to see that subsidy reduced and quite possibly start to see money flow back into the Government.

So I am excited about this hearing. I am excited about our bill, and look forward to hearing from all of our witnesses. And I yield back.

Mr. MICA. I would like to recognize one more Member on this side. Senator Lautenberg has joined us. I would like to extend the courtesy of having him, and then we will go back to Members. So one more Democrat Member, Mr. Rahall. Ms. Norton?

Ms. NORTON. Thank you, Mr. Chairman. I would just like to say to you and our ranking member on railroad that I share your enthusiasm for high-speed rail, and I share your enthusiasm for making it the Northeast Corridor. I do believe that while there was a call for this money from all over the country, that we need a project that works from which others can learn. So I really think that makes sense.

I do think it is also important to understand how Europe developed high-speed rail as a 20th-century concept. I am embarrassed to be an American in the 21st century sounding forward-thinking talking about high-speed rail, which is really quite old-fashioned in Europe and Asia. The reason that it was developed in Europe and Asia, of course, is that the governments of those countries paid for the infrastructure, and then they are developed—and pay for most of it now.

I would like to comment on what the chairman said about Virgin Rail because I was very interested in that, too, given the fact that Amtrak is pursuing private participation in its own proposals.

The British Government has recently published a report on the privatization system that it has done, and it is true that there has been more than a 50-percent increase in ridership. But it is also true that Virgin Rail costs are 40 percent higher, and England's costs, therefore, are 40 percent higher than Europe. There are tradeoffs here, and we have got to understand there is no free ride to high-speed rail.

How did we even get Amtrak? This is not a Government that wanted to run a railroad. The railroads didn't want to run a railroad. That is how we got it; they went bankrupt running passenger service. They begged the Government to take it, and the Government was the only place to go if you wanted to have passenger rail at all. This history has got to come into play to understand what we should do next.

Now, Amtrak, which has shown it knows how to run a railroad because in the Northeast Corridor it is profit—and guess what? Those profits, it would be helping to pay for your districts because it is the only part of the system that is profitable. And you have got to ask yourself, what are you going to do about the rest of the country if Amtrak goes private and nobody cares except the investors? The Acela has helped make Amtrak profitable. But so have gas prices. So has collapsing airlines.

Finally, I want to say, Mr. Chairman, I know you are trying to get a surface transportation bill done, and I commend you for trying finally to get a surface transportation bill out of here. But I hope you do not make it impossible to do so by putting a controversial proposal for privatization of Amtrak in your surface transportation bill. You are going to have a hard enough time getting it out.

But unless there is bipartisan agreement about a surface transportation bill, it will kill the transportation bill and it will get nowhere when it comes to the Northeast Corridor that I think you and I agree should be started and should be started quickly.

And I yield back the rest of my time, and thank you, Mr. Chairman.

Mr. MICA. Well, thank you so much, and I appreciate the gentlelady's comments. And working with her, I think we can achieve a common goal.

There are two things I'd like to mention before I recognize Senator Lautenberg. One, in the proposal that we put forward, we will—and I have talked to Ranking Member Rahall and Chairman Shuster and others—we will guarantee labor any current benefits and any current wage levels. In any proposal we submit, that will be part of our proposal.

Also, our hope is to shave time. Right now, Amtrak has a 30-year plan; and I didn't mention this, but we would like to do it in a third of the time and with very little Federal money, hopefully attracting private sector money.

And just two quick points, again, on the amount of money. It is true that the Northeast Corridor currently breaks even. There might even be a slight return. And the gentlelady is correct that the money does go back in, but that is a very minuscule amount compared to the subsidization.

The subsidization, if you look at it, was $1.5 billion, of which approximately half a billion went into operations. That means nearly all of a billion went into the Northeast Corridor because that is the only corridor that we actually own.

If you could get a return similar to what they are doing with a quarter of a billion a year, escalating up to half a billion, giving it back to the Treasury or back into the system to improve the system, everyone will benefit—the taxpayers, along with others who want long-distance service or intercity passenger rail service. So we have the potential for less burden for the taxpayer, more money for——

Mr. SHUSTER. Would the chairman yield? Would the chairman yield for just a comment? Just 30 seconds. We have talked about—just 30 seconds. Fifteen seconds.

Mr. MICA. Thirty seconds. Fifteen seconds.

Mr. SHUSTER. We have talked about history here. But everybody needs to remember the history of why the rails gave up the passenger service. They weren't profitable because the interstate highway system came on line and air travel became very popular. Now we have a different dynamic in America. People want to get back on the rails. So you have got to look at the whole history lesson, not just part of it. Thank you.

Mr. MICA. Right. Well, we do have a very distinguished Senator waiting, and he has been very active in this issue. And we are pleased to recognize him and have him before our panel today. He was very courteous when I went over to his panel a few weeks ago. And I want to welcome, again, one of the Senate leaders and a very distinguished colleague from the other side of the aisle.

Welcome, sir, and you are recognized.

TESTIMONY OF FRANK R. LAUTENBERG, A UNITED STATES SENATOR FROM THE STATE OF NEW JERSEY

Senator LAUTENBERG. Thank you very much, Mr. Chairman and members of the Committee on Transportation and Infrastructure. Thanks for the opportunity to come here to discuss my view before

this committee, a view of what the national passenger rail system, and specifically the Northeast Corridor, requires.

America, as everyone here knows, faces a transportation crisis. The highways are jammed, the skyways are jammed, and our future depends on the steps that we take to meet the economic, environmental, and congestion challenges that face our workers and families and businesses every single day.

But first we have got to recognize some facts. The Northeast Corridor is the most densely populated area in the United States, and it is not just the density of population that we have got to discuss when we talk about the Northeast Corridor. Whether for moments of distress or otherwise, it does possess the largest financial center in the world, and it is of critical business as it does many other industries and businesses that are essential to the well-being of our country.

More than 1,800 trains operate each day on the Northeast Corridor—1,800 trains. And on weekdays, more than 700,000 passengers use these rails daily—700,000 people. The Northeast Corridor alone replaces 243 flights daily, and 30,000 cars are not on our highways each weekday.

But put another way, if we shut down the Northeast Corridor rail service, you would have to build seven new lanes on Interstate 95 just to carry all the travelers that use these trains every day. Imagine what that would look like: cars piled up on the highways, pollution spitting into the air, pockets drained at the pump, businesses waiting hours or days for products they need to sell to make payroll and boost the economy. The fact is that Amtrak makes our region work, and we have got to invest in this critical asset.

I believe that we ought to look at Amtrak and rail service in the same way we might view FAA and the controller services. It is essential for our country to have these facilities. We can't go backwards, and that means that we have got to therefore find ways to invest in the future.

And we can talk about the private sector; I have had some experience there. Last year we spent more than $40 billion on highways. Over Amtrak's entire 40-year history, we have spent just under $38 billion. And that is worth repeating: Amtrak has received less Federal money in its history than highways get in a single year.

Other countries, including China, Spain, France, Japan, and Germany, are prioritizing rail investments while we are stuck at the station. And this must change. We must be bold enough to make the investments that will make our economy and our country more prosperous, more efficient.

We started this process in 2008 when both parties came together and passed a passenger rail investment piece of legislation that I initiated, and it reauthorized and strengthened Amtrak. It was a bipartisan bill, a bipartisan bill signed into law by President George W. Bush.

Our Amtrak law created the high-speed rail grants that we are moving forward today in my State and many of your States. It also made critical investments in the Northeast Corridor, and required Amtrak to work with the States and the Federal Government to bring the corridor into a state of good repair.

Amtrak has been making great strides to improve its service in the Northeast Corridor, and the proof is evident in the skyrocketing ridership numbers. And we have shortened the tim between New York and Boston and New York here, and the ridership has followed right behind that, and it has been terrific.

Last year Amtrak's nationwide ridership hit historic heights, carrying nearly 29 million passengers, and it is on its way to beat that number this year. And I see it directly because I take the train at least twice a week, and I see how much more difficult it is to get seats and how much more crowded the train is.

Amtrak also recently launched an ambitious and aggressive plan to enlist private sector investment, asking the private sector to submit a robust business and financial plan to develop higher speed rail in the Northeast Corridor. And so far, several investment firms have expressed interest in working with Amtrak.

Now, the one thing that we all have to know, and that is that investors expect yields on their investment. They expect a return. And as a consequence, they are going to want to price the product at a sufficiently high price to get that return. So we have to be careful about that. Investors know that working with Amtrak to strengthen passenger rail will help our economy as businesses flock to communities served by faster trains.

A stronger national rail service will also be good for our national security, and the environment that it will help, it will be significant in helping our country to kick its dangerous oil addiction. But I want to be clear. Privatizing the Northeast Corridor is not a smart or viable way to meet these challenges.

You can't forget—it has been repeated here several times—Congress created Amtrak in 1970 because the private railroads could no longer sustain intercity passenger service on their own. And to our colleague who said, yes, but we have to remember that airplanes came into service and that there were more investments in highways—but there hasn't been a similar thing happen to Amtrak as our population grew, 100 million people in the last 30 years. One hundred million people. So what was doesn't work any more.

If we all do our part, we will be able to build great projects like the Gateway Tunnel, an innovative project that will expand high-speed rail in the Northeast Corridor. And I remind everybody that investments, private investments, in rail are going to be quite an accomplishment to complete. The Portal Bridge outside Newark would cost over a billion dollars alone to get done, but it is essential because you can't continue to go over a bridge that is 100 years old without something terrible happening.

Building the Gateway Tunnel and achieving high-speed rail service in the Northeast Corridor are no small undertakings. Unfortunately, some way we can't afford vital public investments right now. But I would argue that we cannot afford not to make these investments.

I built a business. I was chairman of a company that I started with two other friends. The company is called ADP; we have 45,000 employees today. We had nothing when we started the business over 50 years ago, nothing. And so I understand something about balance sheets and yield on investments and the opportunities you do have to amortize those investments.

So if we want to be successful in the future, and America desperately needs that push, we have got to begin laying the foundation today. And the same principle applies here. If we want to leave our children and grandchildren a better, safer country, we have to make smart investments on their behalf, and that means investing in a system that will help us carry freight and passengers across this great country of ours on a reliable and better environmental situation for our people.

So I thank you, Mr. Chairman, and I hope that we will have opportunities to continue to discuss this situation. And I invite you to come back to the Senate along the way, and though the participation will be less in numbers, nevertheless we respect what you do and we would like to air the views.

Mr. MICA. Thank you, Senator Lautenberg, for joining us today, for your continued interest, for your ringing endorsement today of my proposal——

[Laughter.]

Mr. MICA. And we are going to rely a lot on your expertise in the private sector to bring them very effectively, and hopefully productively, into this process; and also for your leadership in the Senate, to get the damn thing passed over there. So we need you.

Senator LAUTENBERG. I will rely on your humor, Mr. Chairman.

Mr. MICA. We need you on board. And again, we are honored that you would come over and spend time, show your interest in this important subject that is not only important to the State you represent, New Jersey, and the Northeast Corridor, but the entire Nation. So thank you so much.

And we will excuse the Senator. You came over from a vote, and I know you have to go.

Senator LAUTENBERG. Thank you.

Mr. MICA. And again, we appreciate it.

May I now yield to—let me see who I have waiting—Mr. Petri.

Mr. PETRI. Thank you very much, Mr. Chairman, for holding this important hearing today. The Northeast Corridor between Washington and Boston, much of which is currently an embarrassing national environmental eyesore, holds the potential to become a true high-speed rail operation, with maximum private participation in a new generation of public/private partnerships. And I commend you for the priority you are giving to this initiative.

In this regard, I am particularly interested in the testimony we will be hearing from the Alliance for Passenger-Oriented Development. They are proposing station area development across the Northeast Corridor as an integral part of an emerging high-speed rail system. The plan would capture some of the increased value of the development, which in turn would help finance high-speed corridor infrastructure and operational expenses.

The organized commercial development plan would put an emphasis on intermodal connectors, state-of-the-art, mixed use, that can create vibrant communities along the corridor as has been done in a number of countries in Europe and other places in the world, and is underway in some of the communities here in our own country.

A national reform initiative for rail passenger-oriented development has the potential to add a vital new element to leveraging

private participation in the development of high-speed service in the Northeast Corridor and the rehabilitation of intercity passenger corridors across the country.

I look forward to working with the committee to craft a rail initiative that will encourage competition to transform the Northeast Corridor into a true high-speed rail system.

Thank you, Mr. Chairman. I yield back.

Mr. MICA. I thank the gentleman.

Let me recognize the gentleman from New York, Mr. Nadler.

Mr. NADLER. Thank you, Mr. Chairman. I want to begin by thanking you and Ranking Member Rahall for holding this hearing on the Northeast Corridor. And I want to thank you, Mr. Chairman, and agree with you that any high-speed rail ought to start with a major investment in the Northeast Corridor.

This is where we have the density of population and the density of travel population to make high-speed rail viable. And I certainly agree that we ought to concentrate here initially, at least, rather than trying to spread it all across the country with the available funds.

And I also agree that we ought to look at all different financing alternatives, including looking at private/public partnerships, looking at getting capital from private sources as well as what we have been doing.

And I certainly hope that the Federal Government will see the wisdom of investing a lot of money in high-speed rail along the lines—not along the lines of, but certainly, at least, along the amounts of—what the President has proposed, which was $8 billion or $9 billion in the American Recovery Act. And in the bill that the committee developed 2 years ago, we had put $50 billion for high-speed rail, and I certainly think we ought to be doing at least those amounts of Federal investment.

I have my doubts, to put it mildly, about allowing the Northeastern States—about the proposal that has been outlined here. As I understand the proposal, it would envision allowing the Northeastern States to take control of the corridor's infrastructure and operations and issue an RFP for bids from the private sector to finance the design, construction, and operation of service.

But we have started down this road before. In PRIIA, we required DOT to issue a similar RFP, and last I heard, DOT had not heard any real expressions of—any real responses for the Northeast Corridor. At the field hearing in New York earlier this year, we had a roundtable with representatives from the private sector, and as I recall, any interest indicated there was predicated on some form of backing from the Federal Government as a backstop.

Now, I have supported the chairman in his quest to research and review privatization proposals, but I certainly do not think the case has been made to justify moving ahead with any such scheme at this time. And we must absolutely not take any action that would disrupt current service or cost good-paying jobs, which I fear this proposal might very well do.

I also question the idea of handing over the NEC, the Northeast Corridor, to the States. Aside from the fact that this would just shift the burden to local governments, it also risks any State being

in the position of a Rhine River pirate, being able to block the entire corridor.

Any State along the way could pull out of the program, could decide that it didn't want to or didn't want to invest as much money or wanted to charge a higher fare, perhaps. And as we have seen from some of the States that recently withdrew from high-speed rail proposals, in the Northeast Corridor, which goes from Washington through Maryland, Delaware, Pennsylvania, New Jersey, Connecticut, Rhode Island, Massachusetts—what is that, eight or nine States—any one State could interfere with all the others if we were to do this. So I don't think that is a—I think there are a lot of dangers with that.

Ironically, Amtrak itself just issued an RFP to solicit proposals from private companies to partner with Amtrak to finance infrastructure and equipment upgrades. I am not clear—it is not clear to me—why it is better for the States to partner with the private sector as opposed to Amtrak or the Federal Government partnering with the private sector.

Amtrak provides a service that is much too valuable to risk by going out with a scheme that isn't fully prepared yet. I certainly urge questions as we move forward, and I certainly hope—I don't think that we are prepared to go ahead with any privatization scheme at this point.

And I want to echo Ms. Norton in saying that I hope that any such provision is not in the reauthorization bill because we all know we need to unify on a major reauthorization bill for a lot of reasons. And we may or may not be able—I doubt we will be able to unify under this kind of a proposal in time for a reauthorization bill, and that it probably ought to stand on its own as a separate proposal.

In any event, I thank the chairman for calling this hearing where we can explore some of the perhaps advantages and some of the real pitfalls in these kinds of proposals.

I thank you and I yield back.

Mr. MICA. I thank the gentleman.

I recognize Mr. Graves, the gentleman from Missouri.

Mr. GRAVES. Thank you, Mr. Chairman. I want to thank you and Ranking Member Rahall for, obviously, holding this important hearing today. And I would also like to welcome our witnesses.

The Northeast Corridor has a great potential for becoming the first true high-speed rail corridor. Unfortunately, the existing passenger rail service operator in this corridor will never meet the high rail standards that we see in other places.

Currently, Amtrak has a de facto monopoly in passenger rail service on the Northeast Corridor and across the country, and is heavily subsidized by the American taxpayers. I believe there are private companies out there that can offer better, cheaper, and more efficient rail service. In fact, I know there are.

Herzog, a company that is headquartered in my district, operates a few rail services in the U.S., and on each route, ridership has significantly increased over the last 5 years. If we open up the Northeast Corridor to competition using an open and transparent bid process, companies like Herzog can bring innovation to this cor-

ridor and perhaps one day offer true high-speed rail service. And this can be done with private investment.

I keep hearing, and the gentleman from New York reminded us, about the 2008 PRIIA law. And I got to thinking and consulting with my friend here to the right. Mr. Shuster put a provision in there to require that we open up, at list for bid or for competition, at least two of Amtrak's money-losing routes. That was in the 2008 PRIIA law.

Amtrak has failed yet to do that, to open up any of those two to competition. So we keep hearing over and over and over again today that there aren't any private companies out there that are interested in doing rail service any more, passenger rail service, but yet we can't even find out if anybody is interested or not. So how would we even know?

Again, I mentioned in my opening statement or just a few minutes ago what I was reading, that we need an open and transparent bid process. Well, let's have it. Let's have an open and transparent bid process and see what interest is out there and if private investment can do a much better job.

I believe they can, and I appreciate, Mr. Chairman, the opportunity to speak.

Mr. MICA. Thank you. I will let Ms. Brown get settled. We will go to Mr. Denham. I know he had requested time. And then we will catch Ms. Brown as soon as she takes the chair.

Mr. Denham, you are recognized.

Mr. DENHAM. Thank you, Mr. Chairman, not only for recognizing me, but thank you for your leadership and oversight on this issue. I want to reiterate that I support the concept of high-speed rail. And even in my home State, as a State senator, I voted for the high-speed rail bond, a $33 billion project, $9.95 billion the taxpayers supported in California.

Now that project has doubled, with no oversight. Private investors continue to talk about it, but there is no business plan. So my concern as we continue to look at public/private partnerships is making sure that you have not only got a transparent process, but can show how we can save taxpayer dollars.

I agree with the chairman—we need an alternative to Amtrak's vision as well in the Northeast Corridor. There is a staggering cost of a $117 billion project in my State. While it will go from L.A. to San Francisco, again, a 400-mile project was proposed at $33 billion, and it is supposed to be done in just a few years. This proposal is a 30-year project.

I agree this can be done in our country. It was done in Japan before I was born. Due to increasing debt, that rail system was also privatized in 1987. Now each private regional operator pays the Government a leasing fee for access to the line, which is then used to invest in new infrastructure. Since privatization, annual ridership on the original line from Tokyo to Osaka has risen from 102 million in 1988 to 138 million in 2010, with a high mark of 151 million passengers in 2008.

That line also has reduced travel times from 4 hours in 1964 to its current 2 hours and 25 minutes. This is over a 320-mile line. By comparison with the Northeast Corridor, which stretches 225 miles from DC to New York, it takes 2 hours and 45 minutes.

As this committee continues its oversight over high-speed rail in America, I encourage its focus on creating partnerships with the private sector. I would much rather see a private individual on the hook for making sure the business plan works and the ridership numbers pencil out than have something that is going to cost billions of dollars in subsidies from people in my district.

I believe a purely publicly funded and publicly run system just will not meet the needs of taxpayers. We must see better planning and more creative financing in order to increase efficiencies and produce long-term transportation benefits for all of America.

Thank you, Mr. Chairman. I yield back.

Mr. MICA. Thank you. And I am pleased to yield at this time to the ranking member of the Rail Subcommittee, Ms. Brown, the gentlelady from Florida.

Ms. BROWN. Thank you, Mr. Mica, for holding this hearing, and Mr. Rahall, today on whether or not we should have more competition in the Northeast Corridor to private competition for the development of high-speed rail.

I, too, support the private sector involvement in passenger rail and believe there is a lot we can learn from the experience of the private sector. But I don't support cherry-picking the best routes on our national system and turning them over to private companies.

We need to make sure that people that ride public transportation don't have to worry about the service, not some stockholder who is riding around in a limousine. That is the problem we are facing in healthcare; the insurance companies aren't concerned about all the care their customers get. They are concerned about how much money their stockholders make. And I can also add the oil industry to that.

I want to take this time to express my strong support for Amtrak. Congress has micromanaged and financially stopped them for most of their existence. We created Amtrak because the freight rail couldn't make a profit and didn't want it on passenger rail, yet we continue to hammer Amtrak for making money.

And let me be clear. There is no form of transportation that pays for itself, none. The Bush administration even went so far as to oppose in the fiscal 2006 budget to force Amtrak to go into bankruptcy. We demand that they operate in the 21st century a rail system and infrastructure built in the 1890s; it defies logic.

Since we are discussing private sector involvement in rail today, I want to once again express my deep disappointment over Governor Rick Scott's decision to kill high-speed rail for the citizens of my home State of Florida. The high-speed rail plan for Florida served as a perfect example of a successful public/private partnership that would have created tens of thousands of jobs. The Florida DOT said as much as 48,000, and the private sector said an additional 10,000 or 15,000 jobs.

The high-speed rail between Tampa and Orlando was going to be one of the models for high-speed rail in the country, and we had eight different consortiums that wanted to participate. Now we have to wait a little longer for having high-speed rail in Florida, but we will get there.

But that is why I am disappointed particularly that the committee invited the Reason Foundation to testify, knowing that Gov-

ernor Rick Scott made his decision based on their recommendation. If anyone thinks that asking the private sector to invest significant money and manpower to apply to operate a high-speed rail system and then cancel it, cancel the project, we need to be clear that the private sector had invested millions getting ready for Florida. Millions.

I met with someone yesterday. They talked about this is not the first time they have gone and invested dollars. They did it 5 years ago, and now once again. So if we are going to be a serious partner, we have got to find a way that the whims of politics doesn't affect the public/private relationship.

And with that, Mr. Chairman, I yield back the balance of my time, and I am waiting for the presentations.

Mr. MICA. I thank the gentlelady for her spirited commentary.

And we had another request for time. Mr. Southerland, the gentleman from Florida.

Mr. SOUTHERLAND. Thank you, Mr. Chairman. And I also represent the State of Florida, and I applaud our governor for the courage he took not to invest, not to take this loss leader, and take the taxpayers in the State of Florida down a boondoggle. This was clearly a bridge to nowhere.

And so I am just as passionate for fiscal responsibility. Florida's 2nd Congressional District expects much, and when you are given much, they should expect much. We are broke. We are broke. We are broke here at the Federal Government, and in Florida, I saw our legislature have to find $4 billion because general treasury revenues were down for like the fourth consecutive year. I think the American people have had enough.

I will tell you what bothers me is we had our Senator today came, and he spoke about privatization and the dangers of privatization because there is an expectation of a return on investment, as if that is a bad thing. And yet we take the taxpayers' money every single day and we think a return on the investment is a bad thing for them, that they shouldn't expect a return on the investment.

That is why Washington, DC, is broken. It is broken. How pathetic that we will take money from the American citizens who are working hard to keep their nose above water. And we take their money and we are pathetic with it. We pass a DOT project, and it takes 13 years. Thirteen years.

We don't run a competitive business in our Postal Service and in Amtrak. And so we need to ask this question. If this is something we had never started, would we start it today? And ask hard questions. In light of our past circumstances, our current situation, and our future hopes and dreams, what is the very wisest thing for us to do? The American people deserve us to ask that question.

Mr. Chairman, I applaud you for having this hearing. I applaud you for examining other opportunities than the broken, failed systems that this city has applied to so many areas in our lives. I applaud you and I thank you, and applaud Governor Scott for not taking the bait.

Ms. BROWN. Mr. Chairman, I ask unanimous consent——

Mr. MICA. The gentleman yields back. Did you have a quick comment?

Ms. BROWN. Yes, I did, sir. I ask unanimous consent to include in the hearing record a report just released by the British Government showing that the privatization has not worked and it has increased costs, and also submit for the record this morning's Financial Times article announcing that Virgin Rail is turning its line back over to the Government.

And I also want to say that I want to submit for the record the report that indicates that the States that are benefitting from Florida's gasoline tax—the fact is, when I was elected, for every dollar we sent to Washington, we were getting 77 cents back. Now we are getting close to 92 cents back. But we still are a donor State. The money that Rick Scott sent back is going to my colleagues, and they are very happy, and they are going to invite the governor to the ribbon-cutting.

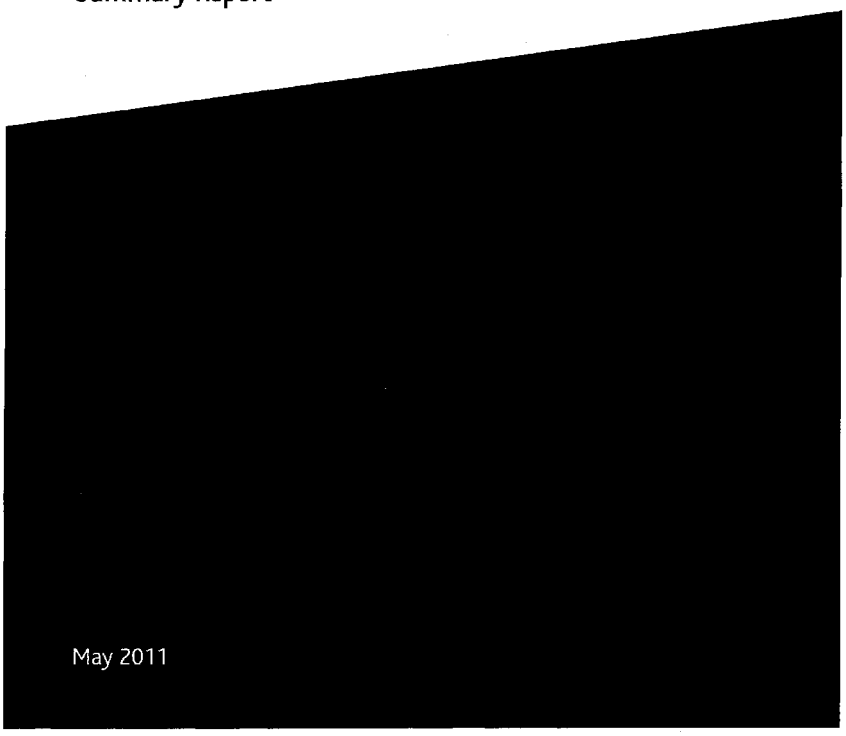
Mr. MICA. I thank the gentlelady. And without objection, we will include in the record the articles referred to.

[The information follows:]

Realising the Potential of GB Rail

Report of the Rail Value for Money Study

Summary Report



May 2011

Realising the Potential of GB Rail

Report of the Rail Value for Money Study

Summary Report

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Although this report was commissioned jointly by the Department for Transport (DfT) and the Office of Rail Regulation (ORR), the findings and recommendations are those of the authors and do not necessarily represent the views of the DfT and the ORR. While the DfT and the ORR have made all reasonable efforts to ensure the information in this document is accurate, the DfT and the ORR do not guarantee the accuracy, completeness or usefulness of that information; and cannot accept liability for any loss or damages of any kind resulting from reliance on the information or guidance this document contains.

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Foreword by Sir Roy McNulty

In my Interim Submission to the Secretary of State, published last December, I set out a preliminary assessment of the costs of GB rail, the reasons why those costs appeared to be higher than they should be, and a preliminary estimate of cost savings which might be possible. The Study has now completed its work and this report presents my recommendations for improved efficiency and value for money.

The Study has taken place at time when GB rail can demonstrate many achievements – in terms of growth in passenger and freight markets, continued improvement in safety, increasing customer satisfaction, improved operational performance, and significant investment. In many ways, the GB rail structure established in the 1990s has delivered good results.

The Study has also taken place at a time when GB rail has the opportunity for substantial growth. Increased demand for travel, as well as the imperative to adopt more sustainable methods for the movement of passengers and freight, offer the prospect of doubling the current level of traffic by the year 2030. Few other industries have sound prospects of growth on this scale, and it offers real opportunities for everyone involved in the industry.

However, there is widespread recognition that the industry has problems in terms of efficiency and costs. Unit costs per passenger kilometre have not improved since the mid 1990s. The Study's initial "should cost" analysis, against the 2008/09 baseline used in the Study, suggested that GB rail's costs ought to be 20-30% lower. Further benchmarking has identified an efficiency gap of 40% against four European comparators. Some of that 40% gap may be systemic, and therefore cannot be eliminated fully, but I believe that the industry should be aiming to achieve a 30% reduction in unit costs (i.e. costs per passenger-km) by 2018/19. Only by doing this can the industry get to a position where it is giving a fair deal to passengers and taxpayers – at present, both groups are paying at least 30% more than their counterparts in other European countries, which not only places an unjustified burden on passengers and taxpayers, but also disadvantages UK competitiveness in the wider sense.

The causes of GB rail's excessively high costs are many and complex. The Study was asked to examine "barriers to efficiency" and we have identified that among the principal barriers are fragmentation of structures and interfaces, the ways in which the roles of Government and industry have evolved, ineffective and misaligned incentives, a franchising system that does not encourage cost reduction sufficiently, management approaches that fall short of best-practice in a number of areas that are key cost drivers, and a railway culture which is not conducive to the partnership and continuous improvement approaches required for effective cost reduction.

I would like to emphasise my view that the long list of barriers the Study has identified should not become the basis of a "blame game". The industry will not benefit from an inquest into how things evolved in the past or who was most to blame. What is much more important is that everyone's time and energy is now applied to agreeing and implementing solutions to the problems that have been evident for too long.

Another point I wish to emphasise is that there is no simple solution – no "silver bullet". Achieving a 30% cost reduction will require a very substantial programme of change, addressing each and every one of the barriers identified in this report, and doing so in ways that do not prevent achievement of other performance objectives.

In considering my recommendations, I have been clear that there were two roads I would not go down. Firstly, the Study's Terms of Reference made clear that it was "to identify options for improving value for money ... **while continuing to expand network capacity as necessary**". Accordingly, I have not examined possible cuts to the rail network, and the Study's focus has been solely on ways of improving efficiency and value for money from the existing network. Secondly, I have not considered solving the railway's financial problems by increasing the overall level of fares. As my report makes clear, GB rail fares are already too high, and the whole thrust of the Study's recommendations is to reduce costs and thus reduce the pressures that have led to fares being at that level.

I see the solutions as being in three parts.

Changes to create an enabling environment

These include getting greater clarity on rail policy, objectives and strategies, stronger and more cohesive industry leadership, changes to structures and interfaces to improve the ways in which rail organisations and people work together, incentives that are more effective and better aligned, a review of fares policy and structures, and greater clarity as to what Government subsidy is buying

Changes which deliver the major savings

These focus principally on reaching best-practice in asset management, programme and project management, supply chain management, standards and technology, HR management, and pursuing initiatives in the areas of capacity utilisation, information systems, and new approaches to enable lower-cost regional railways.

Effective approaches to drive implementation

Key to this will be, on the basis of this report, developing an implementation plan with the involvement and commitment of all concerned. I recommend that, at least initially, there should be a small independent Change Team working closely with the Department for Transport (DfT), the Office of Rail Regulation (ORR), a new industry leadership group – the Rail Delivery Group – and with a direct reporting line to the Secretary of State for Transport.

I believe that the recommendations in this report, if fully implemented, could achieve the target of a 30% unit cost reduction by 2018/19 based on current estimates of future demand. I recognise fully that delivering such a massive cost reduction will be an enormous challenge to everyone in an industry whose unit costs have shown little or no reduction over the last 15 years. And I recognise that some people will argue that the changes required to reduce industry costs are unnecessary, or unacceptable or shouldn't apply to them.

Yet the pressures which make change and the achievement of this cost reduction essential are obvious. The severe constraints on Governments' finances will continue for some time, and there will be intense financial scrutiny as franchises come for renewal and on the periodic reviews of Network Rail. There is a need for the industry to earn its "licence to grow", so that the opportunities that lie ahead can be exploited, and above all there is a clear imperative to give taxpayers and passengers a better deal.

I believe that there can be a great future for GB rail – a future of growth, continued improvement in safety and a better deal for passengers and freight customers. There can also be a vision longer-term of a future for GB rail in which InterCity and London and the South East services can operate with little or no subsidy, and in which the subsidy for Regional services, while still continuing, is better controlled and much more precisely targeted. I believe that the enabling environment I have described can be put in place, levels of best-practice management can be achieved, and that implementation can be made to happen.

I have been encouraged that so many of the people I have met recognise the barriers – I have not met anybody who argued that costs cannot be reduced. I am encouraged also by new approaches that have emerged during the course of the Study, both from Network Rail and from the Train Operating Companies. I sense that many people in the industry are ready for change. What is needed now is the vision, leadership and energy to make the changes happen.

Success in this endeavour will clear the path to growth and allow the railway industry to give passengers and taxpayers the fair deal they deserve. The ways in which I believe this can be done are set out in this report at two levels:

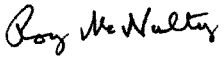
- this Summary Report, available in print, consisting of Foreword, Executive Summary, and Level One Report setting out the principal findings and recommendations; and
- a Detailed report (Level Two) containing detailed analysis and recommendations from each of the Study's workstreams, and available on-line at www.dft.gov.uk/rail-value-for-money.

In addition, the Study will make available, on the DfT website, the consultants' reports which the Study has used in developing its analysis and recommendations.

I am indebted to the many people who have supported and helped in carrying out this Study. I want to thank each of them for the help they have given me. In particular, I would like to thank Ian Dobbs, Deputy Chairman of the Study, whose deep knowledge of the industry in Great Britain and elsewhere has been invaluable, as has been the experience of our Advisory Board (John Armitt, Chris Bolt, Andrew Haines, John Nelson and Sir David Rowlands), whose wise advice has helped me position my thoughts much better than would otherwise have been the case. Last, but not least, I want to thank all of the members of the Study team. Their efforts, together with the input of very many people from the industry and from the DfT and the ORR, the Study's sponsors, have been fundamental to the project.

What appears in the pages that follow are of course my own conclusions. I do not see them as the "last word". Indeed, I hope that they will be the "first word" in a process whereby the GB rail industry, together with Government and the ORR, develops and commits to a programme of changes, building on the professionalism and the obvious dedication of those who work in the railway. There is a clear opportunity to create in GB one of the most efficient rail systems in the world – a system which can deliver outstanding value to its customers.

I wish all concerned every success in that endeavour.



Sir Roy McNulty

Executive summary

1 In its Interim Submission to the Secretary of State, published last December, the Rail Value for Money Study set out its preliminary assessment of the costs of GB rail, the reasons why it considered that those costs were higher than they should be, and a preliminary estimate of cost savings which might be possible. The Study team has now completed its work and is reporting its findings and its recommendations for improved efficiency and value for money.

Context

2 The Study has taken place at a time when GB rail can demonstrate many achievements – in terms of growth in passenger and freight markets, continued improvement in safety, increasing customer satisfaction, improved operational performance and significant investment. Particularly worthy of note is the way in which the industry has, since privatisation, reversed a 50-year trend of reduction in passenger traffic.

However, despite its many successes, there is a widespread recognition that the GB rail industry still has major problems in terms of efficiency and costs.

3 This Study has not examined possible cuts to the rail network. The Terms of Reference made it very clear that the aim of this Study was "to identify options for improving value for money to passengers and taxpayers **while continuing to expand capacity as necessary**". Accordingly, the entire focus of this Study has been on ways of improving efficiency and value for money on the basis of the existing network, and it seems clear that there is considerable scope for such improvement. As the Study has said on numerous occasions over the past year, this is Plan A. Only if all concerned failed to deliver the improvements which the Study judges to be both necessary and possible, would consideration conceivably have to be given to a Plan B – a smaller railway.

The efficiency gap

4 The Study has confirmed the dimensions of the efficiency gap. It estimated initially that GB rail costs should be 20–30% lower than they were in 2008/09, and commissioned a detailed benchmarking exercise comparing GB rail with railways in four other countries – France, the Netherlands, Sweden and Switzerland. Although benchmarking is seldom an exact science, the clear indication from that exercise is that GB rail costs would need to be reduced by around 40% to match those comparators. As has been indicated by previous benchmarking done by the Office of Rail Regulation (ORR), and notwithstanding the fact that Network Rail (NR) delivered a 30% cost reduction during Control Period 3, NR's higher costs are still a significant reason for this gap. However, Train Operating Company (TOC) and Rolling Stock costs also contribute to GB rail's higher costs, primarily because of the lower level of train utilisation here, i.e. fewer passenger-kilometres generated per train-kilometre.

5 Because all the reasons for the lower levels of train utilisation are not fully understood, and because some of these may be systemic and not capable of elimination, the Study considers that, for practical purposes, the target at present should be to achieve a 30% reduction from

the 2008/09 level of industry unit costs by 2018/19. If it eventually proves that the actual potential for cost reduction is slightly higher or lower than that target, plans can be fine tuned at that time. At this stage, the priority is that all concerned recognise that the industry faces a major challenge to reduce its costs, and must begin to plan how best to meet that challenge.

6 What is also apparent from this benchmarking exercise is that a result of GB rail's costs being so high is that passengers and taxpayers are paying more than their counterparts in those other countries. Passenger fares per passenger-kilometre on average are around 30% higher in GB and, although it is difficult to compare Government funding streams in different countries, it seems likely that the UK taxpayer is also paying at least 30% more than taxpayers elsewhere.

Barriers to efficiency

7 The causes of GB rail's higher costs are many and complex. In most of the workstreams within the Study, barriers to efficiency and value for money have been identified. The principal barriers are summarised below.

8 **The Roles of Government and industry.** Within the current framework, much of the responsibility for costs is seen to rest with Government, and industry has not taken the responsibility which it needs to exercise for driving costs down. This may well be due to the extent to which Government is involved in detail in the industry's affairs, and yet is not providing sufficient clarity about what Government policy is, how different strands of policy fit together, or how the different levels of policy, objectives strategies and implementation are linked.

9 **Fragmentation** – by which is meant the fact that the structures within an industry which has many players, and the interfaces between those players, have not worked well in terms of securing co-operative effort at operational interfaces or active engagement in cross-industry activities which need to be undertaken for the common good. One of the principal barriers, if not the principal barrier, is the lack of an effective supply chain that starts with the customer (passenger and freight) and taxpayer, and focuses the efforts of all concerned on meeting these needs in a cost-effective manner.

10 **The way in which the main players have operated** – with NR often working in a heavily-centralised manner and at times seeming to be insufficiently concerned with the needs of its customers, and the TOCs at times taking very short-term views in an industry that requires long-term planning.

11 Many of the barriers stem from **incentives which are either ineffective or misaligned.** In particular, the incentives on NR and TOCs are almost completely different, the TOCs have limited incentives to manage rolling stock leasing costs and track access costs, and the system of incentives overall appears to have a bias towards capital expenditure rather than making better use of existing capacity.

12 The Government's recent review of **franchising** has identified the problems of relatively short franchise periods, overly-prescriptive franchises, insufficient risk transfer from Government, and difficulty in agreeing changes to franchise agreements.

13 **Fares structures** do not send efficient pricing signals, particularly in terms of managing peak demand, and are extremely complex.

14 GB rail lacks best-practice in a number of areas which need to be managed from a whole-system perspective and which are key drivers of costs – **asset management, programme and project management, supply chain management, and management of standards and innovation.**

15 The industry also has weaknesses in **HR/IR management** which have allowed excessive wage drift, at all levels, and the continuation of inefficient working practices.

16 The industry's **legal and contractual framework** is complex and arguably has adverse effects on attributes and relationships, as well as engendering additional costs.

17 All of the above, and particularly the interfaces issue, mean that **whole-system approaches are difficult to apply** in an industry that often needs them. Players within GB rail are more inclined to follow approaches which maximise their position within their own "silo", rather than optimising outcomes for the industry as a whole, for example in the areas of technology and innovation.

18 Many of the barriers identified above are interconnected, and they all come together in the industry's **culture and relationships**. Despite some considerable thought on the matter, the Study remains uncertain as to whether the industry's culture causes the lack of leadership at industry level, or whether the lack of leadership has contributed to the problems in relationships and culture. On balance, we think the latter explanation is more likely.

19 The Study does not see this set of barriers as a cause for despair. On the contrary, given that the issues are already fairly widely recognised, it believes that the barriers can be overcome with strong leadership and with concerted efforts from all concerned.

Recommendations

20 Given the extent of the barriers, the Study's recommendations are similarly extensive, and are set out in detail in the Level One and Level Two reports. The key recommendations can be summarised under three main headings.

(1.) Creating an enabling environment

21 Recommendations under this heading are the principal catalysts for change, and need to be in place to enable delivery of the main savings from other areas.

22 **Recommendations for leadership from the top:**

- The Department for Transport (DfT) to develop a clearer definition of the roles of Government and industry, with Government focused primarily on setting the overall vision for the industry, the direction of rail policy, the objectives for the industry, the level of funding available, and leading on franchising procurement.
- The industry to accept greater responsibility for strategic planning and the delivery of outcomes in line with Government's policies and objectives, particularly on cost reduction.
- The industry to establish a Rail Delivery Group, consisting of the most senior people from NR and the TOC-owning groups, freight and other stakeholders, to lead a substantial programme of change – focused particularly on cost reduction, changing the industry culture, encouraging more integrated whole-system approaches where necessary, and

improving the speed and effectiveness of cross-industry bodies. Mechanisms for establishing a dialogue at industry level with the trade unions should also be explored.

- On some critical issues, it may also be necessary for the Secretary of State to give a lead.

23 **Recommendations for clearer objectives:**

- Government to provide greater clarity about what Government policy is, how different strands of policy are harmonised, and make clearer the links between the different levels of policy, objectives, strategies and implementation.
- The High Level Output Specification (HLOS)/Statement of Funds Available (SoFA) process to include specific cost objectives and a greater degree of longer term planning.
- There should be a move away from "predict and provide" to "predict, manage and provide", with a much greater focus on making better use of existing system capacity.
- The DfT to work with industry to develop a comprehensive analysis of how subsidy is used, i.e. where subsidy is used and what it is buying; the DfT should then assess how this use of subsidy contributes to Government's policy objectives.

24 **Recommendations for devolved decision-making:**

- Less prescriptive franchises to allow TOCs more freedom to respond to the market.
- Decentralisation and devolution within Network Rail.
- A greater degree of local decision-making by PTEs, and/or local authorities, brought more closely together with budget responsibility and accountability.

25 **Recommendations for changes to structures and interfaces:**

- Devolution and decentralisation within NR.
- Introduce diverse ownership of some infrastructure management concessions.
- Closer alignment of route-level infrastructure management with TOCs, at one or other of the following levels:
  - minimum – cost **and** revenue sharing, and joint targets; or
  - intermediate – joint ventures or alliances; or
  - maximum – full vertical integration though a concession of infrastructure management and train operations combined.

The Study recommends having at least two joint ventures/alliances in place by 2013/14 and at least one vertically-integrated pilot in place by about the same time.

The DfT and the ORR should drive this process of closer alignment in all new franchise procurements and for new Control Periods for NR.

The Study recognises that, within the current franchises and Control Period, choices between these options for alignment are commercial decisions for these concerned, and that "one size will not fit all". It is also clear that there must be effective safeguards for freight and other operators.

26 **Recommendations for more effective incentives:**

- Reform of franchising, along the lines already announced by Government with much stronger incentives for TOCs to reduce costs, and to co-operate more effectively with NR.
- Closer alignment of NR and TOC incentives through the structural changes indicated above.
- In relation to NR:
  - comparative regulation of route-level units;
  - introducing a degree of independent ownership of infrastructure management concessions;
  - consider directing all subsidy for NR through track access charges;
  - develop improved corporate governance and a better focused management incentive programme; and
  - assess the potential, after industry structures stabilise, for unsupported debt and/or private investment.
- Improved incentives for efficient enhancements.
- Improving incentives and clarifying responsibilities for the efficient management of existing capacity.
- Greater transparency of the industry's finances and cost performance.

27 **Recommendations for regulation:**

- Move towards the industry having a single regulator, the ORR, with a new focus on whole-system outputs and with the necessary resources, skills and standing to support an expanded role.
- The DfT to undertake a full review of fares policy and structures, aiming to move towards a system that is seen to be less complex and more equitable, and which also aids the management of peak demand and the more efficient matching of demand with capacity. The Study's recommendations envisage some re-balancing of fares but no increase overall.
- The DfT to work with industry to accelerate Smartcards, other retail technologies and introducing other retail locations.
- The DfT, in liaison with the industry, to overhaul the Ticketing and Settlement Agreement which prescribes such matters as ticket office opening hours, providing other enabling pre-conditions are met.

(2.) Delivering greater efficiencies

The areas from which the principal savings are expected to come are as follows.

28 **Recommendations on asset management, programme and project management, and supply chain management** focus on stronger partnership working from inception through to the supply chain, identifying the optimum approaches to maintain, renew or enhance the

railway, followed by delivery of the necessary engineering work or equipment in the most efficient manner. This will require:

- Industry wide adoption of modern, best-practice frameworks to encourage whole-system, whole-life approaches, focusing particularly on considering all available options fully before fixing on the solutions;
- Making best use of the new objectives, incentives, structures and interfaces to achieve improved trade offs between infrastructure, rolling stock and operations;
- Better selection of the optimum maintenance approaches, informed by better understanding of assets and better asset condition information to reduce maintenance and renewals effort;
- Better visibility of forward plans and less volatile workloads to encourage long term investment by suppliers in whole life solutions and cost reduction approaches;
- Earlier involvement of suppliers and contractors, and much wider use of partnering approaches, to incentivise all parties to reduce the cost of delivering rail services.

29 **Recommendations on safety, standards and innovation:**

- Clearer safety leadership at industry level to drive further improvement in the rail safety culture.
- Establishment of a Rail Systems Agency (RSA) to lead the industry in achieving technical excellence in standards management, technical integration, and driving innovation.

30 **Recommendations on HR management:**

- Review of many aspects of staffing and working practices.
- The need for pay restraint in relation to both staff and senior management.
- The need for improved training and people development.
- Review of overheads and administration.

31 **Recommendations on information systems:**

- Improved oversight and management of cross-industry information systems.

32 **Recommendations on rolling stock:**

- Increased standardisation and more effective procurement of rolling stock, plus establishing strategic partnerships with the ROSCOs.

33 **Recommendations on lower-cost regional railways:**

- Piloting more differentiated approaches for both infrastructure and operations which can maintain standards of safety, but which can reduce the costs of less intensively used networks.

(3.) Driving implementation

34 **Recommendations:**

- A small independent team for change programme management to work closely with the Rail Delivery Group, and to report direct to the Secretary of State against an agreed implementation plan.

Conclusions

Cost savings

35 The Study estimates that the cost savings from these and the Study's other recommendations, when added to the savings planned from NR in Control Periods 4 and 5, have the potential to close the 30% efficiency gap by 2018/19, with further savings accruing beyond that date.

The challenge

36 Solving the cost problem is a crucial task for the industry. It would enable the industry to give a fair deal to passengers and taxpayers. It would ease the challenge of living within future budget allocations, and it is the key to the industry's licence to grow for the future.

37 These recommendations are recognised to be challenging, and it will require substantial change and adjustment from everyone involved. However, the Study believes that it is achievable, and has been much encouraged by the clear desire of so many people in the industry to solve the problems which are evident to all.

A better deal for passengers and taxpayers

38 The Study's Terms of Reference required indentification of options for improving value for money to passengers and taxpayers, whilst continuing to drive up passenger satisfaction.

The primary thrust of the Study has been to develop options and recommendations that could reduce costs. Successful implementation of these measures can reduce the upward pressure on fares.

Lower costs can also reduce the burden on the taxpayer, as can measures to understand better the use of public subsidy, and to control its level more effectively.

For passengers, as well as potentially easing the upward pressure on fares, the Study's recommendations could offer other significant benefits:

- More flexibility for, and focus on, TOCs meeting market needs;
- More investment decisions made by these who operate the network or who are closest to the market, rather than centrally;
- More joined-up regulation, with obligations to passengers reflected fully within the regulatory structure;
- Improvements to a fares structure that many passengers see as complex and often unfair;

- Accelerated introduction of Smartcards, modern retailing technologies, and a wider range of retail locations;
- Improved cross-industry information systems; and
- A clearer sense of strategic direction and vision for the industry.

Report of the Rail Value for Money Study

Level One Report –
Summary of Principal Findings and Recommendations

1. Introduction to the Level One report

The Rail Value for Money Study has been sponsored jointly by the Department for Transport (DfT) and the Office of Rail Regulation (ORR). This report as a whole responds to the Terms of Reference set out by Lord Adonis, then Secretary of State for Transport, in February 2010. Those Terms of Reference are reproduced in Annex A.

Following the May 2010 General Election, the Study's general approach was endorsed by the new Secretary of State, the Rt Hon. Philip Hammond MP. The Study is most grateful to him for his active engagement in, and support for, the Study.

The UK Government is responsible for the overall framework of the GB railway, but the Scottish Government and the Welsh Assembly Government have substantial devolved powers in relation to the railways in Scotland and Wales, respectively.

This final report from the Study is structured as follows:

- **Summary Report** (this document) contains:
  - A Foreword;
  - An Executive Summary; and
  - The Level One report, which sets out the Study's principal findings, recommendations and assessment of the potential for reductions in GB rail costs.
- **Detailed Report** (Level Two), which contains reports from each of the workstreams within the Study, including their detailed analysis of data, issues and barriers, together with more detailed recommendations and analysis of potential cost savings. The Level Two report is available on-line at www.dft.gov.uk/rail-value-for-money.

Shortly after publication of the above two documents, the Study will make available on-line the consultants' reports that were used in developing its analysis and recommendations.

The Study is grateful to its sponsors, the DfT and the ORR, for their help and support throughout, and is appreciative of the input and advice from the many people throughout the industry who have participated in stakeholder groups, in workshops, or in other ways.

This report is the result of an independent Study. It is for the UK Government, the devolved administrations, the ORR and the industry to decide in what ways to take the Study's recommendations forward.

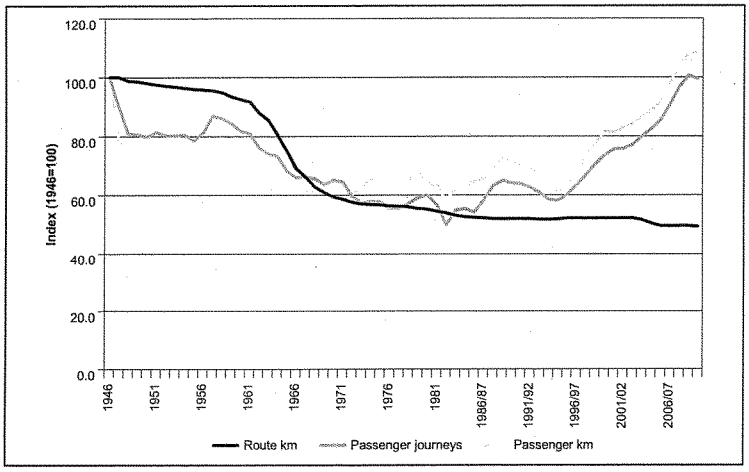
2. Principal findings

2.1 Positives

Railways are a key mode of transport in a number of markets, a mode that is sustainable and relatively environmentally-friendly. The rail network supports economic growth by enabling major cities to function, as well as providing effective transport links throughout Great Britain. Rail freight also makes an important contribution to the economy, as well as helping to ease congestion on the roads.

Over the last 15 years, the GB rail network has enjoyed a sustained period of growth and development in both passenger and freight markets. Today the industry can demonstrate continued improvement in safety, increasing customer satisfaction, historically high levels of operational performance and significant investment in rolling stock, new infrastructure and customer information. Particularly striking is the recovery in passenger numbers since the mid 1990s after half a century of decline (Figure 2.1).

Figure 2.1: Change in network length (route-km), passenger-km and journeys, 1948–2009



In many ways the GB rail structure established in the mid-1990s has delivered good results. However, the Study commenced its work with a clear recognition that notwithstanding the industry's many achievements, there had been a significant increase in the total cost of the industry to Government and to end users. This is despite productivity improvements already made

by Network Rail (NR) during Control Period 3 (CP3) and by some Train Operating Companies (TOCs).

2.2 Rail's licence to grow

Even with the impacts of the global recession on the UK economy, rail demand has remained strong, and there is the clear prospect of significant future growth in freight and passenger traffic, potentially doubling by 2030. This would allow the rail network to contribute substantially to governmental objectives of supporting and stimulating economic growth, promoting sustainable development, and improving social and regional cohesion.

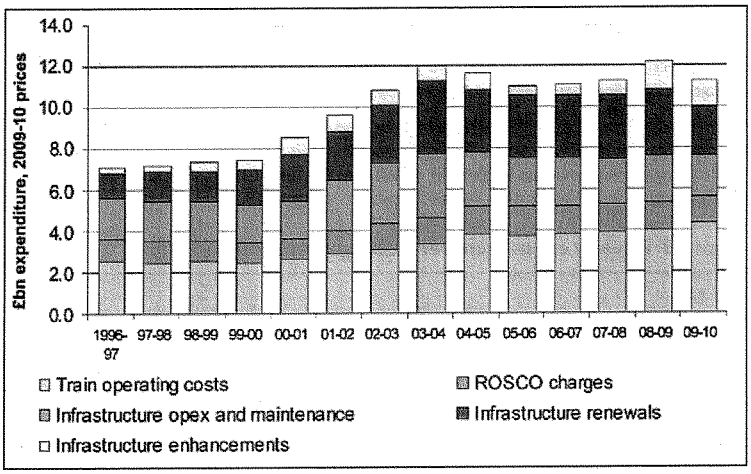
However, it seems unlikely that rail growth on this scale will be allowed to happen unless the industry's economics are transformed. The current £4.3bn industry operating deficit (passenger revenues minus costs) equates almost exactly to the operating deficit of the industry in 1996/97, factored up for the 57% growth in passenger numbers since that time and adjusted to 2009/10 prices. This is not surprising as unit costs per passenger-km in 2009/10 were almost exactly the same as in 1996/97, after adjusting for inflation, and the industry is not generating any cash from operations to contribute towards the capital expenditure required for expansion. It is very hard to imagine any Government approving a doubling of the railway's activities if this meant a doubling of this level of deficit. For that reason, success in reducing the unit costs of the railway is likely to be one of the principal keys to the industry's "licence to grow".

2.3 Costs and revenues

The previous Secretary of State for Transport gave the Study a clear remit to make recommendations on how the rail industry can deliver better value for money to passengers and the taxpayer. In the light of significant increases in the amount of subsidy paid for train service and infrastructure outputs, the Study has analysed the extent to which costs have increased since privatisation.

Since 1996/97 passenger rail industry expenditure, excluding interest, has increased by £4bn, or 60%, to around £11bn (2009/10 prices), as shown in Figure 2.2.

Figure 2.2: Passenger rail industry expenditure 1996/97 to 2009/10



Source: NR regulatory accounts and other sources.

Note: Train operating costs exclude access charges apart from traction electricity.

The salient features of these expenditure trends were the pronounced increases in costs following the Hatfield derailment in the year 2000, and a subsequent levelling-off due to efficiency improvements made by Network Rail from 2003/04 onwards – with NR meeting its target of a 30% cost reduction during Control Period 3.

Increases in expenditure occurred in the following areas:

- Train operating costs, where costs have increased by £1.7bn, around £0.8bn of which can be attributed to the increase in train-km. Much of the remaining cost increase can be attributed to an increase in staff costs, some of which may be related to increased outputs – for example in terms of station staffing – but some of which reflects salary increases in excess of the increase in average earnings.
- Rolling stock charges, which have increased by £0.3bn, reflecting the increase in train-km and number of vehicles leased, as well as new vehicles and new standards.
- NR operating and maintenance expenditure peaked in 2003/04 and have since fallen by £1.1bn; a large part of the post-Hatfield cost increase has now been removed, and these costs are now at the same level as in 1996/97.
- Renewals expenditure is currently £1.1bn higher than 1996/97, approximately £0.7bn of which is related to increased renewals volumes. Again, there has been a reduction in costs from the post-Hatfield peak, with renewals unit costs falling by 29% from 2004/05.[1] It is difficult to

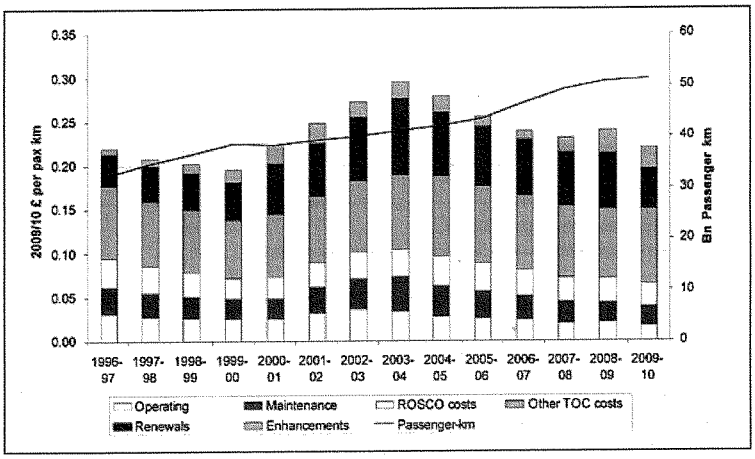
1 Office of Rail Regulation (2010) *Annual Efficiency and Finance Assessment of Network Rail 2009–10*. London: Office of Rail Regulation. This document can be accessed at www.rail-reg.gov.uk/upload/pdf/nr_efficiency_assessment_0910.pdf.

assess the extent to which expenditure on renewals reflects changes in the renewals backlog. However, there is evidence that efficiency improvements in track renewals, in particular, have been difficult to achieve.

- Infrastructure enhancement expenditure has increased by £1.0bn, part of which relates to major projects, including Thameslink and Airdrie to Bathgate.

Against the background of a 57% increase in passengers over this period, it might have been expected that unit costs would fall – bearing in mind that this is an industry with relatively high fixed costs. However, unit costs in 2009/10, at just over 20p per passenger-km, were almost exactly the same in real terms as in 1996/97, as shown in Figure 2.3.

Figure 2.3: Industry expenditure per passenger-km (2009/10 prices)



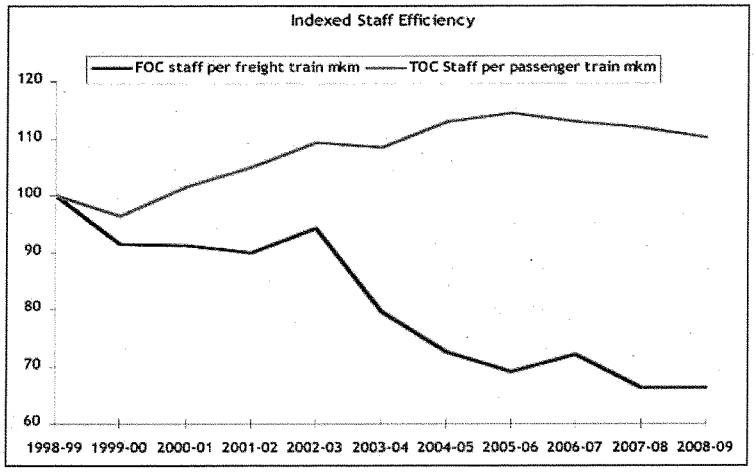
In the latter days of Railtrack, and particularly after the Hatfield derailment in 2000, unit costs rose sharply, principally due to very substantial increases in maintenance and renewals costs. As a result of NR meeting its 30% cost-reduction target during CP3, these costs have since returned gradually to more normal levels overall. Maintenance costs, in particular, have reduced considerably. However, the overall end result is that costs per passenger-km in 2009/10 were similar to those nearly 15 years earlier.

2.3.1 Freight industry demonstrates significant efficiency gains

The only railway operations to be sold directly, rather than franchised, at the time of privatisation, were the Freight Operating Companies (FOCs). Freight operates in a highly-competitive logistics market, with competition between rail freight operators and between them and other freight transport modes. Rail freight does not receive operating subsidy, although freight generally pays only variable track access charges, and Government funding has been available to support modal shift where environmental or other benefits can be achieved.

Since 1997 freight traffic has risen as the private-sector freight companies have invested in new rolling stock and entered or re-entered different market segments. Freight unit costs have reduced and there is a clear contrast in staff productivity between the freight and passenger sectors, which may be due to the greater effect of competition on freight companies (Figure 2.4).

Figure 2.4: Indexed staff productivity – freight and passenger rail



2.3.2 Overall industry financial position and subsidy

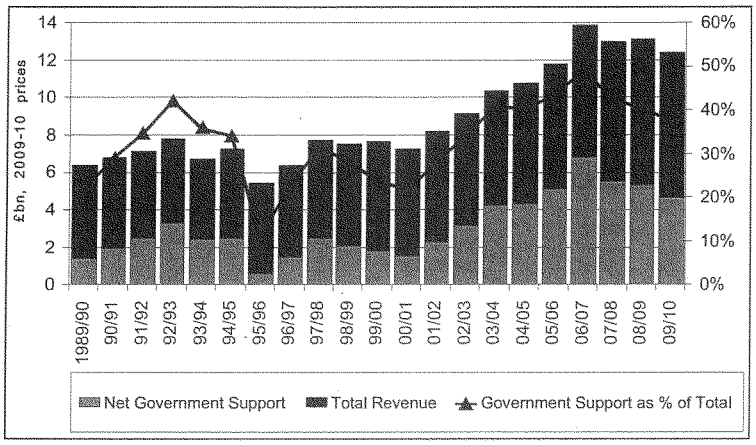
A net increase of £1.7bn in Government subsidy occurred between 1996/97 and 2009/10.[2] Since 1996/97, increases in passenger revenue of £2.7bn annually have been more than offset by increases of:

- £2.0bn in train operating costs (including Rolling Stock Company (ROSCO) charges); and
- £2.7bn in NR's net revenue requirement.

Figure 2.5 shows net governmental support peaking in 2006/07 at £6.8bn, 49% of the combined total of Government support and revenue. By 2009/10 net support had fallen to £4.6bn – down to 37% of the combined total, but still significantly above the proportion of Government subsidy experienced during the 1990s.

2 Source: National Rail Trends. This excludes Government support, including receipts from privatisation and contributions towards enhancement schemes such as Crossrail.

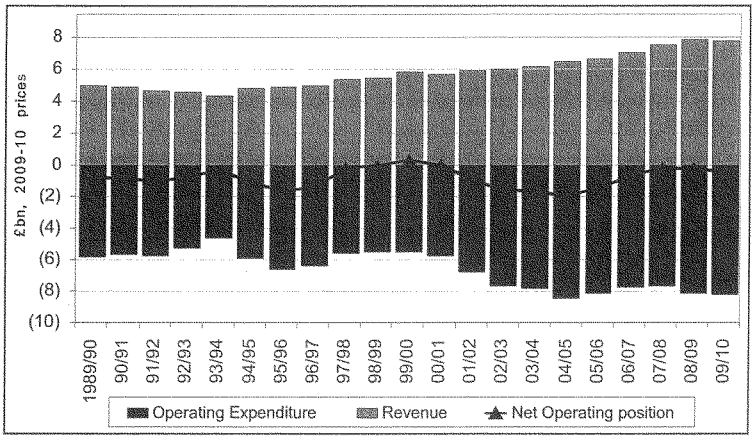
Figure 2.5: Industry revenues and subsidy 1989/90 to 2009/10



Source: National Rail Trends, DfT statutory accounts, TOC statutory accounts

To understand better the drivers of subsidy growth, the Study has separately examined the net industry operating position, which includes only operating expenditure and revenues (Figure 2.6).

Figure 2.6: Industry net operating results

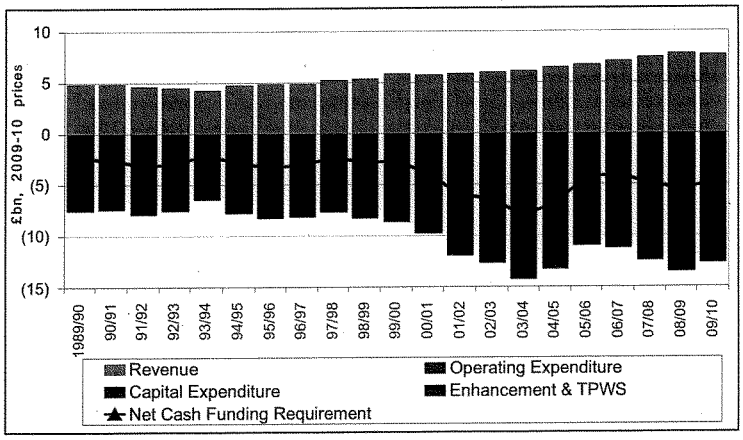


Source: National Rail Trends, DfT statutory accounts, TOC statutory accounts

Figure 2.6 shows that the industry's revenues are now almost covering its operating costs (i.e. excluding renewals and other capital expenditure). However, the industry's net cash position

(see Figure 2.7) shows a significant overall deficit, as there is no cash surplus from operations to contribute towards the substantial capital expenditure and enhancements being incurred.

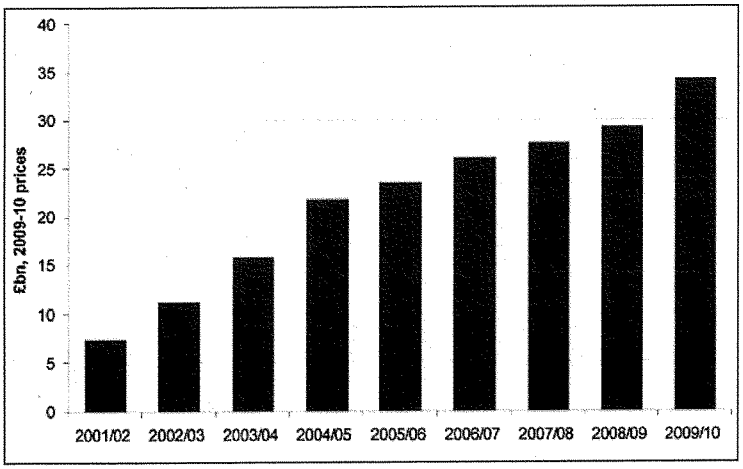
Figure 2.7: Industry cash generation



Source: National Rail Trends, Network Rail statutory accounts, DfT statutory accounts, TOC statutory accounts

In parallel, NR has been accumulating substantial expenditures in its Regulatory Asset Base (RAB) (Figure 2.8).

Figure 2.8: NR's RAB at the start of the year



The RAB mechanism enables NR capital expenditure and enhancements to be financed exeternally, with interest and amortisation being spread over the lives of the assets. However, strong financial discipline is essential to control the risk of the RAB rising to levels that cannot be supported by the industry's finances in the future. The increase in the RAB in recent years underlines that risk.

Review of these trends in the overall GB rail financial position and subsidy, and discussion with experienced industry figures, suggests that:

- while the budgetary constraints under which British Rail (BR) operated may have been too severe at times, and probably contributed to a significant backlog of investment, those constraints were arguably more effective in controlling industry costs and finances than the post-privatisation control regime has been; and
- the principal key to improving the railway's financial position lies in the industry's own efforts to improve efficiency in all aspects of its operations, and in particular to reduce unit costs and create an operating surplus that can contribute towards investment.

2.3.3 Rail costs are considerably higher than might be expected

The Study undertook an inital desktop "should cost" analysis to assess what the GB railway should cost if it was operating at the frontier of efficiency, having made efficiency improvements in line with what has been achieved in efficient companies in other privatised industries. It also drew on a broad range of evidence including that gathered by the ORR at the last periodic review, as well as other GB and international railway benchmarking, and produced estimates which are Low (conservative estimates) and High (more aggressive estimates).

On this top-down basis, the Study's "should cost" analysis suggested that the industry's total costs in 2008/09 were between £2.5bn and £3.5bn above what might have been expected. After allowing for savings in NR's expenditure in line with the current CP4 settlement, and assuming the ORR's indicative range of costs for CP5, the analysis pointed towards a remaining efficiency gap of between £0.7bn and £1.7bn (Tables 2.1 and 2.2). (For the purposes of this analysis, train operating expenditure is amalgamated with the ROSCO costs.)

Table 2.1: Low estimate (£bn, 2008/09 prices)

	TOCs and ROSCOs	NR	Total
Low estimate of efficiency gap	0.7	1.8	**2.5**
Less NR savings committed for CP4		-1.2	**-1.2**
Less NR savings provisionally indicated by ORR for CP5		-0.6	**-0.6**
Remaining efficiency gap	**0.7**	**0.0**	**0.7**

Table 2.2: High estimate (£bn, 2008/09 prices)

	TOCs and ROSCOs	NR	Total
High estimate of efficiency gap	1.2	2.3	**3.5**
Less NR savings committed for CP4		-1.2	**-1.2**
Less NR savings provisionally indicated by ORR for CP5		-0.6	**-0.6**
Remaining efficiency gap	**1.2**	**0.5**	**1.7**

It should be noted that all of the above figures for potential cost savings are on an "expenditure" basis, i.e. the savings would represent reductions in real expenditure, but would not necessarily translate directly into cash savings of the same amounts to Government because of the accounting effect of NR's RAB. Also, some savings would accrue first to others (NR and TOCs particularly) and would feed through to Government only at Control Period ends or at franchise renewals. The potential impact on the "should cost" figures of closing the efficiency gap is summarised in Table 2.3.

Table 2.3: Impact on industry costs of "should cost" exercise (2008/09 prices)

	Low savings (£bn)	High savings (£bn)
Total industry expenditure (2008/09 actuals)	12.0	12.0
Effect of closing the total efficiency gap	-2.5	-3.5
Resultant reduced industry costs (using 2008/09 base)	9.5	8.5

On this basis, closing the total efficiency gap would require an efficiency improvement in the range 20–30%. In the light of further international benchmarking, described later, the Study has concluded that the industry objective should be at the top end of this range, i.e. an efficiency improvement of 30% by 2018/19. This is a very substantial challenge, but, as explained later, the Study considers that this efficiency gap could be closed if the recommendations from the Study are implemented in full.

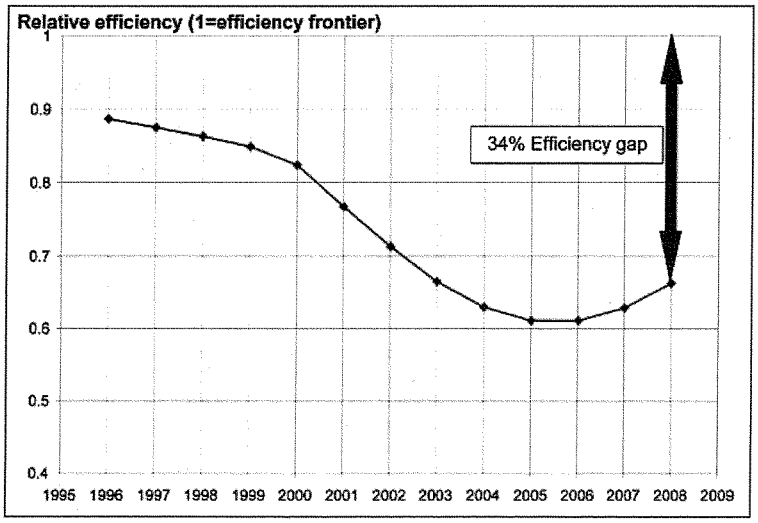
Given that NR has accepted the challenge of meeting its CP4 targets and is preparing to continue the savings drive in CP5, a substantial proportion of the remaining efficiency gap would have to be closed by reducing TOC and ROSCO costs.

2.3.4 International benchmarking shows similar scope for cost reduction in GB rail

Previous studies

As part of the last periodic review of NR, the ORR undertook a range of top-down benchmarking of infrastructure maintenance and renewal costs. The ORR has subsequently updated its work on econometric benchmarking on infrastructure maintenance and renewal costs to take into account the latest data from NR and European infrastructure managers. Notwithstanding the considerable progress made by NR since its inception, this work by the ORR confirms its earlier analysis and identifies an efficiency gap between NR and the top-performing European infrastructure providers of some 34%, based on data for 2008. The trend since privatisation is shown in Figure 2.9, indicating a rapid decline in relative efficiency during the Railtrack period, a stabilising of the position by 2005/06 and a gradual recovery since then.

Figure 2.9: ORR latest international benchmarking on maintenance and renewal costs



International comparisons suggest that other European countries have obtained significant cost reductions from the competitive tendering of train operations, in particular:

- the Netherlands, where competitive tendering has led to an efficiency gain of 20–50% compared with directly awarded contracts, which improved efficiency by 0–10%;

- Sweden, where tendering led to subsidy reductions of 20–30%;[3] and
- Germany, where tendering has led to cost reductions of around 20% while the service level and quality have been improved.[4] Although there have been problems with some contracts, these efficiency gains appear to have been retained in further rounds of franchising.

By comparison, unit costs of franchised services in Great Britain (including ROSCO costs) have shown relatively little improvement over the whole period since privatisation.

Differences in performance gains between Great Britain and these European examples may result from differences in the approach taken to franchising. While Great Britain has franchised all services, franchising in Europe has tended to focus largely on subsidised regional services, with main-line services continuing to be operated by the former state monopoly. This has allowed new franchised operators some flexibility over staffing, with staff given the opportunity to transfer to the new operators or remain with the state incumbent. Although this has led to problems in some circumstances, it has allowed new operators to improve labour productivity and therefore reduce overall costs. Other cost savings have come from reductions in rolling stock and depot costs, and from reductions in overheads.

Benchmarking of TOC costs within Great Britain suggests that there are significant efficiency differences between TOCs. The efficiency of the best-performing companies is typically some 30% better than poorer-performing companies, although it is recognised that differences in the characteristics of different franchises can contribute to this.

International benchmarking commissioned by the Study

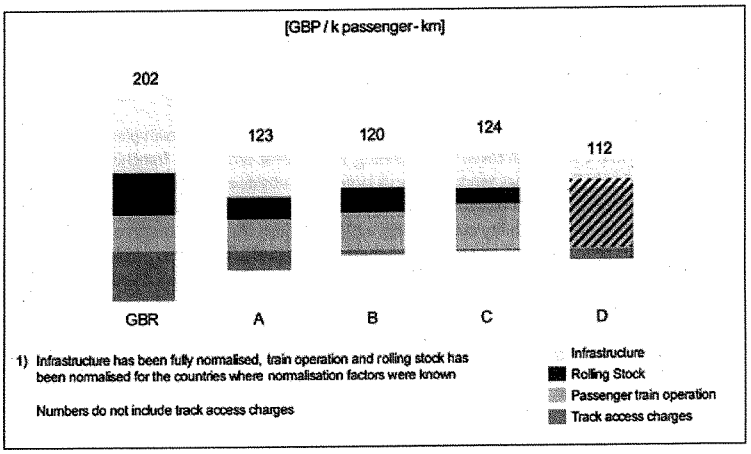
A key part of the Study was to undertake whole-industry international benchmarking. The consultants Civity were commissioned to benchmark whole-industry costs, examining elements of infrastructure and train operating costs separately across Great Britain and four European countries: France, the Netherlands, Sweden and Switzerland. Costs were, as far as possible, normalised for underlying factors such as exchange rates (using 2009 purchasing power parities), degrees of electrification, single or multiple tracks, travel speeds and distances between station stops.

A comparison of whole-system costs per passenger-km suggests that unit costs in GB rail would need to be reduced by around 40% to reach the average of the four comparator counties (Figure 2.10).

3 Alexandersson, G. and Hulten, S. (2007) Competitive Tendering of Regional and Interregional Rail Services in Sweden, *Proceedings of the Competitive Tendering of Rail Services, ECMT Workshop*; and Alexandersson, G. and Longva, F. (2009) *Impact of Deregulation on the Performance of Long Distance Transport Services: A Comparison of the Different Approaches in Sweden and Norway*.

4 Brenck, A. and Peter, B. (2007) Experience with Competitive Tendering in Germany, *Proceedings of the Competitive Tendering of Rail Services, ECMT Workshop*.

Figure 2.10: Comparison of whole system costs (partly normalised) £/k passenger-km



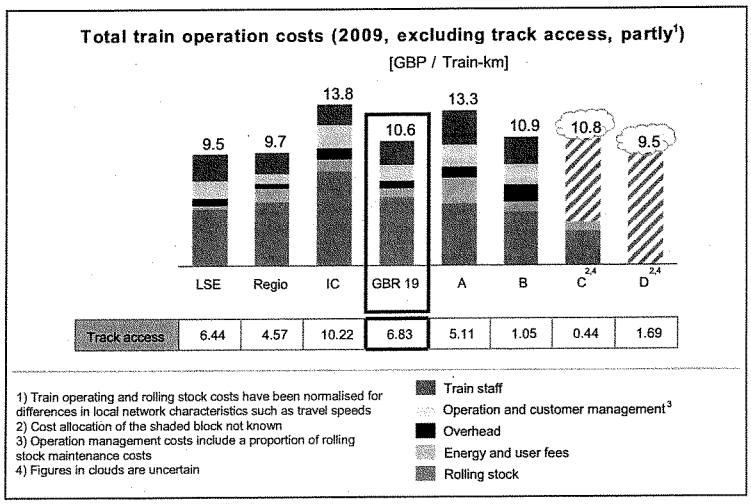
Source: Civity (2011).

Note: The shaded area denotes costs not reported separately.

For the reasons outlined earlier, it is not a surprise that GB infrastructure costs are the most significant contributor to higher costs.

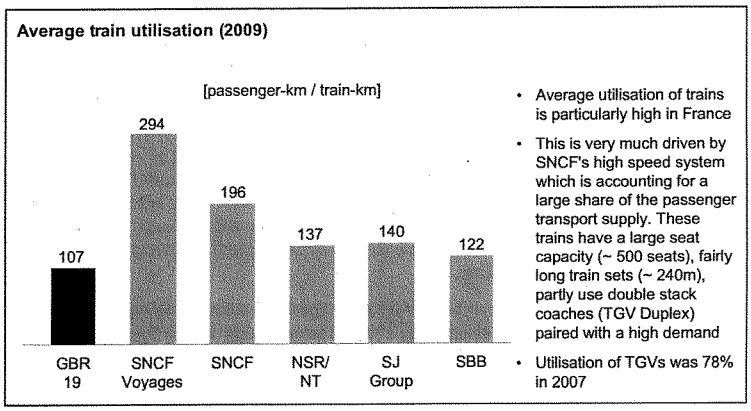
Figure 2.11 shows that total train operation costs per train-km are lower in GB than in comparator countries. Within this comparison, rolling stock costs in GB appear to be higher than the comparators (although no allowance has been made for rolling stock age or quality) but train staff, other staff costs and overhead costs are lower. Were these figures to be adjusted for train utilisation (passenger km per train km) the Study would expect the GB train operations cost per passenger-km to be worse than the comparator countries.

Figure 2.11: International comparison of train operating costs



A key driver of GB rail's higher unit costs appears to be a relatively low level of train utilisation, i.e. the number of passenger-km per train-km. Figure 2.12 shows that GB rail train utilisation is significantly lower than four comparator countries.

Figure 2.12: Comparison of loadings by train-km

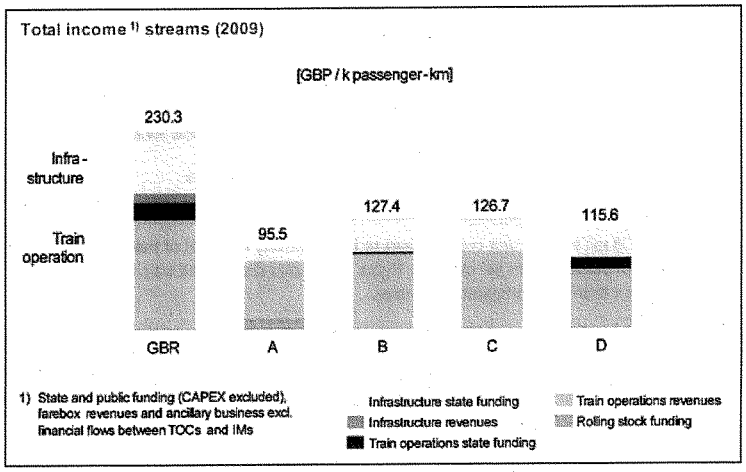


There appear to be a number of reasons for this difference in train utilisation, for example different geographies and population distributions, different train lengths and capacities, different frequencies and service patterns, the pronounced service peaks in London and the South East, and

low levels of passenger loading in a number of GB regions. As reported by Passenger Focus in 2009, most of Britain's passengers seem better served than other European passengers by the number and times of trains available. However, the level of train utilisation has a powerful and direct effect on unit costs. GB rail's train utilisation is 20-25% lower than the median performers amongst these comparators, with a corresponding adverse effect upon total unit cost per passenger kilometre.

The result of these differences in costs, arising particularly from higher infrastructure costs and lower passenger loadings, is that costs per passenger-km (as shown earlier) are significantly higher in GB rail. And, of course, these higher costs are paid for by higher levels of funding from passengers and taxpayers as shown in Figure 2.13 below.

Figure 2.13: Total income streams



Total revenues per passenger-km in Great Britain are significantly higher than in the comparator counties. Comparision of passenger revenues per passenger kilometre (shaded green in the above diagram) indicates that GB rail fares would need to reduce at least 30% to match fares in the four comparators. This is consistent with previous analysis by Passenger Focus, which found that Britain's railways are generally more expensive, especially in London and the South East, albeit service patterns in GB are different and revenue yields may be affected by differing proportions of first-class fares in different countries.

What is also apparent is that taxpayer subsidy per passenger-km is substantially higher for GB rail than in the comparator countries, although it should be noted that subsidy figures should be regarded as indicative as they can be affected by debt write-offs, the treatment of capital expenditure, the coverage of the benchmarking and other factors.

2.3.5 Conclusions on costs and revenues

All of the Study's analysis indicates that GB rail has very substantial scope for efficiency improvement:

- historical figures indicate that unit costs of the GB passenger railway have not improved since the mid 1990s;
- the Study's initial "top-down" analysis suggested that GB rail should cost 20–30% less than it actually did in 2008/09; and
- benchmarking against four European railway systems indicates an efficiency gap of some 40%.

The difference between the 20-30% savings estimated by the Study and the 40% gap indicated by international benchmarking is most likely attributable to differences in train utilisation. Some of these train utilisation differences may be systemic, and elimination of a proportion of the resultant efficiency gap may therefore not be realisable, but the Study considers that a proportion could be eliminated if the DfT, NR and the TOCs focus on this issue together.

Taking account of the above findings, the Study is of the view that GB rail should aim for a 30% reduction in unit costs by 2018/19. The final and important conclusion on cost and revenues is that the excessively high costs of GB rail inevitably result in passenger fares being too high and taxpayers paying too much. They are both entitled to a better deal.

3. Potential for cost savings

The Study has also sought to estimate the potential for cost savings on a "bottom-up" basis, by assessing the savings which could be made if the recommendations from each area of the Study were to be implemented in full. These savings are over and above those targeted for Network Rail (NR) in Control Period 4 (CP4) and provisionally indicated by the Office of Rail Regulation (ORR) for CP5. The basis on which the Study's estimates were prepared, and the assumptions and caveats related to them, are set out in detail in the Level Two report.

Such estimates are inevitably only broadly indicative of the financial values which could be released. The estimates are again presented as a low case and a high case (Table 3.1).

Table 3.1: Estimate of savings in 2018/19 (in 2009/10 prices)

Study Area		Low case (£m)	High case (£m)
A	Industry objectives, strategy and outputs	90	110
B & C	Leadership, structures, interfaces and incentives	40	130
D	Revenue	90	90
E & F	Asset management and supply chain management	230	580
E & F	Programme management	40	100
G	Safety, standards and innovation	190	190
H	People	260	260
Less:	Double counts	(200)	(410)
Net funding savings		**740**	**1,050**

The estimates in Table 3.1 indicate the savings which might be achievable in 2018/19. These savings figures have been adjusted to reflect the effects of the NR Regulatory Asset Base (RAB), but other savings would accrue first to other parties (NR, Train Operating Companies, etc.) and would feed through to Government only at the commencement of new franchises and Control Periods.

The annual savings increase gradually towards 2018/19, as shown in Table 3.2 in 2009/10 prices.

Table 3.2: Build-up of savings from Study's recommendations

Year	Low savings in year (£m)	High savings in year (£m)
2012/13	30	36
2013/14	123	144
2014/15	138	201
2015/16	335	448
2016/17	452	629
2017/18	590	827
2018/19	740	1,050

In addition to these estimated savings, there are possible significant gains from improving train utilisation. This might not reduce current actual costs, but it has the potential to enable the railway to carry more people without increasing costs, and would thus improve industry productivity overall. As indicated earlier, GB rail's train utilisation is 20-25% lower than the median performers amongst four European comparators. If, for example, GB rail's train utilisation could be improved by 5% (i.e. reducing the gap to 15-20%) this would represent a productivity improvement worth £500–700m per annum against costs of future growth.

Taking into account the cost savings that Network Rail is targeted to achieve, plus the £1,050m savings that the Study estimates could flow from its recommendations, plus future potential gains from train utilisation, the Study considers that the target of a 30% efficiency improvement could be delivered by 2018/19.

It should be emphasised that the savings estimates depend on growth in future demand, on Network Rail achieving its cost savings target in CP4, and NR savings projected in CP5, and depend also on the adoption of the complete package of reform. In particular, the main areas from which savings can come will not deliver unless the necessary enabling environment (objectives, strategy, leadership, structures, interfaces and incentives, etc.) is put in place.

4. Barriers to efficiency and value for money

The Study's Terms of Reference required it to examine what barriers stand in the way of efficiency improvements. In doing so, the Study has focused primarily on means of reducing costs, and has started from the viewpoint that, in almost any industry or activity, cost savings can always be made – and that the GB railway is certainly no exception. However, there are a number of important prerequisites that need to be in place within any industry or activity to make cost reduction actually happen. These include:

- good leadership from the top;
- clear objectives and the right values (which focus on costs, but also protect other key values such as safety and service quality);
- good quality, devolved, financial information available to all concerned;
- a culture where the status quo and previous assumptions are continually challenged;
- an organisation structure that fosters:
  - well-motivated management teams;
  - the correct organisational alignment;
  - whole organisation effort; and
  - the right speed of action;
- incentives and contractual mechanisms that encourage cost reduction;
- implementation and focus at every level;
- effective communications;
- a focus on detail and making change happen; and
- consistency of purpose over long periods.

In each area of the Study, findings have been assessed against this template, and the Study's overall conclusion is that many of the prerequisites listed above are missing within the system as it currently stands. Many different barriers have been identified, and many different recommendations flow from that. Some people have expressed the view that there is one big idea which will solve most of the cost problems (a "silver bullet"). However, the big idea they recommend is not always the same idea, and the Study inclines to the view that a solution is likely to contain a significant number of different elements. From that viewpoint, the Study has identified a range of different barriers to efficiency and has grouped them under the following Top Ten themes.

4.1 Fragmentation

The day-to-day operation of the railway is divided between Network Rail (NR), a large number of train operators, and their suppliers and contractors.

Having multiple industry players, together with misaligned incentives and the existing railway culture, has made it difficult to secure co-operative effort at operational interfaces, or active industry engagement in cross-industry activities which need to be undertaken for the common good (such as the Rail Safety and Standards Board (RSSB) and the Technology Strategy Leadership Group (TSLG)). The Study considers that this "co-operation deficit" is at least as important a barrier as the number of players. In other words, the key is to improve the ways in which the interfaces work, particularly on the ground at route level and also, where necessary, at industry level.

These effects of fragmentation are exacerbated by misaligned planning and budgeting cycles between the various players and by having, in effect, two separate regulators – in the Office of Rail Regulation (ORR) and the Department for Transport (DfT). The DfT's role in this respect is largely the enforcement of franchise obligations and fares regulation.

4.2 The ways in which the main players have operated

4.2.1 Network Rail

The large size of NR, relative to other industry players, has presented something of a barrier to effective co-operation. In addition, its operation as a single unit has inhibited the ORR from using comparative regulation – which regulators in other sectors have employed effectively.

Even more importantly, NR's heavily-centralised decision-making, its often complex and rigid processes, together with a culture which could at times seem arrogant and insufficiently concerned about the needs of its customers, have all inhibited efficient co-operation. NR has acknowledged that some of its approaches, which were probably necessary to regain control in the aftermath of Hatfield, should now be revised. NR's Transformation Programme and other recent initiatives reflect this change in approach.

4.2.2 Train Operating Companies

The Train Operating Companies (TOCs) are commercial organisations and it is perfectly understandable that they pursue their commercial interests within the framework set out for them, particularly the franchising regime. However, at times, such commercial interests appear to stand in the way of co-operation between the TOCs, and between them and NR, to enable the industry to function better as a system.

These same commercial interests, particularly within the scope of relatively short franchises, can lead to an unhelpful degree of "short-termism" in an industry that requires long-term planning for its proper development. In addition, and most importantly, the fact that the TOCs are insulated from changes in track access charges and other financial changes arising from periodic reviews means that they have no incentive to minimise NR's costs, and there is currently no effective mechanism to encourage them to do so.

4.2.3 Recent changes

Over the last year, the Study has observed significant changes in the orientation of NR and the TOCs. NR is clearly committed to change, to a new focus on its customers' needs, and to greater levels of safety, transparency and accountability. The TOCs also appear to be achieving greater coherence of views between themselves, and are showing greater willingness to work in partnership with NR.

There is a long way to go on all fronts, but the early signs are encouraging.

4.3 Roles of Government and industry

The current level of rail subsidy inevitably brings with it a significant degree of Government scrutiny and challenge. However, the fragmentation of the industry, together with the absorption by the DfT of a range of functions from the Strategic Rail Authority (SRA), has resulted in a level of Government involvement in railway affairs which many observers consider is now greater than it was under the nationalised British Rail (BR).

Within the current framework, much of the responsibility for the industry's performance, including costs, is seen to rest with Government, and the industry has not taken the responsibility that it needs to exercise for driving costs down.

A further difficulty with the current role of Government is that many decisions on regional and local issues are taken centrally without the sufficient engagement of people on the ground, either within the industry or in local communities.

Lastly, under this heading, the Study has noted that the Government could do more to be clear about what Government policy is, harmonise between different strands of policy, and make clear the links between the different levels of policies, objectives, strategies and implementation. While the Government's High Level Output Specification (HLOS) statement does set out its policy position every five years, at times subsequent decisions appear to be made incrementally without reference to that vision and to risk giving short-term responses to what are long-term needs.

4.4 Incentives

Given the cost outcomes described earlier, it seems clear that the existing incentives have been ineffective. The reasons include:

- a lack of alignment between the incentives on NR and train operators;
- insufficient focus on cost reduction;
- limited incentives on train operators to manage much of their cost base (given that track access charges and rolling stock costs are largely outside their control, and the franchise specifications are largely fixed);
- a bias in the planning system towards capital expenditure; and
- limited incentives on NR to help grow volume.

Also, there is insufficient contestability for much of NR's expenditure.

A very important side-effect of the misaligned incentives between NR and train operators is that the direct interplay between costs and revenue, which normally helps to drive business-like decisions, is severely impeded within GB rail.

4.5 Franchising

The Government's recent review of franchising has highlighted a number of barriers within the previous approach, including franchise periods which are too short, overly-prescriptive franchise agreements, insufficient use of residual value mechanisms to enable investment to be amortised across the life of two or more franchises, and insufficient risk transfer to the private sector from Government. Additionally, franchise agreements are difficult to vary in the light of emerging market developments or changes to policy, resulting in inflexibility.

4.6 Fares structures

The current fares structure has not changed fundamentally since privatisation of the railways in the mid-1990s, despite the fact that the market has changed considerably – changes have been made incrementally and the result is a structure which is complex, often appears illogical and is hard for the uninitiated (and even the initiated) to understand.

The current structure does not do some of the important things that a pricing structure should do – it does not send efficient pricing signals to the market, it does not help operators sufficiently to manage peak demand or match capacity to demand efficiently and, although fares overall are high relative to other countries, it appears that some fares are set below the level which passengers would be prepared to pay.

In addition, the industry is lagging behind other sectors in the implementation of Smartcards and other aspects of new retailing technology that are prerequisites for more flexible fares structures and for efficiency.

4.7 Legal and contractual framework

The current framework is complex. Arguably, it has adverse effects on attitudes and relationships, and engenders significant additional costs in recording and negotiating the various rights, remedies and compensations provided for within it. These adverse effects are exacerbated by the weaknesses detailed elsewhere in terms of interfaces that do not work well, incentives that are misaligned, and the relationships and culture within GB rail.

Moreover, the current legal and contractual framework, taken together with the current structure of incentives, seems to lead to too much "gaming" of the system by some players, instead of seeking real value-adding improvements.

4.8 Supply chain management

The industry spends large amounts of money with suppliers and contractors, but lags behind other industries in terms of supply chain management through:

- demand profiles which are unpredictable and that fluctuate wildly;
- relationships which are seldom truly collaborative, and often purely short term; and

- processes which fail to engage contractors early enough in the programme/project life-cycle, thus limiting the contribution from contractors and inhibiting innovation.

As Infrastructure UK has recently reported, many of these barriers are prevalent in the UK construction industry generally.

There are particular barriers relating to the supply of rolling stock because of the complex interplay between franchising, rolling stock procurement, leasing and maintenance.

4.9 Limitations on whole-system approaches

The barriers indicated above, and particularly those related to fragmentation, NR and Incentives, often lead to players within GB rail following approaches which optimise their position within their own "silo", rather than optimising outcomes for the customer or for the industry as a whole.

This makes cross-industry decision-making slow and often difficult, and arguably leads to weakness in key areas such as standards and technology development, asset management, supply chain management, programme and project management, and HR/IR management, where the system often needs to be looked at as a whole.

Similarly, a focus on dealing with an individual part of the structure has prevented the industry, and perhaps the DfT, from focusing sufficiently on the efficiency of the railway as a whole, or on the full public transport system. In looking at European comparators, the Study has noted the advantages that some of them gain through more integrated planning of timetables, infrastructure and rolling stock.

4.10 Relationships and culture

Many of the above barriers have adverse effects on relationships, which, relative to the aims of efficiency and value for money, are at times and in varying degrees unproductive, as between:

- Government and industry;
- NR and train operators;
- procurers and their supply chains; and
- employers and their staff and Trade Unions.

In addition, the barriers identified, together with the inherited characteristics of a relatively old industry, have had effects on rail industry culture which, from the Study's observation, at times shows:

- a lack of openness and transparency;
- a tendency to be somewhat adversarial;
- weak capability in terms of partnership;
- a disinclination to look outside the rail industry for new ideas; and
- limited focus on continuous improvement.

All of these factors have a bearing on the industry culture surrounding safety. They may also contribute to the perceived lack of leadership within the industry, although it is perhaps equally arguable that a lack of leadership contributes to the problems in relationships and culture.

4.11 Barriers to value for money

In addition to the above barriers for efficiency, the Study has considered barriers to value for money in the wider sense. In addressing the value for money aspects of its remit, the Study has focused on the National Audit Office definition that "good value for money is the optimal use of resources to achieve the desired outcomes".

In relation to this definition, the barriers appear to be threefold:

- first, the barriers to efficiency listed earlier;
- second, in relation to "the optimal use of resources", it is not possible at present to understand what the subsidy provided by the Government is buying; obviously it is clear how much subsidy is going to whom, but it is not clear what that subsidy is buying – in terms of train services, level of fares or infrastructure, above and beyond those which a fully-commercial operator would provide anyway; and
- third, it is not entirely clear what are "the intended outcomes" – as mentioned earlier, the Study considers that Government could do more to be clear about Government policy, harmonise between different strands of policy, and make clear the links between the different levels of policy, objectives, strategies and implementation.

The Study addresses how to overcome these barriers to value for money in Section 6.17 following.

4.12 Conclusions on barriers

The Study's purpose in setting out this extensive list of barriers is to respond to the Terms of Reference and to provide clarity as to the issues which need to be addressed. The Study does not see this list of barriers as a recipe for despair. The Study considers that these barriers can be overcome, with strong leadership and concerted effort, and the Study's recommendations set out how this could be done (see Section 6).

5. Lessons from the past

Before developing its recommendations to overcome the barriers, the Study considered what lessons might be drawn from previous railway reform initiatives.

5.1 Objectives of privatisation not achieved

The primary objective of the privatisation of GB rail in the mid-1990s is understood to have been to reduce the level of public subsidy for an industry that was seen as being in long-term and possibly terminal decline.

Other objectives are understood to have included:

- achieving greater clarity about objectives for the railway;
- reducing the level of Government involvement in railway matters;
- overcoming the industry's aversion to risk;
- creating competition;
- increasing the pace of innovation and change;
- introduction of private sector investment; and
- reducing the constraints which the Government's own fiscal position imposed upon the railway's finances.

The findings of the Study suggest that there is still quite some distance to go before these objectives are fully achieved. Lessons to be borne in mind include the need to ensure that reform addresses **all** of the measures which have to be put in place for full achievement of the policy objectives, and the need to be flexible and adapt plans to changing circumstances.

5.2 History of implementation not impressive

The Study has noted that many of the issues that it has been considering (e.g. overcoming the effects of fragmentation, improving control of costs and improving industry leadership) were addressed in the 2004 White Paper, *The Future of Rail*, and solutions were set out. However, most of those solutions do not appear to have been followed through subsequently, and the Study has been told by many observers that, despite much study and policy development over many years, the history of implementation in the GB rail industry has often not been impressive.

A lesson to be learned is that there needs to be a very clear focus on implementation, with change agents independent of the main players, if substantial change is to be brought about.

5.3 Evolution rather than revolution

The history of change in the rail industry over the past decade and a half suggests strongly that change needs to be planned carefully. The industry has demonstrated its ability to carry through a lot of change, but there are limits to the volume of change that can be handled at any one point in time.

Accordingly, while the Study believes that a large amount of change is necessary, the change must be planned carefully, should generally be designed to be evolutionary rather than revolutionary, and should be phased over a period of time, aiming to have almost all of the benefits delivered within five to seven years.

6. Recommendations

In developing its recommendations, the Study has considered carefully the approach that should be adopted, particularly in the area of structures and incentives. Arguments have been put to the Study that very radical change is needed – at the extreme, some people have argued that there should be rapid moves towards the introduction of full private ownership, particularly of Network Rail (NR), and others have argued that the solution lies in renationalisation. The Study has no political or "theological" view on such options, but, on practical grounds, does not favour such more radical changes, for these reasons:

- as mentioned previously, evolution rather than revolution is favoured, with a primary focus on adapting existing structures so that the interfaces work better; and
- it is clear that the "present value" of the efficiency improvements that can be made would be severely reduced by the time and effort required (e.g. for legislation), and by the reorganisation and disruption caused by either of these more radical approaches, quite apart from the enormous costs that could be involved in renationalisation.

The Study's recommendations envisage major change, but change that is designed, as far as possible, to adapt existing structures rather than to sweep them away, and to focus the efforts of all concerned primarily on the areas where efficiency can be improved rather than on total reorganisation.

What follows is a synopsis of the Study's principal recommendations which are set out fully and in much greater detail in Level Two of this report, available on-line at www.dft.gov.uk/rail-value-for-money.

The Study recognises that the recommendations in the report have important linkages with Scotland and Wales. The devolved administrations share a common interest in securing value for money and the Department for Transport (DfT) will need to work closely with them to secure as consistent approach as is necessary.

6.1 Industry objectives, strategy and outputs

The Study has concluded that Government and industry processes for setting objectives and strategies should be reformed to give a clearer line of sight between high-level policies and the delivery of outputs on the ground – and that there should be a sharper focus on cost reduction. The roles of Government and industry in this area should be defined more clearly and, as part of this, the private sector should be given improved incentives and tools to encourage innovation and efficiency, both in its commercial activities and in delivery of the outputs specified by Government.

6.1.1 Clearer hierarchy of policy, objectives and strategies

Clarity as to what the industry is intended to deliver requires a set of aligned and explicit policies and objectives, including objectives for cost reduction. This requires rail policy to be integrated with wider strategic and sectoral requirements (within rail, and between rail and other transport modes), so that there can be a clearer linkage between rail expenditure and the delivery of key

priorities. There also needs to be a clear set of strategies as a basis for the delivery of these objectives and priorities.

This whole structure of policies, objectives, strategies and implementation needs to be harmonised vertically and horizontally, and the system for investment appraisals should be aligned accordingly, via benefit–cost ratios and a greater emphasis on cost reduction. The structure should also develop a longer-term planning perspective for those elements for which this is required.

6.1.2 Clearer definition of the roles of Government and industry

In broad principle, Government should determine **what** the rail industry should deliver, and the industry should determine **how** this is to be achieved. Accordingly, Government should decide the overall policy direction, the level of funding available, and the outcomes and objectives it is seeking. It should be for the industry (and the regulator) to deliver within those parameters.

Government should also, in conjunction with the ORR and industry, review periodically the efficiency and productivity of the railway system as a whole, and address any areas where a change in approach is required. Such reviews might be best carried out in conjunction with the HLOS process.

Individual companies will naturally pursue their own commercial objectives – within the framework of franchises, licences and incentives established by Government and the Office of Rail Regulation (ORR). It is essential that this framework is such that it is conducive to the delivery of the objectives that Government has set.

In addition, the Study considers that the rail industry needs to be more actively engaged in developing those strategies that are necessary at industry level to ensure that Government objectives can be delivered. In particular, the industry must ensure that the prerequisites for cost reduction, for example more effective approaches to technical innovation and to capacity utilisation, are in place at industry level.

6.1.3 Retain the HLOS/SoFA process, with an explicit objective for cost reduction

The Railways Act 2005 established a requirement for Government to specify the outputs required from the railway industry. The Secretary of State and Scottish Ministers will be required to provide a further High Level Output Specification (HLOS) statement in 2012 as part of the Control Period 5 (CP5) Review Process. It is widely recognised that the process adopted for the first HLOS was generally successful, especially as it was the first iteration, although the clarity it provided was somewhat eroded by subsequent changes of direction.

The 2007 HLOS included metrics for performance and capacity. The Study considers it appropriate that the HLOS/Statement of Funds Available (SoFA) process should be retained and should include a specified target for cost reduction.

The Study also recommends that the DfT should address the need for a degree of longer-term planning, as some elements, particularly infrastructure and rolling stock, require a consistent, long-term financial and policy horizon, notwithstanding the occasional vagaries of financial and political imperatives. It is clear that a number of the industry's current challenges stem from a lack of strategic long-term thinking in the past, and this problem needs to be addressed.

6.1.4 Franchising

The Study supports the DfT's ongoing development and reform of passenger franchising, including presumptions in favour of longer franchises, simplifying service specifications, and changing the revenue support system.

The Study recommends consideration of some additional elements, focused mainly on stronger incentives for Train Operating Companies (TOCs) to reduce unit costs, including:

- closer alignment and partnering with infrastructure providers;
- possible use of price-based specifications – inviting bidders to propose levels of service within a defined level of subsidy;
- stronger incentives for unit-cost reduction, for example through contractualised unit-cost reduction profiles;
- up-front payments, instead of performance bonds;
- periodic reviews by the ORR of some franchise parameters and commitments, and benchmarking of TOC and Rolling Stock Company (ROSCO) costs by the ORR;
- greater opportunity and incentive for Passenger Transport Executives (PTEs) and/or local authorities to influence outputs; and
- consideration of a "Northern region" as part of the refranchising process, in conjunction with a wider review of the franchise map.

6.2 Leadership, planning and decision-making

One of the key barriers identified above is the fragmentation within the rail industry, including a lack of co-ordination and clarity as to who is responsible for planning and delivery. The Study's recommendations are based around enabling industry to develop its own responses and structures that will deliver the efficiencies required. The effective leadership that this needs has to come from within the industry itself.

6.2.1 Industry to establish a Rail Delivery Group

The Study is strongly of the view that the rail industry needs to be given, and needs to accept, greater responsibility for its own future.

The Study therefore recommends the establishment of a Rail Delivery Group (RDG) with responsibility for cross-industry leadership of a substantial programme of change. Characteristics of the RDG should initially include the following:

- A focus on "making happen what would not happen otherwise" – the group must avoid becoming a talking shop or creating a large bureaucratic structure.
- Sustained commitment from a core group consisting of nominated CEOs, or Executive Board Members, from the major TOC-owning groups, NR and a freight operator, working with a wider coalition, including representation from other operators, the rolling stock sector, and other suppliers. Mechanisms for establishing a dialogue at industry level with the Trade Unions should also be explored.

- Staff support would be provided by member companies and the Association of Train Operating Companies (ATOC) as necessary and this, combined with a central Change Team (see Section 9.1) would provide sufficient resources to take actions forward expeditiously.
- A principal focus for the RDG would be developing, validating and monitoring the implementation of plans for delivery of the cost savings identified by the Study – an important focus within this theme should be addressing the issue of train utilisation referred to earlier.
- The RDG should encourage whole-system approaches where appropriate, and should initiate a move towards more integrated whole-system planning of timetables, infrastructure and rolling stock, so as to improve the efficiency of the railway system as a whole.
- The RDG would seek to work with existing cross-industry bodies, leveraging their capabilities and seeking to adapt or enable them to operate with greater speed and effectiveness. Activities of all existing cross-industry groups should be reviewed for their effectiveness by the RDG, and some new activities should be established, for example a National Safety Task Force and a Rail Systems Agency (RSA).
- The RDG should also seek to encourage a change of culture within GB rail – towards partnership, openness and continuous improvement.
- Arrangements for effective interfaces between the RDG, the DfT and the ORR would need to be defined.

The RDG's role would need to be exercised in ways that are independent of the interests of indvidiual members and that are non-discriminatory.

6.2.2 Move away from "predict and provide"

The Route Utilisation Strategy (RUS) process, while successful in developing cross-industry plans, has tended to lead too easily to capital and infrastructure solutions. There is a need to ensure that a full range of whole-system options is considered and that the financial implications of these options are clearly understood.

The Study considers that, in common with other transport sectors, there should be an end to "predict and provide" in the rail sector, and there should be a move towards "**predict, manage and provide**", with a much greater focus on making better use of existing capacity. The Study therefore recommends that the HLOS process, and the ORR's and NR's current review of the RUS process, should place new emphasis on making better use of existing capacity including, where appropriate, demand management. This should be supported by the development of new approaches, new incentives and new metrics to improve capacity utilisation.

The Study also recommends that the DfT's current review of its appraisal guidance should give greater prominence to the financial costs and benefits of projects.

6.2.3 Encourage cost-effective whole-system solutions

Fragmentation in the industry is one cause of the bias towards infrastructure solutions, not least because such expenditure can be relatively painlessly added to the Regulatory Asset Base (RAB). The industry must move more towards identifying the optimal "whole-system" solutions that cut across organisational boundaries.

To do this, early cross-industry engagement should be mandated as part of the project development process, for example NR should include early TOC engagement as part of the

Governance for Railway Investment Projects (GRIP) process. To support this there should be a single regulator (the ORR) to monitor whole-industry outputs (such as operational performance) across train operators and NR, and to publish whole-system costs and revenues. Mechanisms also need to be put in place to identify, monitor and manage whole-system costs and revenues within the context of individual routes and franchises.

6.2.4 Streamline industry planning processes

Current industry planning processes include a certain amount of duplication. For example, the DfT develops specimen options to meet the HLOS so that it can identify high-level cost estimates. This duplicates work undertaken by the industry, in particular the Planning Oversight Group. The Study recommends that the DfT should work with industry to avoid duplication.

6.2.5 Devolve decision-making

The high degree of Government involvement has led to too many decisions being made remotely from the market – and even where decisions are devolved to industry, they are too often taken centrally within organisations, for example within NR. Decision-making should, to the greatest extent possible, be taken by the parties who operate the network, and at the levels within the industry which are closest to the market, implying:

- less prescriptive franchises to allow TOCs to react to the market;
- decentralisation within NR to facilitate increased decision-making at a route level; and
- greater localism, with more involvement in England of local authorities and/or PTEs, with local decision-making brought more closely together with budget responsibility and accountability.

Greater devolution should support increased partnership working, which could be strengthened further by:

- better alignment of incentives, and of operational and planning decisions; and
- specific licence requirements for collaborative working, and streamlined industry change and consultation processes.

The RDG, the DfT and the ORR should work together to encourage and support devolved decision-making.

6.3 Structures, interfaces and incentives

The number of parties involved in delivering rail services requires close co-operation and alignment within and between organisations. The Study considers that the current structures can be reformed to improve the operation of the interfaces, in parallel with providing stronger incentives to focus on cost reduction and the delivery of high-quality services.

The Study has adopted the following guiding principles in developing its recommendations:

- Success in reducing costs depends above all on how well the various rail organisations and their people work together – in particular NR and the train operators. The industry and its suppliers also need to have much more effective partnerships.
- There needs to be better alignment of organisations and of their objectives and incentives, particularly between NR and the TOCs.

- There should be greater devolution/decentralisation, particularly in NR, but on a basis that is compatible with running an effective single rail system.
- There must be proper protection for freight and other operators.
- There must be recognition that "one size does not fit all".
- A "big bang" approach should be avoided, i.e. avoid immediate total change in all structures.

These principles should allow a move towards a more effective set of long-term relationships.

6.3.1 Devolution and decentralisation within NR

The Study considers that, above all, better value for money depends on how the various rail organisations work together to reduce costs, and there needs to be more effective partnership working. The Study supports strongly the already-announced proposals by NR to move towards a more devolved and decentralised structure for its operations. The Study considers that this structure might reflect twleve routes (the existing nine routes, plus Merseyside, Wales and Northern).

Devolution will bring delivery closer to operators, and will enable the comparative regulation of route performance in both financial and operational contexts. This will underpin the wider reforms proposed to industry structures and interfaces. However, the Study recognises that there may be economies of scale in maintaining some central infrastructure management functions, such as procurement and heavy plant. These should remain with a central NR structure which would facilitate seamless operation of the network, ensure best use of network capacity, and provide system-wide co-ordination and assurance, as well as certain central support activities. NR's assurance role in the transition to a more devolved structure would be particularly important.

6.3.2 Diverse "ownership" of route infrastructure management concessions

There is no reason why all of the devolved infrastructure managers need to be controlled by a single company. Indeed, there are many advantages to diverse ownership or management. Most of NR's current operating routes are comparable in size and activity to many smaller European networks, and the ability to benchmark the efficiency of domestic comparators would further strengthen competitive pressure for affordability and efficiency.

Accordingly, consideration should be given to the central NR structure being more like a holding company, with route-level concessions operated by its subsidiaries or managed by other organisations. The Study considers that one route-level concession should be let to an independent asset management company by 2014/15. Such concessions should, however, be aligned with the relevant TOCs as described in section 6.3.3 following.

6.3.3 Alignment of route infrastructure management and TOCs

As identified throughout the Study, one of the key issues is securing alignment among relevant parts of the industry. The industry currently lacks a clear and effective supply chain that starts with the needs of the customer (passenger and freight) and focuses the main efforts of infrastructure management and train operators on meeting these needs – the realignment of structures,

interfaces and incentives proposed by the Study is aimed at meeting those customer needs in a cost-effective manner.

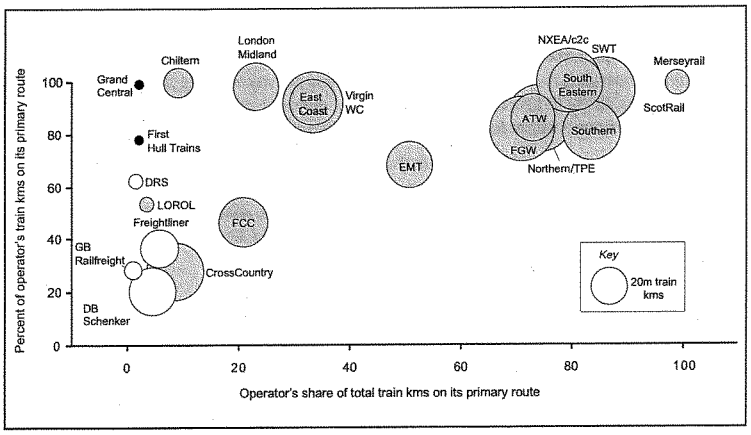
At present, train operators do not have strong alignment with NR in terms of incentives or structures, but devolution and horizontal separation of the infrastructure management functions will increase the scope for whole-industry solutions to emerge. It is vitally important that the infrastructure managers (IMs) and the train operators have a commercial interest in each other's cost and revenues, and the Study sees three levels of potential alignment:

- minimum – cost and revenue sharing, and joint targets between NR and train operators;
- intermediate – joint venture/alliances between NR and train operators; and
- maximum – full vertical integration through a concession of infrastructure management and train operations combined.

The Study does not believe that there is a system-wide presumption in favour of any one of these levels of alignment, and that it is more a matter of "horses for courses". Within existing franchises it will be for NR and the relevant TOC(s) to determine the choice of approach, with the DfT and the ORR deciding, for future franchises, which approaches and proposals offer the best value for money. The DfT and the ORR should drive this process of closer alignment proactively, and should ensure that meaningful cost and revenue sharing is present as a minimum in all new franchises. The motivation for operators to develop or participate in these new forms of alignment will be to share in the efficiency gains that closer joint working can make possible, and to establish a track record of success with this approach.

How this evolves depends on operating route characteristics, particularly the extent to which there is one dominant train operator, as illustrated in Figure 6.1. The franchises in the upper right-hand corner are those that have the closest match between dominant train operators and routes.

Figure 6.1: Train operator share of total train-km per primary route



In some cases there may be a strong case for vertical integration, for example where there is one dominant franchised operator, but, in others, intermediate levels of alignment, or cost/revenue sharing, may be appropriate. The Study recommends that the aim should be to have at least two joint ventures or alliances in place by 2013/14 and at least one vertically-integrated pilot in place by about the same time, subject of course to these being demonstrated to represent value for money compared with other approaches.

It may be possible to pilot vertical integration for Anglia in 2014, although a significant amount of work will be needed to meet that timescale. If, for reasons of timescale, Anglia is not possible as a pilot, then another substantial franchise and route, whose characteristics are suitable for vertical integration, should be identified for introduction around the same 2014 timescale.

Cost and revenue sharing, and joint targets, should be the minimum for all new franchises, and should be encouraged by the DfT and other franchising authorities in existing franchises where possible.

6.3.4 Safeguards for other operators

The rail network is complex; each route has a number of train operators with rights to run trains over it – and there will always be services that cross route boundaries. However, existing legal and regulatory safeguards provide a basis upon which non-discriminatory access and planning can be built, with legal and financial enforcement built in. Multi-operator routes have existed successfully in the past; there is no reason why the evolving industry structure cannot respond appropriately.

There are a number of ways in which this can be achieved, including regulatory supervision, legal safeguards, appropriate incentives, and ensuring that cross-industry functions such as timetabling are co-ordinated and undertaken by a central NR function. The Study's proposals in this regard are referred to in Section 6.10 and are detailed in the Level Two report.

6.3.5 Improve incentives on NR and TOCs

It is essential that both NR and TOCs are incentivised effectively to drive efficiency and to push for change.

At present NR is a single national monopoly with currently weak corporate financial incentives, partly as a consequence of its financial structure. The package of changes proposed by the Study will provide much stronger incentives for the IM to deliver improved value for money. These could include:

- comparative regulation of devolved NR routes;
- introducing a degree of independent ownership of route IM concessions;
- much closer alignment of NR and TOC incentives;
- the potential, once industry structures stabilise and costs reduce, for the introduction of private investment; and
- improved corporate governance, and a more transparent management incentive programme within NR, focused on the key outcomes that its customers, the ORR and Government want to see delivered.

The timing of many of these changes is likely to be determined by practicality and the need to achieve evolutionary changes rather than a single "big bang".

In parallel, through franchising reform, the DfT must strengthen the incentives on train operators to reduce costs and to co-operate more effectively with NR towards that objective. This might include:

- changes to franchising, e.g. longer franchises, use of output-based specifications giving operators greater flexibility, contractualised unit cost profiles, and cost benchmarking of TOCs;
- extending the number of joint targets, building on the success of Joint Performance Improvement Plans (JPIPs) and the recently-introduced Joint Network Availability Targets – these could include targets for cost reduction and customer satisfaction;
- the ORR reviewing the existing financial incentive mechanisms in track access contracts (Schedule 4, Possessions, and Schedule 8, Performance Regimes) to ensure that TOCs and NR have joint incentives to improve outcomes rather than simply protecting the status quo; and
- the ORR reviewing cross-industry incentives towards capital expenditure and, in particular, whether the Regulatory Asset Base (RAB) ensures that all parties, including NR, Government and train operators, have an appropriate balance of incentives between capital and operating expenditure.

6.3.6 Improved incentives for efficient enhancements

The Study considers that there needs to be a significant increase in the contestability of enhancement expenditures. While much expenditure is already subject to competitive tender, there is often a lack of contestability in the design and development stages of projects, and insufficient early engagement with train operators, contractors and suppliers.

There is also scope for greater risk-sharing between NR and other parties, for train operators to take forward the delivery of some enhancements, for increasing the use of funds (as was done successfully with the National Stations Improvement Programme) and for earlier and deeper involvement of TOCs in the HLOS process. There may also be scope in some cases for revenue-supported enhancements, i.e. enhancements paid for by increased fares or other revenues.

6.3.7 Improving incentives and clarifying responsibilities for the efficient management of capacity

The Study considers that industry, together with the ORR and the DfT, should review incentives and responsibilities for the efficient management of capacity. There needs to be at least as much focus on train utilisation (the number of passenger km per train km) as there is on track utilisation (the number of train km per main track km). Existing approaches appear to focus much more on track utilisation and the provision of train paths, but whilst that is important, the unit costs of carrying passengers are influenced heavily by train utilisation, which does not appear to be a primary focus for any organisation within the present system.

A review of this area should be led by the Rail Delivery Group, including NR the system operator, and should also involve the ORR and the DfT. The DfT's approach to specifiying franchises should be covered as part of the review. New measures of capacity utilisation are also likely to be required.

6.3.8 Competition and contestability

The Study's recommendations identify opportunities to increase contestability in a number of areas of infrastructure management, as well as proposing the introduction of diverse ownership of

route-level concessions for infrastructure management. Recent policy statements by NR support an increased level of contestability within its activities.

Increasing the levels of on-rail competition (e.g. through expanding open access operations) have advantages in principle, but still faces unresolved problems in terms of potential effects on Government revenues from franchises, and the difficulty of achieving much closer co-operation between TOCs and infrastructure managers if the number of train operators were to increase significantly.

6.4 Fares and other revenue

The Study has not undertaken a full review of fares policy, but has considered fares structures only in relation to their effect on value for money in the rail sector. It has therefore focused on these main issues:

- the scope for fares regulation to encourage relatively less travel during peak times and relatively more travel off-peak and, in so doing, to address a key driver of costs –the need to provide additional capacity to service peak needs, which is then under-utilised in off-peak periods;
- the extent to which fares regulation constrains the ability of train operators to take commercial decisions which can make better use of capacity; and
- the implications of fares structures and ticket retailing systems for efficiency and value for money, not least from the passenger viewpoint.

On that basis, the Study makes the following recommendations.

6.4.1 The DfT should undertake a full review of fares policy

Fares policy, with the exception of changes to the Retail Prices Index (RPI) + x% cap on permitted increases, has remained largely unchanged since privatisation, despite significant changes in rail markets. The DfT should undertake a full review of fares policy and the current fares structure, addressing the overall complexity, anomalies, regional imbalances, season ticket pricing and all other relevant factors as these are affected by regulation. The overall aim would not be to see fares rise overall, but to move towards a system which is seen to be less complex and more equitable, and that provides information which passengers can understand and have confidence in.

6.4.2 Fares policy and demand management

The review of fares policy should focus, in particular, on how fares structures can be used to aid management of peak demand. It is clear that a major driver of cost in GB rail is the provision of capacity to meet peak demand, and yet, as explained earlier, the level of train utilisation in GB (passenger-km per train-km) is lower overall than comparators.

More flexible fares structures, and the use of "intelligent ticketing", could assist in making better use of capacity, and thus help improve efficiency. One of the areas that should be considered is the possibility of reducing the coverage of Off-Peak/Saver fares regulation, particularly where operators are competing with other modes of transport, for example on InterCity services. This could improve the use of existing capacity and help manage artificial demand peaks, which are caused by current fares structures.

The Study does not recommend an increase in fares revenue overall, but instead envisages some fares increasing and others decreasing correspondingly, within the same revenue total.

6.4.3 The DfT to work with the industry to accelerate Smartcards, other retail technologies and other retail locations

The vast majority of journeys on the rail network are still made using card tickets. The use of Smartcard technology, especially for frequent urban-based travel, and other mechanisms (mobile ticketing, print-at-home) will increase access and demand for the rail network while enabling more efficient and lower retailing costs. Very importantly, this technology will enable "intelligent ticketing", opening up opportunities for more responsive pricing in peak hours, and will thus aid demand management. The Study also sees scope for making internet bookings easier for the customer, and for extending the range of ticketing retail locations.

The DfT should mandate these developments in all new franchises, and ATOC should promote best-practice in terms of technology and in the clarity and transparency of behind different ticket prices.

6.4.4 Regulation of fares should be an ORR responsibility, within policy set by Ministers

Fares policy is properly an issue for Ministers, especially as the industry receives significant public funding. However, the Study considers that the monitoring and enforcement of rules on fares should be transferred to the ORR, who would operate within clear policy guidelines from the DfT. This would facilitate a single regulatory view of industry economics.

6.4.5 Improved focus and incentives for property sales and development, and other ancillary revenue opportunities

The rail industry was extremely effective during the 1980s and early 1990s at exploiting its property portfolio, resulting in increased funding that provided major improvements to the network and stations. Such activity needs to be incentivised to encourage exploitation or disposal of surplus assets, particularly unused freight sites, accepting that some sites may need to be safeguarded for future rail development. The Study recommends that there should be a liberalisation of the property management regime, particularly in relation to surplus freight sites, to encourage commercial exploitation and development, including improving car-parking provision across the network.

The DfT and industry should also work together to exploit other ancillary revenue opportunities.

6.5 Asset management

As a capital-intensive industry, GB rail requires effective management of both in-service and new assets. Indeed, asset management is a primary role of NR and the Rolling Stock Companies (ROSCOs). At present, however, there not a clear line of sight between industry objectives and individual decisions, and there is not yet an adequate information base to allow fully informed decisions and trade-offs around infrastructure, rolling stock and capacity. Improvements in asset management are needed to support the structural reforms proposed by the Study, including a number of specific recommendations that will deliver efficiency through better integration and better visibility within the decision-making process. Indeed, this area, in conjunction with supply chain management, offers the principal scope for cost savings.

6.5.1 Rail Delivery Group to ensure that high-level frameworks for asset management are defined for the industry as a whole

One of the functions of the RDG should be to ensure that an industry-wide asset management strategy and framework are developed. Clearly NR would play a major role in these developments. This would enable route-level asset managers to develop and implement local plans, consistent with meeting strategic and licence obligations, and could facilitate a move away from calendar-based maintenance and renewals. Different maintenance and renewal policies could be applied to critical, as opposed to non-critical, assets, this reducing the number of inspections and associated costs.

6.5.2 New route-level organisation structure to provide better alignment between local decisions and high-level objectives on a whole-system basis

The changes outlined earlier to structures will be effective if asset management is devolved to routes within a clear framework which protects the integrity and long-term sustainability of the rail network. The availability of good asset information, and clear links to overall infrastructure and industry strategy, will enable asset managers to adopt cheaper maintenance approaches. This will reduce renewals and maintenance costs either through reduced unit costs or increased time between maintenance.

6.5.3 Accelerate the adoption of good-practice asset management approaches

A streamlining of industry processes is necessary for the development of best-practice within asset management, as with many other railway activities. Creating a clear incentive structure and opportunities for sharing risk and reward can create a climate where parties are incentivised to work together to review and, where necessary, challenge existing practices. This should encourage the adoption of more lean and agile engineering approaches. This will reduce direct and overhead costs by identifying and removing activities that do not add value. It could also increase the period between maintenance, as less time needs to be factored in to cope with decision delays, enabling a reduction in staffing and materials costs.

6.5.4 Central analysis of information and information quality, centre of excellence and common services

Asset management, having system-wide implications, requires a strong central knowledge base and best-practice framework, particularly given the interaction with European standards and the need to share asset information in a transparent way across the industry. Although much progress has been made since NR was established, the industry, and NR in particular, still needs to complete a fully comprehensive and accurate information base on asset condition.

6.5.5 Upgrade staff awareness and competencies

Effective asset management requires appropriately-empowered, competent and engaged staff. A programme of training, secondments and professional development at all levels of the industry is recommended.

6.6 Whole-system programme management

Current GB rail enhancement programmes do not consistently exhibit whole-system thinking and sometimes confuse allocation of authority, responsibility and accountability across the industry. The line between funder, client, sponsor and delivery agent is blurred and there are weak incentives to cut whole-system costs or come up with best value solutions. Despite some good examples, there is a general lack of broader good practice in programme management and in particular a tendency to commit to one particular solution too quickly and before it has really been tested against other options. There is also insufficient recognition of the different maturity of programmes that are packaged into five yearly control periods.

6.6.1 Build on examples of good programme management, and reform poor practices

The Study believes that there are opportunities from better programme management and from exploiting the changes recommended elsewhere in the Study. These are centred on the development and implementation of a best-practice framework, including:

- a portfolio of enhancement programmes that align with a clear industry strategy;
- clearly understood interfaces between programmes;
- a clear problem statement and sponsor role;
- early evaluation of a comprehensive range of possible solutions;
- a focus on whole-system solutions;
- the progressive reduction of key risks;
- the sufficient integration of different elements of project design;
- integrated programme teams;
- whole-system programme governance;
- formalised stakeholder management; and
- clarity on the roles of funders, beneficiaries and delivery partners.

This framework does no more than state known best-practice principles, but it is clear that these principles are not applied consistently on rail programmes. The framework should be introduced progressively and fully on all projects and programmes, with sponsorship from industry, particularly NR, and from the DfT.

6.7 Supply chain management

GB rail procurement has a very uneven demand profile, coupled with a short-term approach to relationships and investment with poor cost transparency. There is poor application of supply chain management, including a poor take-up of collaborative approaches around the high-risk and high-value procurements. This has, in part, been due to a failure to develop the right culture and behaviours, especially at senior management level. There is a lack of supply chain management skills and experience in the rail sector, with an emphasis on behaviours that are geared to traditional competitive procurement alone. Procurement practice is variable, with the buyer often far removed from the end user, protracted and inefficient tendering processes, and barriers preventing new suppliers from entering the market.

6.7.1 Stronger incentives to reduce costs while improving outcomes

Current approaches to planning and procurement appear to drive up costs within the supply chain. The provision of greater clarity of projected demand will enable the supply industry to resource appropriately and to avoid the peaks and troughs in demand that have resulted in cost inflation and inflexibility to meet emerging demand. This does not imply a centrally-driven procurement activity, but placing the industry in a position where all parties have appropriate confidence in planning horizons.

6.7.2 30-year whole-system planning horizon (where appropriate) to inform shorter-term planning cycles

Railway assets tend to have a long life and, therefore, decisions taking place in the near-term have ramifications that extend well beyond individual company and Government planning horizons. There is a need to provide indications of the likely long-term quantum of key elements of procurement, both with respect to infrastructure and rolling stock, to enable better planning and decision-making. This links back to earlier recommendations on strategy and planning (Sections 6.1 and 6.2).

6.7.3 Clear leadership to drive best-practice

The rail industry has much to gain from modernised procurement practices. The RDG can help to promote best-practice and to identify what is required from the supply chain. In particular, the industry needs to move towards earlier involvement of suppliers and contractors before specifications are frozen, towards closer involvement of contractors in delivery teams, and towards better visibility of forward workloads. Suppliers should maintain an open dialogue with the industry and funders to identify opportunities for efficiency in procurement and synergies, for example where route-based activities can be better serviced through re-phasing or the common acquisition of key outputs. The Study welcomes the plans announced recently by NR to improve engagement with suppliers and contractors.

6.7.4 Improved staff competencies and behaviours

Effective supply chain management requires leadership from senior management delivered by appropriately-empowered, competent and engaged staff. A programme of training, secondments and professional development at all levels of the industry is recommended.

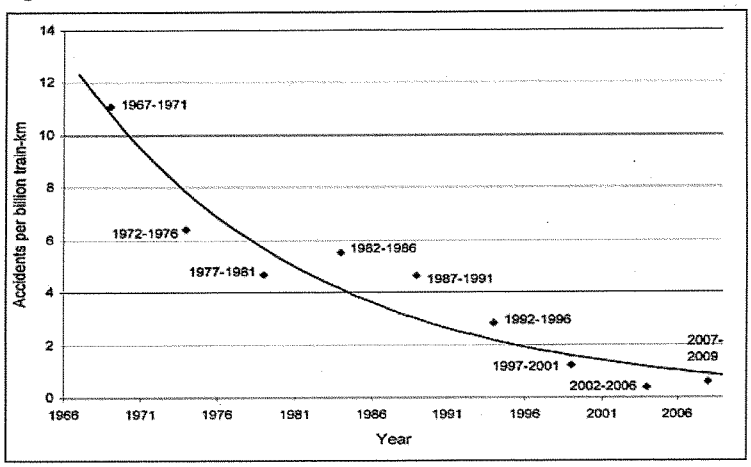
6.7.5 Improved supplier assurance processes

The rail supplier assurance process is cumbersome, and gaining recognition as an established and "approved" supplier is seen as a barrier to entry by suppliers. Accelerating the introduction of a new Supplier Assurance Framework is recommended to reduce the cost and time to assure new suppliers.

6.8 Safety, standards and innovation

The GB railway has a good safety record, as shown in Figure 6.2 from analysis carried out by Professor Andrew Evans of Imperial College, London.

Figure 6.2: Fatal train accidents per billion train-km



However, although the GB rail industry is safe and getting safer, the Study found that this was achieved through an excess of process, and procedures that failed to incorporate modern management thinking on continuous improvement in safety.

The lack of an effective system-wide approach to technical issues had delayed some projects and caused others to be delivered at excessive cost. The industry's attitude to standards was often to use them as a defence mechanism against change, while the evolution of standards was found to be a slow and cumbersome process.

Each of these issues contributed to the GB rail industry's poor record on innovation, despite the efforts of some industry bodies such as the Rail Safety and Standards Board (RSSB).

6.8.1 Rail Delivery Group to provide and encourage clear safety leadership and further improvements in the rail safety culture

The Study recognises the substantial improvements in the industry's safety record that have been achieved over the last two decades, but believes that even more can be achieved.

The Study recommends the creation of a National Safety Task Force (NSTF) that would be structured and staffed in the same way as the National [Performance] Task Force.

The NSTF would be guided by the RDG and supported by the Rail Systems Agency (RSA). It would provide clear and credible leadership for safety and risk management. It would increase the focus on occupational health and encourage the industry to introduce behavioural safety programmes at the local level, and would encourage the application of professional guidance on managing risk.

In addition, the NSTF would encourage a peer-review process for the industry to allow the benchmarking of safety and risk management processes, it would encourage the greater transparency of data and information that would help the industry learn and improve safety, and also discourage undue risk aversion, lack of individual accountability and excessive "double-checking" in safety management.

The Study believes that creating more coherent leadership in safety is not something that has to wait for any structural, contractual or political developments. It is within the power of the industry to make this change – it does not require the involvement of administrators, regulators or other bodies, and it should not cut across the obligations and duties of industry operators.

The industry should come together at the highest level to provide a clear message on safety and to give impetus to the drive for continuous improvement. The creation of an NSTF, building on the success of the National [Performance] Task Force, should be an early priority.

6.8.2 A Rail Systems Agency

A radically more effective approach to system-wide technical challenges is needed. Tinkering with the existing, multi-organisational, silo-based approach will be insufficient, especially as the industry has failed to engage fundamentally on system-wide issues despite the endeavours of cross-industry bodies such as the RSSB, or committees such as TSAG.

The Study recommends the creation of a Rail Systems Agency (RSA), working under the direction of the Rail Delivery Group (RDG). It would lead on system-wide issues, combining the activities of the technical and professional functions in the DfT, NR and the ORR with the RSSB. The RSA would be regulated by the ORR.

It would identify new operating practices or technologies employed in other railways, transport modes or industries, and would monitor, analyse and report on overall system safety performance, and respond as necessary to system-wide safety recommendations. It would undertake planning and appraisal around system-wide technological initiatives, and take on a system authority role for individual cross-industry projects.

The RSA would be the focal point for tackling the standards issues that are evident. This would be achieved through leading the development of common standards that build on the RSSB's work in the management of Railway Group Standards, and through taking responsibility for selected

NR company standards. This process would identify those standards that are no longer required to operate a value for money railway.

It would drive improvement in the industry's information systems (IS) capability, where the Study has identified a number of problems with existing IS architecture and the inability to exploit new technologies and systems.

The RSA would seek to make progress through consensus, but with the ability to impose a solution with demonstrable system-wide benefits after a sufficient period of consultation and debate, and with mechanisms to compensate any parties that would suffer significant financial detriment. It would consult with the industry in accordance with regulatory best-practice, and its decisions would be open to challenge and appeal through a defined, but time-limited, process.

6.8.3 Encouraging innovation

The Study recommends the creation of a leadership group to drive innovation in the industry, drawing on models that have been used in the aerospace and automotive sectors, potentially to be known as the Rail Innovation and Growth Team (RIGT). It would focus on encouraging industry parties to innovate through identifying technological opportunities, showing where and how those parties could obtain returns for their investment, and would operate under the direction of the RSA.

The RIGT would research and highlight potential areas for innovation, and match potential innovators with gaps in the market in areas such as IS, retailing and rolling stock, while recognising that innovation is not just about new technology, but also relates to processes and business ideas.

6.9 People

The industry's people have played a key part in the achievements of recent years and are fundamental to the industry's future success. However, staff represent a major cost element in the industry, approaching £4bn a year, and this area cannot be immune from the changes that the industry has to make. Yet many of the working practices and agreements within the industry have not undergone significant change for many years, if not decades, and the salary levels of the workforce, including top management, have increased faster than average earnings in the economy as a whole.

The industry has historically had a somewhat confrontational approach to employee relations. The rail industry is strongly unionised, which creates a heavily structured environment for making progress on people issues. The industry has very complicated and extensive terms of employment, with marked differences between groups of staff and between employers.

The Study's recommendations would inevitably lead to significant changes for the people in the rail industry. The negotiation of these changes will require the full involvement of all industry players with their staff and their representatives. This is not a time-limited obligation; it must be undertaken from the beginning of the process right through to the end. Improved employee relations will make the industry better able to handle the significant changes that the Study envisages. This is a key enabler to many of the recommendations identified in this report.

Government and the ORR will need to set overall industry policy, offer guidance, provide support, and put in place incentives and contractual mechanisms that encourage change, but the delivery of change rests primarily with individual companies and employers, and through their processes of consultation and negotiation with staff and trade union representatives.

6.9.1 On-train staff

Driver Only Operation (DOO) is a safe method of operation and improves performance, with fewer human interactions involved in the door opening, door closing and dispatch procedure.

The Study recommends that the default position for all services on the GB rail network should be DOO, with a second member of traincrew only being provided where there is a commercial, technical or other imperative.

6.9.2 Retail

In determining the retail offer, TOCs should take into account the need to better match trends in demand, the capability of modern retail technology and the societal trend for the automation of purchases.

The Study recommends changes to ticket office opening hours and staffing, but acknowledges that there will be a number of preconditions, including:

- the installation of modern and easy-to-use ticket vending machines (TVMs);
- the provision of simple internet portals for on-line purchases;
- establishing additional retailing locations;
- the extension of print-at-home and mobile ticketing; and
- amendment or removal by the DfT of contractual obligations, via the Ticketing and Settlement Agreement, relating to ticket office opening hours.

6.9.3 Stations

TOCs are free to make commercial judgements on the need for station and dispatch staff within the bounds of their safety responsibilities. The Study recommends that TOCs should review station staffing as a matter of priority.

6.9.4 Salaries and terms of employment

The expectation that salaries, at all levels of the railway industry, will increase ahead of inflation has to end. Indeed, with many passengers and taxpayers having their salaries frozen at present, even the granting of inflation-level increases must be questioned. This principle applies as much to the leaders of the industry as it does to the workforce.

The overall trend to reduce continually the length of the working day and the working week is unsustainable, and the industry needs to negotiate changes to terms of employment that currently limit flexibility and productivity.

A starting point would be to review the salaries and employment terms for new entrants to the industry.

6.9.5 Information technology in planning and allocating work

The Study recommends the rapid implementation of planning and work allocation technology across the industry to enable the more efficient deployment of people.

6.9.6 Network Rail operations and maintenance

Network Rail is implementing a new operating strategy that deploys modern signalling and control technology. It could accelerate investment and incorporate a greater part of the existing signalling into new operating centres than currently planned, but will need to balance the availability of capital with the staff and cost savings. The company intends to extend its programme of modernisation of maintenance by deploying high-output machinery, automating track inspection and using components that require less maintenance. Each of these initiatives should reduce staff costs.

6.9.7 Overheads

The Study recommends the implementation of several initiatives that would reduce industry overhead costs. Existing plans should be implemented at greater speed than currently planned.

6.9.8 Administration

The ORR should lead by example by improving its efficiency to a level that reflects the expectations placed on the rest of the industry and by enhancing its skills by active recruitment from the rail industry.

A number of changes in the role of the DfT will reduce the interface costs incurred by the industry.

6.9.9 British Transport Police

The DfT and the British Transport Police Authority (BTPA) should review the strategic options identified by the Study's research as potentially providing opportunities for further cost reductions beyond currently planned efficiency savings, and in line with those likely to be required from the rest of the industry.

6.9.10 Pensions

Other industries have sought to contain pension costs and have made significant changes to pension schemes. The cost of rail industry pension contributions by employers and employees will need to be addressed over the longer term.

Changes to the Railway Pension Scheme (RPS) are a matter of discussion between employers and members' representatives, and will be subject to the agreement of the trustees of the RPS. The structure of the RPS needs to be discussed sooner rather than later so that the financial exposure of employees and employers can be mitigated to a greater extent.

6.9.11 Training and people development

A fundamental review of training techniques and the time needed to train specific work groups could have some financial beenfit, but the true benefit of effective training is a better-equipped, more flexible and productive workforce. Current trends in training point towards college-based training for key industry skills, resulting in the award of a competence licence. This would increase the mobility of staff and encourage competition in training provision.

6.9.12 Flexible employment and equal opportunities

The industry employs a workforce which is predominantly full time, even though the peaks and troughs of much railway activity would be attractive to part-time employees. The Study recommends

that the industry's employers should continue to encourage a more flexible and diverse workforce and, in particular, provide opportunities for more women to be part of the industry.

The Study does not, however, support the widespread employment of unskilled casual labour. The Study believes that this undermines the need to increase the competence of the industry's workforce.

6.10 Freight

The rail freight industry delivers economic and environmental benefits to the UK economy. The freight industry has invested heavily and achieved significant cost reductions in a competitive market. The industry operates across the entirety of the GB rail network, and will require the retention of a national and system-wide approach to activities such as capacity planning, network capability and timetabling if it is to capture further traffic from road.

The Study has taken full account of the Secretary of State's commitment in his written submission that accompanied the publication of its Interim Submission on 7 December 2010, in which he said:

> *"I am also clear that the changes the Study is proposing must protect the interests of freight operators on the network."*

The rail freight industry can contribute to value for money by maintaining its flexibility of operation, using network capacity more effectively, identifying routes that do not require to be maintained for freight services, and demonstrating to the rest of the industry the techniques it has employed to improve productivity.

6.11 Rolling stock

Rolling stock is a major element of industry costs and the Study considers that there are opportunities to reduce costs in this area. The Study recommends:

- increased standardisation of rolling stock within the GB rail system;
- more effective procurement of rolling stock, on principles similar to those described earlier under supplier management (Section 6.7); and
- improving value for money from the leasing market.

With regard to this last item, the Study is aware of the remedies put forward by the Competition Commission following its review of the rolling stock leasing market. However, although it is too early to make a full assessment of the effect of those remedies, the Study finds it difficult to understand how these remedies will give the DfT sufficient information to satisfy itself that rates on re-leases are value for money.

Accordingly, the Study recommends that the DfT should explore the possibility of establishing strategic partnerships with the ROSCOs to ensure that re-lease rates are demonstrably value for money. If that cannot be achieved, the DfT should consider introducing regulation of fair rates of return to the ROSCOs or, in the longer term, establishing new vehicles to procure and hold rolling stock in the public interest.

6.12 Information systems

The RDG should ensure that there is improved oversight and management of cross-industry IT systems, which are essential to the day-to-day operation of the network, of strategic importance to the efficient delivery of improved value for money, and the means whereby improved information can be provided to passengers. The RDG should encourage the identification of opportunities where systems can be shared, including telecoms, and should ensure that national programmes are managed with maximum effectiveness, and take advantage of the most appropriate currently-available technology. Cross-industry information systems should be one of the primary responsibilities of the RSA.

6.13 Asset ownership

The Study considers that its recommendations elsewhere in this report, particularly those in relation to vertical integration and infrastructure management concessions, would be supported by separating ownership of infrastructure (by the central NR structure) from (route-level) infrastructure management. Considerable care needs to be taken in defining the extent of the asset owner's interest in the asset, and the owner's arm's length relationship with Government – the sustainability of the asset condition would remain subject to independent regulation through the ORR. NR would need to provide assurance during the transition.

6.14 Financial Transparency

The Study considers that, particularly in view of the substantial amounts of public subsidy going into the rail industry, there is a need for much greater public visibility of the industry's finances. The Study considers that the ORR should lead in this area, and that there should be four key strands to this increased transparency:

- splitting NR into route-level units, with separate price controls and annual comparative benchmarking of infrastructure costs per route;
- the removal of the Network Grant, so that all subsidies are paid through TOCs (with suitable protection for freight operators);
- annual comparative benchmarking of TOC and ROSCO costs, nationally and internationally; and
- whole-industry profit and loss accounts by franchise and by route, published annually.

This information should be reported at a sufficient level of disaggregation to encourage better-informed analysis, but should not be such as to be unduly onerous to the industry.

This new level of transparency will be enhanced by the exchange of information that will be necessary to enable new commercial arrangements at the NR–TOC interfaces, and will be complemented by the proposed analysis of what subsidy is buying.

6.15 Private Investment

Once the principal structural and other industry reforms are more fully developed, there will be opportunities for NR to raise debt without the current Government guarantee and for other sources of private investment to be accessed.

The Study considers that these options (unsupported debt or equity risk capital) could be appropriate once the structural changes envisaged are in place, together with an established financial track record and risk profile for NR, and the necessary asset information base.

Unsupported debt could be an option once there is sufficient clarity on the structural and other changes planned. Equity risk capital is more likely to be a medium- or longer-term option.

In the meantime, an element of private investment could be introduced into devolved infrastructure management concessions, if circumstances allow.

6.16 Lower-cost regional railways

The Study, in its Interim Submission, highlighted the difference in the net cost to Government and passengers of the three categories of franchise: long-distance, London and South East, and regional (Table 6.1).

Table 6.1: Difference in the net cost to Government and passengers of the three categories of franchise

	Passenger miles (bn)	Net cost to Government (£m)	Net cost pence per passenger mile	Net Cost to Government as % of total cost
Long-distance franchises	9.4	693	7.3	25
London and South East franchises	15.7	760	4.8	19
Regional franchises	6.0	1,873	31.1	61

Regional railways provide a number of key services and the Study recognises that there is a need to identify where the existing delivery philosophy does not deliver maximum value. Opportunities to improve value are likely to be centred on:

- different service levels;
- different equipment;
- lower-cost infrastructure;
- different working methods; and
- different standards.

Experience elsewhere in Europe suggests that it is possible to define a more appropriate level of specification for both infrastructure and operations that can maintain existing standards of safety, but which can reduce the costs of supporting networks which are used less intensively. Local authorities and PTEs could potentially play an important role in examining the options in Great Britain.

It is recommended that several routes with different characteristics are identified where the principles of lower-cost regional networks could be developed, piloted in operation and benchmarked.

6.17 Ensuring that value for money is achieved

The Study recommends that the DfT should:

- ensure that there is sufficient clarity in terms of Government's policies for rail, and between rail and other transport modes, to permit a clearer line-of-sight from objectives set for the rail industry through to strategies for implementation – in particular, there should be an explicit cost-reduction objective;
- develop, in the medium term, adequate transparency on subsidy – the DfT and the industry should work together to progressively unpick, understand and share with other decision-makers, farepayers and taxpayers a full analysis of what subsidy is buying. This is a major undertaking that could partly be aligned with the RUS and HLOS processes. However, the aim should be to have a reasonably complete picture within two to three years from now. The DfT should, in parallel, assess how this use of subsidy contributes towards Government's policy objectives;
- develop, with input from industry, an overarching plan for value for money improvement and long-term reduction in subsidy, based on the above analysis and with the following characteristics:
  - future needs of the railway, and key cost drivers, to be taken into account;
  - future major spend decisions (including decisions to continue existing services or fares) to be tested using consistent value for money assessment and based on trade-offs between alternative uses of the funds;
  - HLOS process and franchise re-lets used to implement resultant service changes; and
  - adjustments made to the subsidy reduction plan as required, but avoiding frequent major reviews of strategy;
- establish and implement a subsidy control process in which individual programmes and, potentially, PTEs and/or local authorities manage their subsidy allocations, but the overall subsidy is managed centrally against the national plan.

Within the above processes, there may be increased scope for more local engagement in analysis and decision-making with a view to improving value for money outcomes.

6.18 Increasing local involvement

The Study has identified in various parts of its analysis the opportunity for greater local involvement, through PTEs and/or groups of local authorities, and the potential advantages of greater devolution of budget and decision-making. There are examples in Europe of the successful use of tendering of services on a localised basis.

There are, however, issues to be addressed before a more devolved approach could be put in place. In particular, there is a need to establish a framework that can bring local decision-making more closely together with budget responsibility and accountability. This framework would need to address:

- the extent to which there can be a meaningful common agenda between national Government (which currently has a clear focus on reducing the cost of the GB railway) and the PTEs and

local authorities (whose priorities may be increased services and/or lower fares in their areas); and

- what would be required to create groupings of PTEs and/or local authorities with the capabilities and governance structures to take on more responsibility and interface effectively with franchise or route geographies.

The Study is aware of the DfT's discussions with PTEs on alternative models of franchising that could fit with a more devolved approach, and supports continuation of this work on franchising models and the development of an overall conceptual framework, with a view to possible first application on the re-franchising of Northern.

It should also be noted that, even without substantive devolution, there could be merit in introducing, as a precursor to franchise procurement, stronger incentives for PTEs to propose efficiency measures and to receive a share of the benefits. In addition, there may be scope to allow local bodies other than PTEs to offer similar increment and decrement incentives to encourage greater local involvement.

7. Regulation

7.1 Move towards a single regulator for the industry

In view of its central theme of closer working between different parts of the industry, particularly between Network Rail (NR) and the Train Operating Companies (TOCs), the Study considers that there should be a move towards a single regulator for the rail industry as a whole.

Such a move would provide greater clarity between the roles of Government and the regulator, on the basis that the setting of policy direction and the making of politically-sensitive trade-offs between high-level objectives is clearly the role of Government, whereas the day-to-day regulatory decisions are made by the independent regulator, the ORR.

This would also support the Study's general themes of the industry taking more responsibility and central Government being involved in less detail. Accordingly, the Study envisages that the ORR might take on the **regulatory** role in relation to franchises and possibly, at some point in the future, in relation to fares, as well as regulating cross-industry outcomes, general passenger-facing obligations, and reviews of outputs and franchise contract changes for train operators. (The DfT would continue to handle procurement of franchises under this scenario).

The ORR would need to play a strong role in ensuring that the interests of freight and other operators are protected, in the light of closer alignment between NR and TOCs. The ORR should be a primary source of benchmarking and reports on industry performance, and would also need to ensure that structural and other changes made in response to the Study's recommendations comply with the industry's safety obligations.

7.2 Equipping the ORR for an expanded role

The ORR already has an important role. It should be an authoritative, independent voice on safety, as well as being an expert economic regulator. If the ORR is to take on board a significantly expanded role, it must be able to demonstrate to Government and the industry that it is capable of delivering its current functions at an enhanced level, and of fulfilling an expanded role. It would be essential that the ORR has the resources, skills and standing necessary to fulfil such a wider role.

The Study supports the recent recommendations by the National Audit Office that, in the event of any substantial change to the ORR's role, it should undertake a capability review. In particular, such a review should consider whether the ORR will have available sufficient expertise in railway engineering and operations both at Board and executive levels.

8. Legal background

The Study team has, in consultation with the Department for Transport (DfT) and the Office of Rail Regulation's (ORR) legal experts, reviewed the proposals emerging from the Study.

Inevitably there can be no firm conclusion on possible legal issues at this stage, and much would depend on the detail of proposals as these are further developed for implementation. Also, much would depend on Network Rail's (NR) willingness to move along the lines recommended by the Study, particularly in relation to the proposals under structures and interfaces (Section 6.3).

Subject to further definition and analysis, and subject to NR's willingness, there do not appear to be any insuperable legal obstacles to the Study's proposals, provided due attention is given to conformance with:

- EU and public law restrictions;
- EU directives, particularly with regard to the separation of railway infrastructure and undertakings, and ensuring the preservation of fair competition between industry participants;
- EU procurement and State Aid constraints; and
- processes for licence amendments.

Particular care would also need to be taken to ensure that the functioning of the Rail Delivery Group (RDG) and its principal participants does not disadvantage other industry players or new entrants in any anti-competitive manner.

9. Implementation

Making significant changes within the timescales required will present major challenges to all concerned. The keys to success will be building a powerful guiding coalition in support of a comprehensive programme of change, a good plan, and the exercise of effective leadership.

9.1 Programme management

In order for a programme based on the Study's recommendations to be developed and implemented successfully, the Study believes that the following are required to be in place:

- The Rail Delivery Group, as described earlier.
- A small independent Change Team that is tasked with planning, co-ordination, monitoring and reviewing implementation across all elements of the industry of a complex series of actions – this team should include proven "change agents" to facilitate action across the broad scope of this report's recommendations.
- As soon as practicable, the Change Team should work closely with and, once change is under way, be incorporated within the Rail Delivery Group (RDG). This would provide a structure where change is facilitated by the Change Team, but is led by the industry as a whole.
- A regular reporting and monitoring mechanism should be established with a direct line to the Secretary of State.

The Study considers that this Change Team should be established by the Secretary of State, but should be independent from industry and Government at the beginning so that it is free to pursue the reform agenda freely and impartially.

9.2 Early moves to establish momentum

It is also recommended that, provided there is a positive response from the industry, the Rail Delivery Group is established within weeks of the Study report publication, perhaps initially on an informal basis. With the creation of the RDG structure, and in line with recommendations in earlier sections of this report, it is recommended that the Planning Oversight Group, the Rail Safety and Standards Board, the Technology Strategy Leadership Group and the National [Performance] Task Force are linked to the RDG. This can take place quickly with the agreement of key stakeholders, as can the establishment of a Rail Systems Agency and a National Safety Task Force.

It will be for the industry itself to decide over a longer-time period to what degree the RDG becomes responsible for the co-ordination of a wider range of "whole system" activities and services.

In the short term, it will be critical that momentum is generated in the change programme. The early establishment of the RDG, and identification of areas where some "quick wins" can be found, will facilitate this.

9.3 Linkage to Control Periods and franchise renewals

Franchise renewal points and Control Period commencement are major opportunities to drive change within Train Operating Companies and Network Rail. It is at these contractual and regulatory change points that structural change and other major reforms that affect NR/TOC integration and alignment can most easily be implemented. The Study endorses using these change points as target dates for major structural reform, as they are clearly key opportunities for Government and the Office of Rail Regulation to mandate change. However, the Department for Transport and the ORR should consider whether other changes can be made without waiting for these fixed key dates.

9.4 Phasing

The definitive programme for change, its timing and pace of change will be for the industry and Government to determine. The Study suggests five phases of change and some key milestones, as follows.

9.4.1 Phase 1 (May 2011 to August 2011)

- The ORR launches the periodic review of NR.
- Establishment of the independent Change Team.
- The informal establishment of the Rail Delivery Group (RDG) by industry.
- The incorporation of key findings from the report into West Coast and East Coast franchise specifications, including longer franchises and new incentives regimes.
- The commencement of NR route devolution.
- Commence development of programme management good practice model.

9.4.2 Phase 2 (September 2011 to December 2011), Government High-Level Policy Statement

- Industry plan available for the High Level Output Specification (HLOS) process.
- Formal establishment of the RDG, with links to cross-industry bodies.
- Decision on an early vertical-integration pilot, e.g. Anglia.
- Identification by NR and TOCs of opportunities for initial bespoke joint venture or alliance arrangements, where potential efficiency gains make this practicable and desirable.
- Complete review of existing cross-industry bodies.
- The creation of a Rail Systems Agency (RSA) and a National Safety Task Force (NSTF).
- The DfT to commence one-off analysis of where subsidy is used.
- The DfT and the ORR to agree a plan for the definition and transition to an expanded role for the ORR.

9.4.3 Phase 3 (January 2012 to December 2012)

- The publication of HLOS and SoFA for Control Period 5 (CP5).
- The commencement of the West Coast and East Coast franchises.
- The DfT to complete its review of fares policy and strategies.
- The launch of the Rail Innovation and Growth Team.
- The DfT to continue its analysis of what subsidy buys.

9.4.4 Phase 4 (January 2013 to March 2014) Control Period 4 residual

- The completion of the first set of annual route Profit and Loss Statements (P&Ls) within NR.
- ORR's CP5 determinations published.
- Two joint ventures or alliances and one vertical integration pilot in place by 2013/14.
- The commencement of the "lower-cost regional railway" pilot schemes.
- The completion of NR route devolution.
- The DfT completes analysis of subsidy and its link to rail policy objectives.

9.4.5 Phase 5 (April 2014 to March 2019), Control Period 5

- The incorporation of the Study's findings into specifications for remaining franchise renewals.
- The commencement of the ORR's periodic reviews of franchises.
- Finalisation of fares reform, including the ORR's role in fares regulation.
- Enhancements budget fully devolved to routes.

10. Conclusions

Closing the GB rail efficiency gap is a massive task that will require change in almost every facet of the railway and concerted efforts from everyone who works in the industry.

The Study considers that the improvement necessary can be delivered over a five to seven year timescale if there is commitment from all. The Study believes that there is an onus on all parties to give that commitment so that passengers and taxpayers can receive a fair deal – which they are manifestly not receiving at present.

Closing the efficiency gap will also open up huge opportunities for the industry. Few other major industries today can see so clearly the prospect of doubling their level of activity over the next 20 years, a prospect that offers opportunities for all the companies involved, their employees and suppliers.

The immediate issues are whether or not the effort required will be made, whether or not this relatively old industry can embrace change and a new culture, and whether or not Government, the ORR and the travelling public can support the industry in making these changes.

The Study team has completed its task. It has quantified the cost problem, identified barriers to efficiency, and recommended a set of solutions that have the potential to deliver much improved value for money. The next steps are for all those involved in planning and operating the railway to take.

We wish them success.

Annex A: Terms of Reference

The Study's Terms of Reference were as follows:

1 To examine the overall cost structure of all elements of the railway sector and to identify options for improving value for money to passengers and the taxpayer while continuing to expand capacity as necessary and drive up passenger satisfaction.

2 In particular, to examine:

- what legal, operational and cultural barriers stand in the way of efficiency improvements;
- the incentives across different parts of the rail industry to generate greater efficiency;
- the role of new technology, processes and working practices in fostering greater efficiency;
- ways of generating more revenue, e.g. car parking, gating at stations, better utilisation of property; and
- to make recommendations.

3 The Study will examine the whole-industry costs and revenues and their composition. In doing so, it will look at comparable industries in the UK and abroad.

4 The Office of Rail Regulation (ORR) will be a joint sponsor of the Study. The ORR will remain responsible for delivering efficiency improvements by Network Rail (NR) and for safety regulation. The Study should take account of ORR's benchmarking work for the period 2009–14 and beyond.

5 The work will divide into a scoping study and a detailed report, the former to be completed by the end of March 2010.

Annex B: Glossary

Alliance	A legally binding commercial agreement between two or more companies created for a specific purpose, and defining how risks, profits and losses are shared
ATOC	Association of Train Operating Companies
BR	British Rail – operator of most of the rail transport in Great Britain from 1948 until privatisation in 1997
BTPA	British Transport Police Authority
CP4	Control Period 4 (2009–14)
CP5	Control Period 5 (2014–19)
Devolution	Where responsibility for certain functions is transferred from the centre to more local levels e.g. Network Rail routes.
DfT	Department for Transport
DOO	Driver Only Operation
FOC	Freight Operating Company
GB rail	All aspects of the rail industry covering England, Scotland and Wales
GRIP	Governance for Railway Investment Projects, previously known as "Guide to Rail Investment Projects" – describing how Network Rail (NR) manages and controls projects that enhance or renew the national rail network
HLOS	High Level Output Specification
HLOS2	High Level Output Specification 2 (2014–19)
Horizontal Separation	Where Network Rail route-level activities are divided into relatively freestanding infrastucture management units.
HS	Horizontal Separation
IM	Infrastructure Manager
Independent Ownership	Where one or more infrastructure management concessions come under ownership separate from Network Rail.
Interim Submission/ Interim Report	The interim report, published in December 2010, indicating the emerging findings of this Study
IS	Information systems
Joint Venture	A legal entity owned by two or more companies created for a specific purpose, and to share the resultant profits and losses
JPIP	Joint Performance Improvement Plan – a regulated agreement between NR and a TOC to improve performance
LSE	London and South East
NAO	National Audit Office
NR	Network Rail

NTF	National Task Force – a cross-industry body with senior representatives from passenger and freight train operators, NR, ATOC, the DfT and the ORR. Its primary focus is train service delivery
ORR	Office of Rail Regulation
PTE	Passenger Transport Executive
RAB	Regulatory Asset Base
RDG	Rail Delivery Group
RIGT	Rail Innovation and Growth Team
ROSCO	Rolling Stock Company – own, lease and, in some cases, maintain rail vehicles
RPI	Retail Prices Index
RPS	Railway Pension Scheme
RSA	Rail Systems Agency
RSSB	Railway Safety and Standards Board
RUS	Route Utilisation Strategy
Scoping Report	The Scoping Report of the Study, published in June 2010
SoFA	Statement of Funds Available
SRA	Strategic Rail Authority – in existence from 2001 to 2006
TfL	Transport for London
TOC	Train Operating Company
TPWS	Train Protection and Warning System
TSAG	Technology Strategy Advisory Group (now TSLG)
TSI	European Technical Standards for Interoperability
TSLG	Technology Strategy Leadership Group
TVM	Ticket vending machine
Vertical Integration	Where two or more separate firms combine in one integrated unit their previously separate activities – in this case combining route infrastructure management and train operations within a single long-term concession held by one company.
VfM	Value for money
VI	Vertical Integration
WCML	West Coast Main Line

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Mr. MICA. I might say, just before we recognize our witnesses—I don't think there were any other Members who sought recognition, so we will go to our witnesses—but just two things for the record.

One, the Florida project was not in fact high-speed rail. It was intercity passenger service that went from Tampa to the Orlando airport, a distance of 84 miles, in 1 hour. It did not connect into any fixed system. Tampa and Orlando currently do not have a fixed system. Orlando is planning, and we hope the Governor approves it, a fixed commuter rail system. And the part from the tourist area to Tampa did show very negative ridership figures as far as high subsidization costs.

And prior to the gentlelady's arrival, the ranking member—we did cite and included in the record accurate and up-to-date information on two of the lines that Virgin Rail operates that are returning about a quarter of a billion dollars now with no subsidization to the Federal Government, plus a $50 million return to the investors. So we also will make certain that information is in the record and has been referred to.

[The information follows:]

High Speed Rail Comparisons - Private Sector Participation

Operator	Structure	Major Corridor Ridership			Sample Line Distance	Travel Time	Profitability
Virgin Rail	Competitive operations	2004 14 million	2010 28.6 million	100% increase	London -- Manchester 184 miles	2 hrs	In addition to annual payment to government of $244.1 million, Virgin made $81.4 million
Amtrak	Government subsidized monopoly	2004 10.9 million	2010 10.5 million	4% decrease	D.C. -- New York 225 miles New York -- Boston 230 miles	D.C. -- New York 2 hrs, 45 mins New York -- Boston 3 hrs, 45 mins	Taxpayers subsidize each Amtrak ticket at an average of $54.48

Virgin Facts:

Employee Growth -- from 2800 to 3500

Revenue Growth -- from $406.9 million in debt to $244.1 million paid to government and $81.4 million in Virgin profits

Mr. MICA. So now we will go to our witnesses. We were pleased to have earlier Senator Lautenberg.

Now we have Carlos Bonilla, who is an Adjunct Fellow, who was welcomed very heartily by the ranking member. He is from the Reason Foundation. Ignacio Jayanti is president of Corsair Capital.

We have James Richardson, senior vice president of Real Estate Asset Services, Forest City Enterprises; Thomas Hart, vice president of the governmental affairs at the US High Speed Rail Association; Michael Goetz, who is executive director of the Railroad Cooperation and Education Trust; and Mr. Ed Wytkind, who is president of the Transportation-Trades Department at AFL–CIO.

Welcome, all of our witnesses. Thank you for your patience. As you can see, we will have some testimony from you. We have had great interest from our panel here today, and we are continuing the debate, hopefully in a constructive manner, to achieve, again, high-speed rail where it can be successful. And hopefully, as we address the Northeast Corridor and approaches to that, you will address that in your commentary today.

So with those comments, let me first turn to Mr. Bonilla from the Reason Foundation. Welcome, sir, and you are recognized.

TESTIMONY OF CARLOS BONILLA, ADJUNCT FELLOW, REASON FOUNDATION; IGNACIO JAYANTI, FORMER MEMBER OF THE WORKING GROUP ON INTERCITY PASSENGER RAIL, AND PRESIDENT, CORSAIR CAPITAL; JAMES H. RICHARDSON, SENIOR VICE PRESIDENT, FC ASSET SERVICES LLC; THOMAS A. HART, JR., ESQ., VICE PRESIDENT FOR GOVERNMENTAL AFFAIRS AND GENERAL COUNSEL, US HIGH SPEED RAIL ASSOCIATION; MICHAEL GOETZ, EXECUTIVE DIRECTOR, RAILROAD COOPERATION AND EDUCATION TRUST (RAILCET); AND EDWARD WYTKIND, PRESIDENT, TRANSPORTATION TRADES DEPARTMENT, AFL–CIO

Mr. BONILLA. Good morning, Mr. Chairman, members of the committee. It is a pleasure to be here. I am Carlos Bonilla, former Special Assistant to the President, George W. Bush, for Economic Policy. I am here today as an Adjunct Fellow of the Reason Foundation.

My original work that forms part of the basis for this testimony was originally published by the American Action Forum. My co-author is Robert Poole, director of transportation policy at the Reason Foundation. He has advised the U.S. DOT Office of the Secretary, numerous Federal and State agencies and State DOTs, and for 20 years he has specialized in transportation policy, including public/private partnerships.

As you mentioned earlier, in 2010 Amtrak laid out its vision for high-speed rail at a cost of $117 billion. That system would have shown an operating profit of $928 million a year, but fully amortizing the construction costs adds an additional $7.2 billion, for a built-in loss of $6.25 billion per year. Envisioning 17.7 million passengers, each of those trips would have had a subsidy of $400.

Clearly, not all benefits from high-speed rail are captured directly on the train. A study in 2010, however, offered cautionary lessons from the European and Japanese experience. Among them were:

High-speed rail does not generate net new economic activity, nor does it attract new firms and investment to a country, but it does help to consolidate and promote ongoing economic activities in large cities.

High-speed rail may put medium-sized cities at a disadvantage due to some shifting of economic activities, and political pressures for additional stops often lead to higher costs and reduce benefits.

It is widely acknowledged that only two of the world's high-speed lines may be recovering their capital costs as well as their operating and maintenance costs from fare box revenues, the first Japanese line, from Tokyo to Osaka, and the first TGV from Paris to Lyon. All subsequent high-speed rail lines have involved significant Government subsidy of their capital costs.

The overall global experience cautions against assuming high-speed rail in the Northeast Corridor will be a self-supporting project. The challenge is to figure out how to harness the incentives provided by a public/private partnership to minimize the degree of taxpayer subsidy required.

A notable model for a public/private partnership was found in two recent high-speed rails, the TGV from Tours to Bordeaux and the Spanish Rail from Perpignan to Figueres. In both cases, Government is providing approximately half the project costs. In both cases, the revenue will come from fees paid to the company by train operating companies.

Thus, in those two projects, the infrastructure companies are taking on traffic risk rather than relying on guaranteed annual payments from the Government. Thus, all stakeholders have common interests in the economic success of the venture, from design and construction all the way to operation.

Part of the reason for Amtrak's planned huge costs was its assumption of mostly new right-of-way, with curves no sharper than a 3-mile radius, much new station construction, and a somewhat arbitrary 220-mile-an-hour top speed. The central question is, how much is enough?

Would, for example, adding high-speed rail in the Amtrak right-of-way be good enough to attract significant new ridership? And how much would rail passengers be willing to pay for various reductions in trip times?

Assuming Congress decides to separate the NEC from Amtrak in order to revamp it via long-term private/public partnership, a useful first step would be to issue a request for information from potential developer operators to present the elements of a viable business plan. The RFI should make clear that Congress is willing to start with a clean sheet of paper.

Among the factors that might make a considerable difference:

No specified speed requirement, leaving that to be determined as part of the business plan;

Freedom to define stations served and not served;

Exemption from the Buy America provisions to permit acquisition of off-the-shelf rolling stock from abroad;

Labor-management relationships based on the premise that compensation must be based on the profitability of the enterprise, which could, of course, include profit-sharing.

And a comprehensive review of the Federal Government of how existing policies and regulations either foster or hinder the goal of successful high-speed rail.

It would be wise for Congress to take the prior step of separating the NEC organizationally from Amtrak. Such a move would increase the transparency of Amtrak's financial reports, which currently blend the NEC with all other operations, making it difficult for parties to accurately gauge the risks and rewards of entering into a partnership.

One key question that should be explored is whether the private sector would be interested in simply revamping, operating, and maintaining the infrastructure, or whether they would prefer to develop high-speed rail and other services as a vertically integrated infrastructure plus train operations business.

As general guidelines for the RFP, we suggest:

Offering a long-term concession for the NEC right-of-way, with or without train operations;

Permitting multiple train-operating companies to provide service;

Teams would compete on the least amount of Federal capital subsidy required for construction; no operating subsidies would be offered.

And only companies or teams that had previously submitted their qualifications and made it onto an approved short list would be allowed to respond to the RFP.

Finally, the costs and benefits of high-speed rail must be weighed against the costs and benefits of alternatives.

Thank you very much.

Mr. MICA. Thank the gentleman.

And I will recognize Mr. Jayanti, who is president of Corsair Capital next. And we will withhold questions till we have heard from all the witnesses. Thank you.

Mr. JAYANTI. Mr. Chairman, distinguished committee members, I thank you for allowing me to testify today.

I think the debate has been well-framed by the committee so far. And I would like to take a step back, before talking about the Northeast Corridor, to emphasize that this should be about creating jobs, improving service quality on the corridor, improving the frequency of service as well as reducing trip times, all within a goal of having a better financial model for the U.S. Federal Government.

By way of background, I am an investor and a businessman. In 1997, I was invited by the then-chairman of this committee, Bud Shuster, to participate in the working group on intercity passenger rail. The key conclusion of the majority side of this working group was that a division between the infrastructure management and the operations afforded the best chance for preserving, and in fact renewing, passenger rail service in this country. I believe that this is still the case today.

The goal of the committee is to open the Northeast Corridor to private competition for development of high-speed rail. I believe the solution is to separate the infrastructure management from the transportation service. This will open up opportunities for competition, competition to bring in new operators to operate alongside Amtrak in providing passenger rail service; competition for man-

aging the infrastructure from leading engineering, construction, and logistics firms; and competition for all the new work contracts and new employees that will be required to revitalize the corridor.

The vision of this proposal takes into account a very positive view of the Northeast Corridor passenger rail potential. It sees the tremendous untapped business opportunities. And most importantly, something that hasn't been said before, the private sector is willing and prepared to make a substantial investment in the corridor, along the order of $50 to $60 billion of private sector capital, over the lifetime of this concession.

This, I emphasize, is $50 to $60 billion of private sector investment with no Federal subsidies to maintain the infrastructure, a very important point in the context of my earlier comment around managing this within a set of financial constraints that face the Federal Government today.

As part of the vision, this plan envisions reduced trip times between New York City and Washington, DC, for example, of 2 hours versus 3 hours currently. There are 14 new train stations planned, and we expect to develop effectively a super-subway system along the Northeast Corridor with more passenger options, more reliable, faster, and less expensive service. We will help establish dedicated airport express train services.

We do believe that there is great demand for passenger service that is not being met today. The Northeast Corridor ridership numbers, as stated earlier by the chairman of this committee, are static. They haven't moved in 30 years. That is not a success.

This is the most densely populated and affluent corridor in the world. But the service over the past 30 years has not adapted to meet the needs of the traveling public. The problem is the current model, which doesn't allow for competition and fails to address long-term, significant need for investment in the infrastructure.

The plan that we have devised can be implemented and does address these issues. The infrastructure management organization plan, the so-called IMO plan, sees Amtrak separated into two federally owned entities.

First, Amtrak as a passenger rail service entity, continues to provide transportation services to its customers. The second Federal entity would own Amtrak's current infrastructure, mostly the Northeast Corridor, and conduct a competitive solicitation to select a private sector infrastructure manager to manage the infrastructure. This organization would be subject to strict oversight, reporting requirements, and regulations.

The infrastructure manager would borrow up to $25 billion from the RRIF program. That loan would be fully secured so there is no risk on that principal to Federal Government or taxpayers. All NEC stakeholders are protected. Organized labor would have all of its existing contracts honored, pay increases expected for all the infrastructure workers, as well as thousands of new jobs created.

The commuter carriers would be granted vested operating rights and avoidable cost access fees to be maintained. There is no additional financial burden on the States, and more resources freed up for Amtrak's nationwide system.

The Federal Government and the taxpayer will continue to benefit from the ownership of the corridor and the significant upgrades

that would be achieved through investments of over a billion dollars a year during the life of this concession. This will also make operations very much more available for the traveling public.

The status quo has failed. Our plan is transformative. The model relies on proven principles of competition with Federal oversight and public sector partnership. This model is consistent with all other modes of transportation and the way the rest of the world is going in terms of how it structures passenger rail service.

It is about creating jobs. It is about improving the service in the corridor, within the financial constraints and without further Federal funding and significant, $50 to $60 billion private investment.

Thank you very much.

Mr. MICA. Thank you for your testimony.

We will recognize Mr. Richardson, who is the senior vice president, Forest City Enterprises.

Mr. RICHARDSON. Mr. Chairman and distinguished members of the committee, I thank you for this opportunity to testify. This testimony is on behalf of Forest City Asset Services, which together with Woolpert has formed an Alliance for Passenger-Oriented Development, APOD.

In previous testimony introduced into the record by Congressman Tom Petri on March 11, we recommended an organized approach to station area development that would make commercial improvement an integral element in the revitalization of passenger rail corridors across the country.

The goal is to create a package that provides a stream of revenues from escalating land and commercial values in the station area. This revenue can then be plowed back into operating subsidies, maintenance, and capital projects across a high-performance intercity and urban passenger rail corridor.

Currently, station-oriented development is undertaken on an ad hoc basis. There is frequently little coordination between economic development opportunities, passenger rail operation itself, and the intermodal connections to that operation. We submit that this new proposal can be part of a holistic solution to the most vexing problem of providing high-performance passenger rail corridors, additional streams of revenues that will underpin the operations.

A summary of our legislative proposal is attached to the end of this testimony. We believe this approach can apply to any urban rail or intercity passenger corridor, and is ideal for the Northeast Corridor. There are incredible commercial development opportunities along the Northeast Corridor.

With this plan, we are proposing to capture some of the value of these developments, opportunities to help finance high-speed corridor infrastructure, investments, and operational expenses. Following are the principles that we recommend for the Northeast Corridor.

A corridor-wide real estate plan should be developed under a master planner development administrator, MPDA. While certainly European and other international developers with experience maybe subcontractors, this should be an American-led planning effort.

The MPDA would have specific responsibilities. Prior to any competition that would open the Northeast Corridor to public/private

partnership control, there should be a survey of all available real estate and an overlay of an estimate of development potential that should be made available to help support the infrastructure, operation expenses, and development opportunities that would be available to bid consortiums.

Following the completion, the design, construction, management, operation, maintenance of the high-speed rail system, and commercial development for the corridor should be under the singular control of a corridor management group, which will work through the MPDA to:

Create revenue capture assessment districts in each station area;

Establish a Northeast Corridor rail corridor development fund that will plow back revenue into infrastructure and ongoing high-speed rail service requirements;

Create continuity with common branding across all station areas in the corridor, with maximum revenue generation from advertising and related sources, as well as

Coordinating all the stations to create destination centers that will drive ridership and revenues.

Combine the above to establish a core development program that will be corridor-wide. The core program would generate income and be under the direct ownership and control of the corridor management group. This should not be less than 10 percent of the total target commercial investment. These will be in central properties, particularly those tied to intermodal connections.

The control of the core will provide leadership and leverage. This will, in turn, yield consistency and financial stability over the entire corridor commercial development program.

Because these projects will combine public interest mobility and rail access with commercial development, pure commercial bank interest rates and terms will not work. Therefore, we propose to access innovative finance such as the Railroad Rehabilitation and Improvement Financing and the Transportation, Infrastructure, and Innovation Act that can leverage private investment in a true public/private P3 arrangement.

As America is lagging far behind most of the developed world in high-speed rail, we would suggest a special initiative for high-performance corridor development in the Northeast Corridor and other emerging corridors. Perhaps a national corridor bonding or a passenger corridor infrastructure bank could be established.

Through this dedicated mechanism, this innovative finance could be made available to each corridor for both operation and qualified station area development. This program should be deficit-neutral. Revenues from the corridor development fund could be used to pay back the funds, the bonds, as well as to support operational cost.

This proposal will provide a new source of revenue for the basic maintenance and upkeep of the high-speed rail operation. Just as importantly, it can be made a large contribution by creating vibrant urban communities with state-of-the-art intermodal station areas that will integrate access to passenger rail service with other transportation options.

In conclusion, we propose Congress make station area development an integral part of emerging high-speed rail operation under the control of a common corridor management group in the North-

east Corridor. We believe the same concept can be applied to the designated State-supported corridors that have the potential to become the backbone of a high-performance American intercity passenger system.

By engaging P3s and station-oriented development together with streamlining regulatory approval, we believe the objective can be achieved in the shortest possible timeframe.

And I thank you for the opportunity.

Mr. MICA. Again, we thank you for your testimony.

We will now recognize Mr. Thomas Hart. He is the vice president of governmental affairs for the US High Speed Rail Association.

Welcome back, Mr. Hart.

Mr. HART. Thank you, Chairman Mica. Thank you, Ranking Member Rahall, Subcommittee Chair Shuster, and Subcommittee Ranking Member Corrine Brown. On behalf of the United States High Speed Rail Association, its directors Andy Kunz, Joe Shelhorse, and its 250 members, I extend greetings to this prestigious Transportation and Infrastructure Committee.

I am here representing the United States High Speed Rail Association as its vice president for government affairs and general counsel. I also serve as the director of the Washington office of the national law firm of Quarles & Brady.

The United States High Speed Rail Association is a nonprofit association committed to advancing a state-of-the-art, nationwide, true high-speed rail system in America. Our mission is to build widespread public, business, and political support for major investments in the Nation's high-speed rail network by the public the private sector.

America has a history of investing in transportation infrastructure, with the Government funding the base infrastructure and private companies operating the transportation vehicles that work within that base infrastructure. This is how our highway system works. It is how our aviation system works.

The infrastructure was built and is owned and maintained by the Government, while the vehicles are operated by private, for-profit companies. Given today's economic and political environment, we believe this is the best model for the new high-speed rail network in America. It is also the way many high-speed rail systems are developed and are being operated around the world.

The key to unlocking the great value of the Northeast Corridor is twofold. First of all, we must upgrade the network in the Northeast Corridor to the international standards that the chairman spoke about earlier. We need to reach speeds of 220 miles an hour, or even faster. That can only be done with dedicated track.

Number two, the train's operations need to be separated from the infrastructure operations, as it is in other forms of transportation in this country. This will allow private, for-profit rail operators to compete for passengers in the Northeast Corridor, and the infrastructure would be owned and controlled by the U.S. Government. However, it could be maintained and managed by private companies for a profit.

Mr. Chairman, as you know, this committee is well-known for its bipartisanship. But this particular issue sharply divides this committee. There are some on this side that would like to zero out Am-

trak's budget. There are others on this side that might give Amtrak sacred cow status and continue to throw money at it.

The United States High Speed Rail Association is somewhere in the middle. Over the past 40 years, Amtrak has provided a unique service, a valuable public service to the Nation as its primary carrier of the Nation's passenger rails. Amtrak has over 19,000 employees, many of whom come from 13 organized, hard-working, deserving employee unions.

Amtrak has a very tough job. It coordinates eight corridors in rail and 2,000 trains per day over the Northeast Corridor track. Amtrak deserves credit for their recent commitment to high-speed rail by appointing Al Engel as their vice president for high-speed rail deployment. Al is a seasoned veteran and an expert in this field. Amtrak and the Nation are lucky to have him leading this important project.

Although Amtrak has made a number of recent advancements, including making a privilege last year, it must do more to reach its full potential. The current slogan in Washington is that everything is on the table, and that must include Amtrak.

Although the United States High Speed Rail Association does not support the privatization of Amtrak, the association does call for rapid improvement in rail service created by competition, innovation, and private investment.

Over the past 40 years, Amtrak has become one of the Nation's major recipients of Government funds and subsidies, getting over $38 billion. Amtrak recently received $450 million for improvements in the Northeast Corridor. Although Amtrak has begun its procurement process, it has yet to develop a comprehensive plan for small business involvement that set goals, timetables, and procedures.

Like the Federal Rail Administration, Amtrak lacks clear Government mandates for small and minority business development. As this committee examines ways to increase private investment and create jobs in the rail industry, this committee should also develop procedures and programs to ensure that small business has a role to play in the procurement by Amtrak.

We need to continue our investment in high-speed rail, and under this current climate, that must depend on the private sector. The Obama administration did a great job over the last 2 years, but now it is time for public/private partnerships to take the lead.

The long version of my testimony analyzes nine public/private partnerships that have been successfully initiated around the world. That 19-page report will be posted on our website today at ushsr.com, and it has been circulated to the members of this committee earlier.

So we encourage public/private partnerships. We also have proposed legislation called the Private Investment in High Speed Rail Act of 2011, and we would like the chairman to keep the record open so that I could submit a copy of that proposed legislation in this testimony.

[The information follows:]

H.R. ___ – The Private Investment in High Speed Rail Act

(Introduced in House - IH)

HR ___ IH

112th Congress

1st Session

For the purpose of the development and implementation of federal programs and policies to establish investment incentives expediting the creation of high speed rail infrastructure and related jobs throughout the United States.

Presented by:
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IN THE HOUSE OF REPRESENTATIVES

February 2011

[Sponsors], introduced the following bill:

A BILL

For the purpose of the development and implementation of federal programs and policies to establish investment incentives expediting the creation of high speed rail infrastructure and related jobs throughout the United States.

Section 1 - Short Title

This Act may be cited as the Private Investment in High Speed Rail Act.

Section 2 - Definitions

As used in this Act, unless further defined in the text of the section:

Affected jurisdiction means any Public Entity, as later defined in this Section, State, as later defined in this Section, county, city, town, or any other municipal government or authorized agency thereof in which a qualifying section, portion or complete Infrastructure or Eligible Facility constructed under this Act lies

Asset Management means operating and managing the infrastructure under an organized plan while exercising competent care and reasonable judgment on behalf of the public under the constraints of the Partnership Agreement

Partnership Agreement means the comprehensive agreement required to be negotiated and

completed by the private and public entities party to the development of the Infrastructure duly negotiated by all Private Entities and Private Entities and executed according to the laws of the Affected Jurisdiction.

Concession means any financial, tax, land or other instrument the private entity could not have exercised without the assistance of the Public Entity or Affected Jurisdiction including any lease, development, easement, lien, right away, tax incentives, interest on loans or capital in any form for any qualifying Infrastructure.

Concession payment means any payment made by the Private Entity to ensure consideration for a valid contractual relationship or any financial payment relinquished in course of business over the terms of the operation of the Infrastructure for any reason whatsoever.

Develop means to plan, finance, organize, build or in any way materially contribute to the schematic, plan, or construction of an Infrastructure project

Infrastructure and Eligible Facility means any structure or facility built to facilitate the movement of goods, commodities, information or people in the United States through a current or future mode of commuter, freight, passenger or high speed rail, toll roads, bridges, or any appurtenances thereof.

Material default means any failure of an operator or owner to perform any duties under the Partnership Agreement which jeopardizes delivery of adequate service

Private entity or entities means any natural person, corporation, or any business entity, trust, partnership or investment vehicle recognized by any State or municipal subdivision in the United States or foreign government, or collection, group or association thereof

Public entity or entities means any State, Commonwealth, division or subdivision or agency of any State or Commonwealth, or any Federal agency, commission, or any other delegation by appointment by Congress, or collection thereof

Standard of Operation means any regulations required by the United States Department of Transportation or related State agencies in Affected Jurisdictions that pertains to the operation or the development of Infrastructure

State means any recognized state of the union, or one of the territories of the United States including the District of Columbia

Revenue means any collected fees from advertising, tickets, concessions, rental of right of ways or vehicles, rental fees, or any other source of income derived from the partnership created under this Act

Section 3 - Policy - "Project of National Significance"

The Congress, by enacting this Bill, finds that

1. There is a continuous need for development of the national infrastructure for the well being of the United States and to encourage further economic, social, and technological growth. In light of the numerous benefits provided by high speed rail transportation, Congress deems the construction and operation of HSR systems to be "Projects of National Significance" as defined in prior Acts.
2. The United States and the certain States have the ability and authority to build new and provide enhancements and developments to existing Infrastructure by a program soliciting the investment of Private Entities to undertake all or a portion of a project or program for the study, planning, design, development, financing, acquisition, installation, construction, reconstruction, improvement, operation, and/or maintenance of Eligible Facilities
3. Public-private partnership initiatives provide the public sector with increased access to private sector expertise and funding by:
    a. Facilitating the collaboration, cost, and risk sharing in public infrastructure projects between all partners
    b. Bringing innovative thinking from the private sector to bear on public infrastructure needs
    c. Reducing the public cost of delivery and services for eligible facilities
    d. Expediting project delivery
    e. Encouraging life cycle efficiencies in public infrastructure projects
    f. Fostering flexibility in procurement methods to provide the best value to the public; and
    g. Providing better use and leverage of public resources, increasing private investment in public infrastructure facilities, enhancing capital formation for

large projects and providing savings to taxpayers.

4. The Congress intends that the powers granted to Public Entities in this Act are in addition to any other powers authorized under applicable law.

Section 4 - Solicitation and Proposals

1. Notwithstanding any other applicable provisions of federal or state law, Public Entities are authorized to enter into public private partnerships for eligible Infrastructure pursuant to this Act.
2. Under the authorization granted in this Section, Public Entities, and any agency thereof, is authorized to procure a private partner or partners, and award public-private partnerships under this Act using any of the following:
    a. Solicitation of project proposals from Private Entities where the Private Entities submit proposals to the United States Department of Transportation or a similar State entity to determine the best proposals and enter into negotiations for agreements
    b. Unsolicited proposals, provided that the Public Entity determines that there is sufficient public need and interest, and that implementation of a proposal would best serve the public good
3. For any solicited proposal, the Public Entity shall set forth the qualifications, factors, and indicia that the Public Entity will evaluate when reviewing proposals. The public sponsor, in its sole discretion, determine the factors and weight given to such factors in determining which proposal provides the best value for the Public Entity.
4. The Public Entity is authorized to pay a stipend to an unsuccessful solicited proposal in an amount and on the terms and conditions determined by the public sponsor, if
    a. The Public Entity cancels the procurement prior to the due date set by the Public Entity for proposals or
    b. The unsuccessful Private Entity submits a proposal that the Public Entity determines is responsive and meets all requirements but is unselected.

    In exchange for such a stipend, the Public Entity will retain the rights to all work product, including but not limited to any technologies, techniques, methods, processes,

or information, produced by the Private Entity in the proposal if unsuccessful for the previous reasons.

5. The Public Entity may charge a reasonable administrative fee for the evaluation of an unsolicited proposal.
6. The Public Entity may procure services, enter into agreements, and administer revenues as authorized in this Act.
7. The Public Entity may retain financial, legal, and other consultants and experts in any sectors to assist in the procurement, evaluation, and negotiation of public-private partnerships and for the development and/or Operation of eligible facilities under this Act.
8. Notwithstanding any other provisions of applicable state or federal law, the Public Entity may agree or require use of arbitration or an alternative dispute resolution procedures to resolve disputes with proposers or the Private Entity

Section 5 - Agreement Provisions

All public-private partnerships shall be consummated with a written partnership agreement that shall contain the terms of the agreement.

In a public-private partnership, the Public Entity is authorized to include any provision deemed necessary or appropriate in the written partnership agreement, including but not limited to the following:

1. Provisions authorizing the Private Entity to impose, collect, and enforce user fees, tolls, fares, rents, or similar charges, including without limitation, provisions governing the processes for collection, and any technology to be used to collect the fees.
2. Provisions allowing the public sponsor to accept payments of money and share revenues with the Private Entity.
3. Provisions addressing how the Public Entity and Private Entity will share development costs and allocate and manage project risks and overruns
4. Provisions establishing performance criteria and/or incentives
5. Provisions addressing the acquisition of rights of way and other property interests

that may be required including provisions of eminent domain

6. Provisions addressing responsibility for reconstruction, upkeep, or renovations that are required for a facility to meet applicable government standards at the end of the term of the agreement
7. Provisions providing for patrolling, security, and law enforcement on, in, or for the eligible facilities
8. Provisions identifying any technical or material specifications that must be satisfied, and a process whereby the Private Entity may request and receive authorization from such specifications on making such a showing satisfactory to the Public Entity
9. Provisions authorizing the Private Entity to receive a reasonable rate of return on the investment
10. Provisions regarding compensation, payments, retention of funds, escrow of fees, and generation of revenues
11. Provisions specifying the conditions under which the Private Entity shall be entitled to compensation for lost revenues or other damages resulting from the construction of a completely public facility by the Public Entity or another governmental entity.
12. Provisions specifying the event of a default, remedies and the accompanying procedures available to both partners
13. Provisions regarding maintenance of the facility and auditing of the finances of the Private Entity's books and records.

The Public Entity is required to include provision that establishes the Public Entity's rights to develop, maintain, repair, rehabilitate, operate, or lease other projects independent of the location of the agreed upon proposal.

Section 6 - Tax Credits, abatements, and deferments

Public-private partnerships advanced and development under this Act shall be eligible for the following Concessions, as determined by the Public Entity responsible for entering into the partnership or any other State, agency, or Affected Jurisdiction delegated authority by Congress under this Act or subsequent Acts:

1. Reduction of applicable capital gains to shareholders of the Private Entity to the

minimum level currently available under Section 26 of the United States Code; or

2. Reduction of applicable income taxes as accrued by the Private Entity as profits from the Eligible Facilities; or
3. Abatement or deferment of tax liabilities during the Eligible Facilities operation under this Act as determined by the Public Entity party to the Partnership Agreement.

Property developed, operated or held by the Private Entity under a public-private partnership entered into under this Act shall be exempt from any and all state and county ad valorem and property taxes that might otherwise be applicable.

Section 7 - Performance and Payment Security

A public-private partnership shall require the Private Entity or contractors acting on behalf of the Private Entity to provide performance and payment security for each and every Eligible Facility to be constructed under this Act. Notwithstanding any applicable provisions of state law, the penal sum or amount of such security may be less than the price of the contract, based upon the Public Entity's determination, made in sole discretion and on a facility by facility basis, of what is required to adequately protect the Public Entity, the interests of the Public Entity, and adequately assure payment of persons and amounts provided.

Section 8 - Funding and Financing

1. Any lawful source of funding and financing may be utilized for the development or operation of an Eligible Facility under this Act.
2. The Public Entity may accept funding or credit assistance from any other federal or State governmental organization or agency as are available to it for carrying out the purposes of this Act, whether the funds are made available by grant, loan, or some other financing arrangement. The Public Entity may enter into such agreements and other arrangements with any government or agency, as may be necessary, proper, and convenient for carrying out the purposes of this Act.
3. The Public Entity may accept from any source any grant, donation, gift, or other form of conveyance of land, money, property – real or personal, or other valuable thing or commodity made available to the Public Entity for carrying out the purposes of this Act.

4. Public Entities may impose and collect user fees, tolls, fares, rents, or similar charges from users of Eligible Facilities and use lawful measures to enforce such charges and/or authorize the Private Entity or Entities or another Public Entity to impose, collect, and enforce such charges to the same extent as the Public Entity.
5. The Public Entity may issue and sell bonds or notes for the purpose of raising funds to carry out the provisions of this Act with respect to the development, financing, or operation of an eligible facility.
    a. Any bond or note issued under this Section:
        i. Constitutes the corporate obligation of the Public Entity
        ii. Does not constitute the indebtedness of the State within the meaning or application of any constitutional provision or limitation unless issued directly on behalf of the state
        iii. Payable solely as to both principal and interest from revenues, fees, proceeds, earnings from the partnership project.

Section 9 - Confidentiality and Public Disclosure

1. A proposing Private Entity may identify those portions of a proposal or other submission that contains what the proposer considers to be trade secrets or other confidential commercial, financial, or proprietary information. In order for confidential and proprietary information and trade secrets to be exempt from disclosure, the proposing Private Entity shall do all of the following:
    a. Invoke such exclusion upon submission of the information or other materials for which protection is sough
    b. Identify the data or other materials for which protection is sought with conspicuous and clear labeling
    c. State the reasons why protection is necessary; and
    d. Fully comply with any applicable provisions of state law with respect to information the proposer contends should be exempt from disclosure
2. Notwithstanding any other provisions of law, in order to properly balance the need to maximize competition under the Act and create a transparent procurement process,

proposals shall not be subject to release or disclosure by the Public Entity until the award of the partnership and finalization of the partnership agreement and the conclusion of any protest or other challenge to such award, absent an administrative or judicial order requiring such release or disclosure.

Section 10 - Technical Standards and Specifications

Notwithstanding any law to the contrary, for a public-private partnership the Public Entity may adopt, amend, repeal, enforce, apply, and waive technical standards and specifications including standards and specifications for performance or outcomes that affect the Standard of Operation

Section 11 - Eminent Domain

The Public Entity may exercise the power of eminent domain to acquire property, rights of way, or other rights in projects necessary for accepted proposals that are necessary to develop, operate, or hold an eligible facility under this Act, regardless of whether the property will be owned in fee simple by the Public Entity or whether such property will be sold or leased at a fair market value price to the Private Entity to use, lease or operate for business purposes in connection with the Eligible Facility.

Section 12 - Job Creation

This Act is a representation of the desire of this Congress to spur development in the creation of jobs in the Transportation industry, further develop new technology and sponsor innovation in such fields that utilize green energy and broadband technologies using right-of-way and spur reeducation of the workforce to create the jobs and industries of the next century.

Section 13 - Code

In codifying the new sections added by this Act, the official revisor of statutes shall substitute the appropriate section numbers of the United States Code and appropriate designations thereof.

Section 14 - Sovereign Immunity

Notwithstanding any applicable provision of law, this Act shall not be construed to limit or waive any sovereign immunity of a Public Entity or any officer or employer of a Public Entity, nor any agent acting on behalf of the Public Entity, with respect to participation in or approval

of any proposal or operation of any eligible facility

Section 15 - Police Powers

All law enforcement offices of any Public Entity in the public-private partnership and of an affect local jurisdiction shall have the same powers and jurisdiction within the limits of an Eligible Facility as they have in their respective areas of jurisdiction and access to the Eligible Facility at any time for the purpose of exercising such powers.

Section 16 - Remedies

Upon the occurrence and during the continuation of a material default by the Private Entity, not related to an event of force majeure, the Public Entity may:

1. Elect to take over operation of the Eligible Facility, including succession of all right, title, and interest, subject to any valid and lawful liens granted prior to succession
    a. In the event of a takeover under this Section, the Public Entity shall
        i. Collect and pay revenues subject to a lawful and valid lien to satisfy any obligation
        ii. Develop and improve the eligible facility
        iii. Solicit new proposals for public-private partnerships under this Act
2. Terminate the Partnership Agreement between the Private Entity in Material Default and exercise any termination rights contained within the Agreement

Section 17 - Jurisdiction

Any dispute arising under this Act between any valid member of the partnership agreement shall be adjudicated first though in nonbinding arbitration at a venue with jurisdiction convenient to all involved parties, thereafter any party in privity with the Partnership Agreement or other contractual agreement with the Public-Private Partnership may seek redress in a Federal court or tribunal with appropriate jurisdiction.

Section 18 - National Infrastructure Bank

This Act shall incorporate the development of an American Infrastructure Financing Authority (AIFA), a type of infrastructure bank, as designated by the Long-Term Development Act (BUILD Act). The BUILD Act shall serve as an alternative means to finance high speed rail projects. Funding allocated by the AIFA may be administered to qualifying high speed rail projects.

Section 19 - Small Business Barriers and Procurement Authority

1. Within 6 months after the date of enactment of this Act, the Department of Transportation (DOT) or some other authority as delegated by Congress shall complete a proceeding for the purpose of identifying and eliminating, by regulations pursuant to its authority under this Act (other than this section), market entry barriers for entrepreneurs and other small businesses in the provision and ownership of companies and enterprises that are directly involved in Eligible Facilities and related vendor services or in the provision of parts or services to providers of high speed rail services.
2. In carrying out subsection (a), the Department of Transportation shall seek to promote the policies and purposes of this Act favoring growth of small business enterprises in the transportation sector, vigorous economic competition, technological advancement, and creation of jobs in furtherance of the public interest, convenience, and necessity.
3. American small businesses are a catalyst for job creation and innovation, therefore, hereafter, the FRA shall be authorized to utilize small business goals and timetables currently used by FTA, FAA, and other agencies under the Department of Transportation. Also, recipients of FRA funds must develop and implement a DBE program that conforms to DOT standards set forth in 49 CFR Part 23 and 49 CFR Part 26.

Section 20 - Terminal Economic Development Zones

This Act shall designate a zone of a 1 mile radius around each Eligible Facility constructed under authority in this Act for use as a terminal by a high speed rail line, in which such a zone shall be designated as an Economic Development Zone and as such, shall be eligible for applicable Housing and Urban Development grants for further residential and business development

around such terminals.

Additionally, further construction, redevelopment, or improvements of the following terminals already in development or constructed will qualify as an Eligible Facility under this Act:

Transbay, San Francisco, California

Pennsylvania and Grand Central Stations, New York, New York

Union Station, Washington, District of Columbia

Union Station, Chicago, Illinois

Section 21 - Buy American

Understanding the products and services developed in the United States are superior to products and services created elsewhere, this Act encourages integrated development of business in the United States by all Public-private Partnerships entered into under the authority of this Act participating in the Buy America program and receiving an applicable tax credit in proportion to the services and products purchased from businesses in the United States.

Section 22 - Green Energy

This Act, in seeking to develop environmental friendly technology and transportation systems, shall grant tax credits to Eligible Facilities under the authority in this Act which implements Wind, Solar, Tidal, or Nuclear created energy into their energy systems and developments for terminal operations and propulsion of the train with the goal to be completely free of oil use by 2030.

Section 23 - Amtrak

1. Understanding that the National Railroad Passenger Corporation, operating as Amtrak, currently operates as a public entity, preferred stock completely and solely owned by the United States and a class of common stock owned by contributing railroad corporations, Congress shall allow Amtrak, in the spirit of increasing Private Entity investment in the national infrastructure, in particular, the railroad and transportation systems of the United States, to issue bonds with both of the following approvals:
    a. Majority of Congress as voted on by Resolution by both Houses of Congress upon introduction

b. Majority of the Board of Directors of Amtrak at a designated Board meeting

2. The total issuance of securities shall never exceed 5% of the fair market assets of Amtrak at any given time. Amtrak shall comply with all applicable securities laws of the District of Columbia and shall be regulated by the Securities Exchange Commission for any securities offerings with an issuance of approved bonds. The interest owed on the bonds shall accumulate for a minimum of ten (10) years and the interest rate shall be set by the Board at the time of issuance. The bonds shall be freely transferrable and contain no restrictions for resale on the common equity markets. The United States Treasury shall be responsible for the repayment of the bonds issued in the following events:
    a. Privatization, either in whole or in part or;
    b. Bankruptcy of the corporate entity and the difference between the liquidated value of the assets and the liabilities of any bond issue or;
    c. Failure of Amtrak to have sufficient cash reserves to redeem the bonds issued under this provision.

Section 24 - TIFIA and RRIF Programs

Whereas, the Transportation Infrastructure and Finance and Innovation Act (TIFIA) and Railroad Rehabilitation and Infrastructure Financing (RRIF) are currently in effect, Congress shall:

1. Increase the cap set by TIFIA and RRIF to reflect current demand for modern transportation projects including high speed rail
2. Expand the scope of TIFIA and RRIF loan guarantees by allowing Eligible Facilities to borrow up to 50% of the projected cost of the completed project
3. Allow TIFIA and RRIF funding for Eligible Facilities even deemed unsuitable for investment
4. Allow TIFIA and RRIF programs to be more flexible in financing preliminary projected costs for planning and construction of Eligible Facilities
5. Waive any Administrative procedures and policies set by the Executive branch to be replaced by the Project Agreement
6. Expedite the processing of TIFIA and RRIF applications at DOT

Section 25 - State Allocations of Federal Transportation Funds

Congress shall allow States to use any funds received through legislative acts in regards to transportation, that are not specifically earmarked, to use for investment in Eligible Facilities as either a Public Entity, or as Private Entity and eligible for all Concessions under this Act. Congress shall also allow the States to use funds received in such a fashion to leverage up to an amount ten times the granted amount in order to funds an Eligible Facility as a Public Entity. All and any payments shall be made to the Highway Transportation Fund (HTF) to further develop future projects in transportation.

Section 26 - Severability

If any provision of this Act, or the application thereof to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of this Act which can be effect legal effect without the invalid portion or application, and to this end the provisions of the Act are severable.

Section 27 - Effect

This Act shall effect upon its approval.

Mr. HART. Moving forward, we look forward to working with this committee in developing the right model for public/private partnerships. And we look forward to your questions and comments today. Thank you very much.

Mr. MICA. Thank you, Mr. Hart.

We will turn to our next witness, which is Michael Goetz, executive director of the Railroad Cooperation and Education Trust Fund. Welcome, and you are recognized, sir.

Mr. GOETZ. Thank you, Mr. Chairman, Ranking Member Rahall, distinguished committee members. My testimony today is on behalf of 30 railroad contractors and 3 international construction unions that build and maintain rail infrastructure across America.

We ask that the rail title of the next Surface Transportation Act authorize a high-performance, intercity, urban passenger rail network. We suggest that the Northeast Corridor should be the crown jewel in that network. We agree with the President's goal that within 25 years, 80 percent of all Americans should have the option of a high-speed performance rail passenger alternative to highway and aviation.

In these difficult budget times, we know that we cannot meet the goal of a revitalized passenger rail network by enacting a massive new grant program, and we did with the creating of the interstate highway network. Therefore, we support new approaches to leverage resources through the introduction of innovative financing, public/private partnerships, and competition in the design, construction, and maintenance of rail passenger systems.

High-speed rail service in the Northeast Corridor and the West and the existing State-supported passenger corridors should be the foundation for a new national, intercity, and urban passenger network.

To transform the Northeast Corridor and existing intercity and urban routes into a high-performance network will be a massive undertaking over a long period of time. To be successful, it must have major private sector involvement and cost control in the construction, maintenance, and rehabilitation of this rail network.

To provide the maximum value for the taxpayers' dollars, we specifically call for fair and open competition for the construction of publicly funded or financed rail projects. We previous the following policy for rail construction.

Number one, States and public authorities shall competitively bid out all publicly funded or financed rail construction, rehabilitation, and maintenance projects on publicly owned rights of way. Federal, State, regional, and local public authorities shall create no impediment to full, fair, and open competition on federally funded projects.

Number two, to the maximum extent possible, States and public authorities shall competitively bid out all publicly funded or financed rail construction, rehabilitation, and maintenance projects on private rights of way. While the burden of proof should favor competition, we support limited exemptions to honor existing rail labor agreements in effect on the date of passage of the statute. Clear guidelines should be established to promote fair competition and enforcement by the Department of Transportation and the States. Suggested guidelines have been attached to my testimony.

In recent months, there have been some unfortunate statements made before the Rail Subcommittee that our contractors and their employees have less than professional skills and qualifications because they do not operate under the railway labor laws. This is nonsense.

The fact that our employees are organized under the National Labor Relations Act, along with other private sector employees in America, does not adversely impact the quality of the work we perform or the conditions of employment. We have superior benefits with solid health and pension plans. We jointly administer world-class training programs and utilize work standards that are second to none.

We perform rail maintenance and construction efficiently and safely, as well as any in-house labor force. The skilled construction workers, from the carpenters, laborers, and operating engineers, perform complex construction projects in a wide range of industries, including rail projects.

It is true that our companies operate in a highly competitive environment. Our unions and management work closely together through cooperative strategies that demand high quality at the best price. The bottom line is we must get our jobs done safely, on time, and on budget. We will happily compare our record of quality, safety, and productivity with any similarly situated in-house workforce in America.

We also present a unified labor-management voice on legislative issues, as we are doing here today. We will work with Congress for a specific proposal on the Northeast Corridor. What we respectfully ask is that principles of competition for rail construction projects be applied here and on all other publicly funded rail projects. That way, as a high-performance American passenger rail network is developed, the taxpayer will receive the highest quality work at the best price.

Thank you.

Mr. MICA. Thank you, Mr. Goetz.

And now, Mr. Wytkind, please proceed.

Mr. WYTKIND. Thank you, Mr. Shuster. Thank you, of course, to Mr. Mica, Ms. Brown, and Mr. Rahall, and other distinguished members of the committee. Thank you for inviting transportation labor to testify today on behalf of our 32 member unions, and specifically on behalf of the vast majority of Amtrak's 19,000 employees.

We believe that wishful thinking won't build and sustain a 21st-century transportation system. A vision backed by policies and, yes, real dollars will. There is no high-speed rail system in the world that operates without robust Government support. So we need to stop all the tired privatization rhetoric and start having a conversation about how to get this done in the real world, in the way that transportation actually works, with both the public sector and the private sector involved.

My message today is simple. Amtrak is doing a better job today than it ever has in a long time, and has well positioned itself to be the leader in delivering high-speed service both on the NEC and on other corridors across the country. Now is the time to boost in-

vestment in Amtrak and support its long-term vision for growth, which includes private investment. And we strongly support that.

It is not the time to allow private companies to provide rail services that are profitable only by exploiting past taxpayer investments, by relying on continued Government support and cherry-picking the most lucrative routes. And that is the inherent problem with the topic of today's hearing.

Are there private companies that could offer NEC service that Amtrak provides today? Many claim there are. But as history has taught us, those entities will want to offer the services that are the most profitable and let the rest of the system wither.

Even the parts of the system that may "turn a profit" will do so because the infrastructure is Government-supported. Besides skimming a profit for their shareholders and, yes, CEOs, I simply don't see what we are getting in return for bidding out the world's most prized and complicated transportation corridor.

Many criticize Amtrak and liken it to an old-school Soviet passenger rail system. Those critics are not paying attention. And by the way, today Russia is planning for the future by developing a 250-mile-per-hour service between St. Petersburg and Moscow. They are investing three times what our Government invests in rail as a percentage of their economy.

And more to the point, the Amtrak that the critics disparage simply does not exist today; and unlike some of its predecessors, the current management actually is bringing forward a vision for the future, and doing so in partnership with its employees.

Despite years of shoestring budgets, including many attempts to force a shutdown, Amtrak and its workers continue to push forward. Amtrak set ridership records in 7 of the last 8 years and is performing better than at any time in its history. The NEC service is booming. I won't let any of the privatizers, carrying their bias and incomplete analyses of what true costs are, pretend otherwise simply because they can't get their head around the idea that a Government-sponsored entity can succeed.

Intercity rail addresses today's transportation challenges. It provides convenience, reduces congestion on major corridors, and does so sustainably, helping to promote better local air quality and reduce greenhouse gas emissions. It is no coincidence that privatization advocates conveniently leave out these public benefits when they analyze the facts.

We are not opposed to private sector participation on the NEC. In fact, we embrace it. Many of our members work for private industry. But we are opposed to privatizing Amtrak's NEC operations and breaking it up. When you strip Amtrak of its most lucrative system, you doom the national system. And be real clear: For some, that is exactly their plan.

Let's not pretend that replacing Amtrak's corridor operations would be an easy undertaking. Seven commuter rails, seven freights, and Amtrak operate over a nine-State region. Amtrak does the dispatching for all 15 of those carriers. It is a risky business to fragment these operations by doling out complicated aspects of the system to private bidders.

The NEC region represents 20 percent of U.S. GDP every year. Every day on the corridor, 700,000 people use commuter rail.

Whatever Congress decides, it should not create chaos in a system that is central to our economy and serving the people well.

Amtrak has unveiled its next-gen high-speed rail vision, and for part of that plan to work, Amtrak must operate the trains and maintain the system and equipment. That is our view. And it has proven its ability to provide safe, reliable service even in the leanest of times.

The alternative is letting the system go the way British Rail went, and see how good that worked out. Fares jumped. Safety declined. People died. And of course, jobs were cut. And a decade later, British Rail looks a lot like Amtrak does today.

Some have even criticized all passenger rail funding entirely. Clearly, they are unaware that trillions are spent in America and around the world building, expanding, and maintaining infrastructure. The purpose of the world's transportation system isn't simply about the profit of the system itself. It is about the goods and the people it moves and the jobs it creates and the productivity and the wealth that it creates across the economy.

The private sector has a vital role to play, for sure. But an experimental free-for-all that puts jobs or the economy at risk we believe is a bad idea. We stand ready to work with this committee for a true public/private partnership on the NEC that recognizes our members' contributions, but also maintains Amtrak as the centerpiece of high-speed rail in the Northeast Corridor.

Thank you.

Mr. SHUSTER. Thank you very much, I think, Mr. Wytkind. Wishful thinking. In 1970, I wonder where you would have been when we deregulated the freight rail system in this country. If you had made that same argument, your brothers and sisters in the private sector would have been making the same amount of money as your brothers and sisters in Amtrak make today. That is less money.

Mr. WYTKIND. That is apples to oranges. Different point, wrong issue.

Mr. SHUSTER. Second of all, I'm not cherry-picking. I put in PRIIA two losing lines, losing money. That is not cherry-picking.

Mr. WYTKIND. You'll be surprised we just disagree on that.

Mr. SHUSTER. And third, I want to put in for the record that the Government of Great Britain is not taking away, necessarily, the western line from Virgin Rail. They are going through a bid process. They are the most profitable. They are giving back the Government £100 million this year, $163 million. So it is the most profitable system over there. And I certainly disagree with what you said on safety.

But with that, I yield to the chairman for questions.

Mr. MICA. Well, thank you. I will just ask a couple of questions, and Members, too. We were just notified there are going to be about an hour and a half or two hours of votes coming up, so I will try to be brief and ask a couple. Maybe we can get everyone in here, and then assemble a roundtable later on so we don't keep people too long today. Maybe we can accommodate folks.

Let's see. Mr. Jayanti, you testified today that you think the private sector, without an outlay of cash but with a RRIF loan, could institute high-speed rail without significant Federal subsidization

or any. I wasn't sure of the terms. But you believe that could be done.

And how soon do you think you could get service? I am trying to do it in a third of the time, as opposed to the 30-year outline, $117 billion initial proposal by Amtrak. Again, could you just summarize what you think you could do?

Mr. JAYANTI. Yes. Thank you, Mr. Chairman. I think that, as I mentioned earlier, there are significant private sector dollars that are available for investment in the corridor infrastructure. I believe, as chairman of the subcommittee Mr. Shuster said earlier, there are some critical infrastructure investments that need to be made that can be made within that 10-year timeframe and will substantially reduce trip times.

So to your vision of providing true high-speed rail on the corridor within a 10-year time period, I think that is achievable.

Mr. MICA. We heard two representatives from labor. And the facts are, if this is a record of success, again, I think we pointed out from Amtrak's own reports, 1977, 10.6 million passengers; in 2010, in the Northeast Corridor, 10.5. When I came to Congress, Amtrak had 29,000 employees. They have 19,000 now. To me, that is a record of failure. It is a record of labor leaving their employees behind and not really maximizing the asset that we have.

Mr. Goetz, do you think we have the possibility? I gave one illustration, and of course, what we want to do is not adopt any failing efforts, whether it is in Europe or Asia, but there are models, don't you think, that we could adopt? You heard that one line that we brought forth the exact figures on; again, from London to Manchester, we went from 2,500 employees in 2004, I believe it was, to this year, and we have 3,800 employees, all union-represented, all making better wages.

Don't you think that that's possible, to increase employment, to model after successful models, and that people have done this before?

Mr. GOETZ. Well, yes. We certainly do. But my comments are mostly directed at the construction side of this, as opposed to the operational side. And I don't know if those——

Mr. MICA. But it can be done?

Mr. GOETZ. Oh, yes. Yes. I just don't know if those job losses——

Mr. MICA. And again, guaranteeing labor and protecting the public position.

Mr. GOETZ. Right.

Mr. RICHARDSON. Mr. Mica——

Mr. MICA. Wait a second. Mr. Bonilla had his hand up.

Mr. BONILLA. No. I was just——

Mr. MICA. OK. I was just—all right. Well, again, I want everybody to have an opportunity——

Mr. WYTKIND. Could I try to answer that for the labor movement? Is that possible?

Mr. MICA. Well, I didn't recognize you. And I want to give Ms. Brown and others the opportunity to——

Mr. SHUSTER. I'm going to—when my question comes, I want to hear the answer. I am looking forward to that answer.

What we are going to do is yield 5 minutes to the ranking member, and then from there on, 2 minutes to Members because we want to get as many questions as we can in.

Ms. BROWN. Let me just be clear. I want to put into the record the copy of Secretary LaHood's announcement of where the $2 billion from Florida—where it went. I want that for the record. And I also want to put in the record the comprehensive study that was done between Orlando and Tampa, and showing that it was a profitable route.

[The information follows:]

DOT 57-11

Monday, May 9, 2011

U.S. Transportation Secretary LaHood Announces $2 Billion for High-Speed Intercity Rail Projects to Grow Jobs, Boost U.S. Manufacturing and Transform Travel in America

Unprecedented Investment in the Northeast Corridor, Expanded Service in the Midwest and New, State-of-the-Art Rail Equipment Top List of Rail Dollar Recipients

WASHINGTON – U.S. Transportation Secretary Ray LaHood today announced $2 billion in high-speed rail awards providing an unprecedented investment to speed up trains in the Northeast Corridor, expand service in the Midwest and provide new, state-of-the-art locomotives and rail cars as part of the Administration's plan to transform travel in America.

Twenty-four states, the District of Columbia and Amtrak submitted nearly 100 applications, competing to be part of an historic investment that will create tens of thousands of jobs, improve mobility and stimulate American manufacturing.

"Earlier this year, President Obama and I made a commitment to improve and expand America's transportation system, including the development of a modern, national high-speed rail network," said Vice President Biden. "And today, we're announcing investments that will continue our progress toward making this vision a reality. These projects will put thousands of Americans to work, save hundreds of thousands of hours for American travelers every year, and boost U.S. manufacturing by investing hundreds of millions of dollars in next-generation, American-made locomotives and railcars."

"President Obama and Vice President Biden's vision for a national rail system will help ensure America is equipped to win the future with the fastest, safest and most efficient transportation network in the world," said Secretary LaHood. "The investments we're making today will help states across the country create jobs, spur economic development and boost manufacturing in their communities."

Broadcast quality video and audio of Secretary LaHood discussing today's high-speed rail announcement is available for download via the following links:
Video: https://dotmediacenter.onehub.com/d/j1vz/
Audio: https://dotmediacenter.onehub.com/d/977o/

The Department's Federal Railroad Administration selected 15 states and Amtrak to receive $2.02 billion for 22 high-speed intercity passenger rail projects as part of a nationwide network that will connect 80 percent of Americans to high-speed rail in 25 years. The dedicated rail dollars will:

• Make an unprecedented investment in the Northeast Corridor (NEC), with $795 million to upgrade some of the most heavily-used sections of the corridor. The investments will increase speeds from 135 to 160 miles per hour on critical segments, improve on-time performance and add more seats for passengers.

• Provide $404.1 million to expand high-speed rail service in the Midwest. Newly constructed segments of 110-mph track between Detroit and Chicago will save passengers 30 minutes in travel time and create nearly 1,000 new jobs in the

construction phase. Upgrades to the Chicago to St. Louis corridor will shave time off the trip, enhance safety and improve ridership.

• Boost U.S. manufacturing through a $336.2 million investment in state-of-the-art locomotives and rail cars for California and the Midwest. "Next Generation" rail equipment will deliver safe, reliable and high-tech American-built vehicles for passenger travel.

• Continue laying the groundwork for the nation's first 220-mph high-speed rail system in California through a $300 million investment, extending the current 110 mile segment an additional 20 miles to advance completion of the Central Valley project, the backbone of the Los Angeles to San Francisco corridor.

Nearly 100 percent of the $2.02 billion announced today will go directly to construction of rail projects, bringing expanded and improved high-speed intercity passenger rail service to cities in all parts of the country. Thirty-two states across the U.S. and the District of Columbia are currently laying the foundation for high-speed rail corridors to link Americans with faster and more energy-efficient travel options.

The American Recovery and Reinvestment Act of 2009 (ARRA) and annual appropriations have, to date, provided $10.1 billion to put America on track towards providing rail access to new communities and improving the reliability, speed and frequency of existing lines. Of that, approximately $5.8 billion dollars has already been obligated for rail projects.

A strict "Buy America" requirement for high-speed rail projects ensures that U.S. manufacturers and workers will receive the maximum economic benefits from this federal investment. In 2009, Secretary LaHood secured a commitment from 30 foreign and domestic rail manufacturers to employ American workers and locate or expand their base of operations in the U.S. if they are selected for high-speed-rail contracts.

Rail project highlights include:

NORTHEAST CORRIDOR (NEC)

Amtrak – NEC Power, Signal, Track, Catenary Improvements – $450 million to boost capacity, reliability, and speed in one of the most heavily-traveled sections of the Northeast Corridor, creating a 24-mile segment of track capable of supporting train speeds up to 160-mph.

Maryland – NEC Bridge Replacement – $22 million for engineering and environmental work to replace the century-old Susquehanna River Bridge, which currently causes frequent delays for commuters due to the high volume of critical maintenance.

New York – NEC Harold Interlocking Amtrak Bypass Routes – $295 million to alleviate major delays for trains coming in and out of Manhattan with new routes that allow Amtrak trains to bypass the busiest passenger rail junction in the nation.

Rhode Island – NEC Kingston Track, Platform Improvements – $25 million for design and construction of an additional 1.5 miles of third track in Kingston, RI, so high-speed trains operating at speeds up to 150-mph can pass trains on a high-volume section of the Northeast Corridor.

Rhode Island – NEC Providence Station Improvements – $3 million for preliminary engineering and environmental work to renovate the Providence Station. These upgrades will enhance the passenger experience, keep the station in good working order and improve transit and pedestrian connectivity.

NORTHEASTERN REGION

Connecticut – New Haven to Springfield Track Construction – $30 million to complete double-track segments on the corridor, bringing added intercity rail service to a route that plays an important role in the region, connecting communities in Connecticut and Massachusetts to the NEC, as well as Vermont.

Massachusetts/Maine – Downeaster Track Improvements – $20.8 million to

construct a 10.4-mile section of double track between Wilmington and Andover, MA. Track upgrades will increase schedule performance and dependability for passengers traveling on the Northern New England Downeaster corridor.

New York – Empire Corridor Capacity Improvements – $58 million to construct upgrades to tracks, stations and signals, improving rail operations along the Empire Corridor. This includes replacement of the Schenectady Station and construction of a fourth station track at the Albany - Rensselaer Station, one of the corridor's most significant bottlenecks.

New York – Rochester Station and Track Improvements – $1.4 million for a preliminary engineering and environmental analysis for a new Rochester Intermodal Station on the Empire Corridor, connecting passengers with additional transit and pedestrian options.

Pennsylvania – Keystone Corridor Interlocking Improvements – $40 million to rebuild an interlocking near Harrisburg on the Keystone Corridor, saving travelers time and improving passenger train schedule reliability.

REGIONAL EQUIPMENT POOLS

Next Generation Passenger Rail Equipment Purchase – This state-of-the-art rail equipment will provide safe and reliable American-built vehicles for passenger travel, while boosting the U.S. manufacturing industry.

• **Midwest Corridors** – $268.2 million to purchase 48 high-performance passenger rail cars and 7 quick-acceleration locomotives for 8 corridors in the Midwestern States: Illinois, Indiana, Iowa, Michigan, and Missouri.

• **California Corridors** – $68 million to acquire 15 high-performance passenger rail cars and 4 quick-acceleration locomotives for the Pacific Surfliner, San Joaquin, and Capitol Corridors in California.

MIDWESTERN REGION

Illinois – Chicago - St. Louis Corridor – $186.3 million to construct upgrades on the Chicago - St. Louis Corridor between Dwight and Joliet, IL with trains operating at 110 mph for more than 220 miles of track. This investment will reduce trip times, enhance safety and add more seats on the corridor, increasing the number of people who can conveniently travel by train.

Michigan – Kalamazoo-Dearborn Service Development – $196.5 million to rehabilitate track and signal systems, bringing trains up to speeds of 110 mph on a 235-mile section of the Chicago to Detroit corridor, reducing trip times by 30 minutes.

Michigan – Ann Arbor Station Project – $2.8 million for an engineering and environmental analysis to construct a new high-speed rail station in Ann Arbor, MI, that will better serve passengers and allow more than one train to serve the station simultaneously.

Minnesota – Northern Lights Express – $5 million to complete engineering and environmental work for establishing the Northern Lights Express – a high-speed intercity passenger service – connecting Minneapolis to Duluth, with 110-mph high-speed rail service.

Missouri – Merchant's Bridge Replacement – $13.5 million to advance the design of a new bridge over the Mississippi River on the Chicago to St. Louis Corridor, replacing a bridge built in the 1890s.

SOUTHERN REGION

North Carolina – Charlotte to Richmond Service Enhancement – $4 million for environmental analysis on the Richmond to Raleigh section of the Southeast High Speed Rail Corridor (SEHSR). This advances the goal of extending high-speed rail service on the NEC into the southeast, with 110-mph capable service.

Texas – Dallas/Fort Worth to Houston Core Express Service – $15 million for

engineering and environmental work to develop a high-speed rail corridor linking two of the largest metro areas in the U.S., Dallas/Fort Worth to Houston.

CALIFORNIA AND NORTHWEST REGION

California – Central Valley Construction Project Extension – $300 million for a 20-mile extension along the Central Valley Corridor. This will continue to advance one of the highest priority projects in the nation that will ultimately provide 220 mph high-speed rail service from Los Angeles to San Francisco. The work funded in this round will extend the track and civil work from Fresno to the "Wye" junction, which will provide a connection to San Jose to the West and Merced to the North.

Oregon – Eugene Station Stub Tracks – $1.5 million for analysis of overnight parking tracks for passenger trains on the southern end of the Pacific Northwest Corridor, adding new capacity for increased passenger and freight rail service.

Washington – Port of Vancouver Grade Separation – $15 million to eliminate a congested intersection and bottleneck between freight and passenger tracks. By elevating one set of tracks over the other, travel along the Pacific Northwest Rail Corridor will experience reduced delays and passenger trains will not have to wait for crossing freight traffic.

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Ms. BROWN. In addition to that, I am going to let Mr. Wytkind respond. But I have an additional question for you. The high-speed rail discussion by Mr. Bonilla said that Amtrak would cost a subsidy of $353 per passenger. Can you respond to that in your response?

Mr. WYTKIND. Thank you, Ms. Brown. Yes, I would love to. I was fascinated by Mr. Bonilla's testimony, actually. A couple points.

If you were to judge our transportation system based upon its profitability throughout the system, whether it is rail, transit, aviation, whatever the mode may be, and only ran in support of the system that "made money," we would all have to have limousine service to get around town because there would be no transportation system anywhere in the country that runs.

Two, Mr. Bonilla talked about pay for performance. I wonder whether he would support pay for performance for Wall Street execs who almost ruined our economy, and continue to make a lot of money today after doing so. So I wonder if those standards apply to both rank-and-file employees and to execs at Wall Street firms.

Lastly, on the issue of how you define cost, the cost of our system is a cost that has to be borne with support from the Government. There is no transportation system in the world that doesn't get significant Government support. All these so-called private models that continue to be pointed out by some of our witnesses and by members of this committee, all of those private models have significant, in some cases billions of dollars, in Government support as the underlying and underpinning principle for making them work. So it is a complete fallacy to say that you can run this thing as a purely private sector-based initiative.

Regarding the comment and question that Mr. Mica asked, I think the direction of this debate needs to be pointed at the inability of Congress, throughout Amtrak's entire history, to fund the enterprise. It is the classic starve-the-beast philosophy. You give the beast about half of what it needs, ask it to succeed, and then blame it for not succeeding 30 years later.

The answer to the question is, when is Congress finally going to fund Amtrak at the level that it needs to run a real national system in the Northeast Corridor? Until that happens, there is no way you are ever going to have an oversight hearing where you are all happy about the performance because you continue to chronically underfund the company and then expect it to do wonderful things for the American people.

Ms. BROWN. Thank you. Thank you. Let me just say that—I need to say something about this committee because this committee has always worked together. And we realize that this committee is really the engine. Without infrastructure, you don't have jobs. Every billion dollars we invest, we generate 44,000 jobs. And the way we have to grow the economy is through infrastructure investment.

Now, Mr. Mica, I want to summary to say that I am for a roundtable discussion, but not just with the players that we have in the room and not with a narrow focus. You are just interested in the Northeast Corridor; I am interested in the Sunset Limited. I want to see what private groups want to take it from New Orleans to Orlando.

There are many options out there, long distance. So when we have this discussion, it needs to be a comprehensive discussion on how we are going to move transportation in this country. We are not competing in Florida with Georgia and Alabama, my friends. We are competing with the Chinese that will put $350 billion into the system.

And so, basically, if we are going to be there in competition, we have got to invest in infrastructure. When we are talking about the reauthorization, are we going to put the money in rows? That is all I hear.

But the point of the matter is that in Orlando, folks that don't understood Central Florida, we have got eight lanes. One more lane than the Governor come up here and discuss won't help us. One more lane won't help us in Florida. We have got to come up with a comprehensive way to move people, goods, and services so we can be competitive with the rest of the world.

Mr. HART. Ranking Member——

Ms. BROWN. Mr. Hart, but I think——

Mr. HART [continuing]. Can I be recognized?

Ms. BROWN [continuing]. Someone else raised his hand that wanted to respond.

Mr. HART. Could I be recognized? May I be recognized?

Ms. BROWN. All right, Mr. Hart.

Mr. MICA. You have got about a minute.

Mr. HART. Yes. One minute.

Ms. BROWN. He get only 30 seconds of my time. Someone else wanted part of it.

Mr. SHUSTER. [presiding.] You have 30 seconds.

Mr. HART. Thank you. I want to agree with the ranking member that the Reason Foundation does have blood on its hands for killing the Florida high-speed rail project. That was a model project that did have bipartisan support. Even the chairman tried to save that particular project. It would have established a model for public/private partnerships that we could have built on as we looked at the Northeast Corridor, the Chicago hub, and in California.

But before the opportunity was given to the private sector to fill the gap for $300 million, the Governor took the deal off the table and wouldn't even give the private sector an opportunity to show that it was prepared to meet the burden of risk and financing for that program.

Ms. BROWN. On that point, let me tell you, I have met with the private sector, and they are reluctant to invest their money since you are dealing with a partner that is not stable. The patient is on life support constantly. You invest your money, your dollars, and then when it is time to go to the table to do the project, well, you get one person saying, we are not going to do it, even though the legislature and the Congress have voted for it.

Mr. SHUSTER. The gentlelady's time is expired.

Ms. BROWN. I have one question for Mr. Bonilla.

Mr. SHUSTER. Well, we can submit it for the record because your time is expired. We are going to move on to other Members because we have votes here soon.

So anybody over on our side have a question? Mr. Meehan, go ahead.

Mr. MEEHAN. Thank you, Mr. Chairman. And let me just begin my quick comment by recognizing a point Mr. Wytkind made, which is we are getting ready to invest in transportation on the highway system in which most of that money from the Federal, State, and local government is investments of government that underscore the transportation that everybody uses every day in their automobiles.

But I have a question. I just need to have some understanding, Mr. Jayanti, because I don't understand the economics of the idea of separating the operation of a rail system from the infrastructure of a rail system, presuming that the proceeds that drive the system generally go to the operation and the ticket prices.

So how do you finance and make profitable simple construction and maintenance of infrastructure?

Mr. JAYANTI. Thank you, Mr. Meehan. It is relatively straightforward. The infrastructure manager charges access fees for those companies that run trains over its infrastructure.

Mr. MEEHAN. But that is going to increase the cost of tickets and other kinds of things. Right?

Mr. JAYANTI. No, it will not. In fact, it will do the opposite because what you will do is attract additional passenger rail service providers to use the corridor. Today, the corridor—there are sections of the corridor where Amtrak is running four passenger trains per hour, when you could, in fact, with some infrastructure investment, run up to 30 or 40 trains per hour on the same infrastructure.

So there are possibilities to both increase the revenue to the infrastructure manager as well as lower ticket prices for the citizens and traveling public who use it. This also will create jobs. It is not privatization because the Federal Government continues owning the infrastructure asset. It is a very different hybrid model of public/private partnership. Thank you.

Mr. MEEHAN. Thank you. Mr. Chairman, in the interest of the questions, I yield back.

Mr. SHUSTER. Thank you very much. We are going to get votes called here in about 5 minutes, so we will be here probably another 10 minutes, 15 at the most.

Ms. Richardson, you are recognized for 2 minutes.

Ms. RICHARDSON. Yes. Thank you, Mr. Chairman.

First of all I would like to refer to one of my colleagues who called Amtrak and the Postal Service a failure. I would like to suggest, take a look at Wall Street and car manufacturers. If we could give them a bailout, certainly we can support our own rail system and our postal system.

Next, Mr. Jayanti, if you could briefly answer my question. You are proposing that the Federal Government would provide $25 billion up front in the form of Federal subsidized loans, which the Federal Government would have to borrow, so that you could invest in other financial instruments? Is that what you are suggesting? Yes or no. Just yes or no. I think you said it in the testimony. Yes or no?

Mr. JAYANTI. Yes. My testimony stands.

Ms. RICHARDSON. OK. I would like to say, I am sure Amtrak and a whole lot of other people could use $25 billion up front to invest

in the way that they should. I just find this witness is just really, in my opinion, not appropriate for this panel.

My second thing: Mr. Bonilla, is your position to support Buy America? Should we develop high-speed rail in the Northeast Corridor?

Mr. BONILLA. You have to——

Ms. RICHARDSON. Yes or no?

Mr. BONILLA. Maybe.

Ms. RICHARDSON. Yes or no?

Mr. BONILLA. Should we support high-speed rail? If it is profitable and if it is done properly.

Ms. RICHARDSON. No. My question, sir, was what is your position on whether we should use Buy America, and should it apply with the development of high-speed rail? Yes or no?

Mr. BONILLA. Not necessarily.

Ms. RICHARDSON. Thank you.

OK. My last question, and I need it to be brief, Mr. Bonilla. Do you believe that the work of high-speed rail should be covered under the Railway Labor Act and the Railway Retirement Act? Yes or no? Yes or no?

Mr. BONILLA. I think that is a foregone conclusion.

Ms. RICHARDSON. Yes or no?

Mr. BONILLA. Yes.

Ms. RICHARDSON. Thank you.

I yield my remaining 16 seconds to the ranking member, Ms. Brown.

Ms. BROWN. Mr. Bonilla, I want to just ask you one question. Do you support intercity commuter rail, Sun Rail? Yes or no? You? It was your company——

Mr. BONILLA. Do I support intercity commuter rail?

Ms. BROWN. Sun Rail in Central Florida. Do you support——

Mr. BONILLA. Oh, no.

Ms. BROWN. OK. I want Mr. Mica to be here to know that because he certainly support it.

Mr. SHUSTER. The gentlelady's time is expired.

Ms. BROWN. It is a project that we worked on for 7 years.

Mr. BONILLA. We are aware of that.

Mr. SHUSTER. The gentlelady's time is expired. Her Governor is making her very upset here today, and has been for a couple of months.

Mr. BONILLA. I am glad I wore my Kevlar suit.

Mr. SHUSTER. I now yield 2 minutes to the gentleman from New Hampshire, Mr. Guinta.

Mr. GUINTA. Thank you, Mr. Chairman. Thank you all for being here today, and I appreciate the different perspectives that we have from each and every Member who is testifying.

I had a couple of questions for Mr. Wytkind. Thank you again for coming. I listened to your testimony, and it seemed pretty clear that you are advocating, and quite frankly suggesting, that without any additional dollars, we can have a real problem with long-term sustainability.

I don't disagree with that. I guess where may be I disagree is why would it be your position that private sector money should be excluded from those investments that need to be made?

Mr. WYTKIND. Well, thank you for the question. There is not a single word in my testimony that would even imply that I don't see a role for the private sector. Understand, I represent 32 unions in the private and the public sector. Our members do everything you can possibly imagine to make our transportation system work.

My testimony today is focused on not breaking up into pieces and privatizing Amtrak either on the Northeast Corridor or anywhere in the country because I believe Amtrak is the premier high-speed rail provider in this country. And if given the resources, which it never has had for 30-plus years, it can succeed because it has the best railroad workers in the world who perform the functions of operating and maintaining the system.

That is the focus of my testimony. There is not a single word in here that suggests that the private sector shouldn't be brought to the table. In fact, quite the contrary. It needs to be brought to the table because that is the way we are going to develop passenger rail, and frankly, all transportation in this country, is with a very robust private sector role.

Mr. GUINTA. So you are in favor of some private sector dollars. On the public side, and I know my time is expired so if you can answer very quickly, where would those dollars come from, given the state of our economy?

Mr. WYTKIND. Well, I think there needs to be priorities finally made about the need to invest in transportation. It is why I work so hard up here in this committee to help the leadership pass a surface transportation bill. We are falling behind the rest of the world.

We are running a transportation system in the year 2011 on a 1980s budget, and we wonder why it is failing. It is because the Congress needs to step up to the plate and invest more money into the entire system.

Mr. GUINTA. Thank you.

Mr. SHUSTER. The gentleman's time is expired.

The gentlelady from Florida, 2 minutes. I am going to enforce it strictly.

Ms. BROWN. Yes. I want to put in the record this news article that I just got, "Privatization Fails to Cut Rail Costs." I want to be clear. This is another instance. I believe in the private/public partnership, and I believe that is the way we have got to go as far as investments. But I do not agree that we need to destroy Amtrak.

Amtrak is the leader at the table. And let me just tell the people in this room: We, as Members of Congress, will not decide who are the partners. That is the role of the administration, to be clear. And so people put in bids. They make decisions through that mannerism.

We don't pick the winners and the losers, who is going to do business with the Federal Government. We come up with the broad scope, and then privates make that decision. And we had 90 percent of the funding in Florida, and we had eight companies that were ready to be that 10 percent. It was 100 percent funding, for the information of the people in this room, 100 percent of our gasoline tax that we sent to Washington, that we were able to work in a bipartisan manner and send it back to Florida.

And let's be clear. We have lost close to 60,000 jobs with a city and a community that has 11 to 15 percent unemployment. It is criminal what happened with the taxpayers' dollars in Florida. And in 3 years, we are going to change that.

And let's be clear. All this talk about what we need to do about waste, the only waste is how we waste those taxpayers' dollars in Florida and sent the money to my colleagues in other places. And they are so very grateful for the contributions that Florida has made to increase their transportation system.

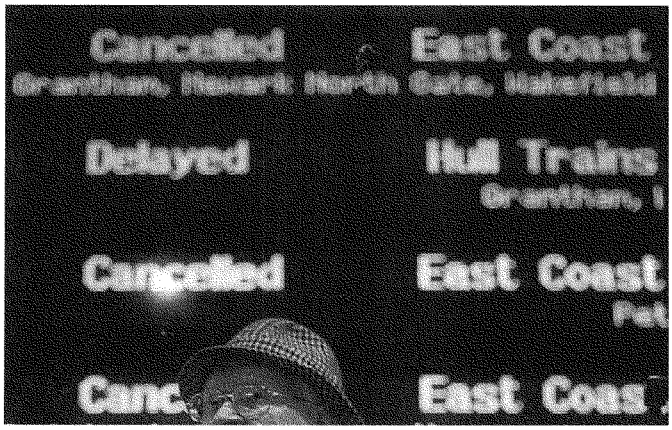
So with that, I yield back the balance of my time.

[The information follows:]

The Telegraph

Privatisation fails to cut rail costs

Privatisation has done nothing to reduce costs per passenger on the railways, despite a 57pc rise in the number of travellers since 1996/97, a hard-hitting report has found.



Trade union Unite said the report showed that "the privatisation of the railways was disastrous".

By Alistair Osborne (http://www.telegraph.co.uk/finance/comment/alistair-osborne/) , Business Editor

6:00AM BST 20 May 2011

Sir Roy McNulty, launching his long-awaited study into "value for money" on Britain's network, pinned the blame as much on the Government as the industry for average rail costs being 40pc higher than elsewhere in Europe.

"The current £4.3bn industry operating deficit – passenger revenues minus costs – equates almost exactly to the operating deficit of the industry in 1996/97, factored up for the 57pc growth in passenger numbers since than time and adjusted to 2009/10 prices," Sir Roy found.

Trade union Unite said the report showed that "the privatisation of the railways was disastrous".

Sir Roy said rail passenger spend had increased by £4bn since 1996/97 to about £11bn a year, with costs per

passenger stubbornly stuck at just over 20p per passenger kilometre. While subsidies are down from a peak £6.8bn in 2006/07 to £4.6bn in 2009/10, they dwarf 1996/97's figure of less than £2bn.

Given the increase in passengers, "it might have been expected that unit costs would fall – bearing in mind that this is an industry with relatively high fixed costs," the report said.

Hammond: we must get rail costs under control (http://www.telegraph.co.uk/news/newsvideo/8523120/Philip-Hammond-we-must-get-rail-costs-under-control.html)

The workers will pay to reform our railways (http://www.telegraph.co.uk/comment/8522206/The-workers-will-pay-to-reform-our-railways.html)

EADS builds up £10.6bn cash pile (http://www.telegraph.co.uk/finance/newsbysector/transport/8513047/Airbus-owner-EADS-builds-up-10.6bn-cash-pile.html)

Community wins say on Dover port privatisation deal (http://www.telegraph.co.uk/finance/newsbysector/transport/8515132/Community-wins-say-on-Dover-port-privatisation-deal.html)

Warren Buffett's NetJets reported to OFT (http://www.telegraph.co.uk/finance/newsbysector/transport/8513248/Warren-Buffetts-NetJets-Europe-reported-to-Office-of-Fair-Trading.html)

FSA to examine Stobart deal with chief (http://www.telegraph.co.uk/finance/newsbysector/transport/8510751/FSA-to-examine-Stobart-deal-after-approach-by-police.html)

Sir Roy warned that, with forecasts pointing to a doubling of passenger traffic by 2030, the industry had to shrink the operating deficit as it was "very hard to imagine any Government approving a doubling of the railway's activities if this meant a doubling of this level of deficit".

He found that costs per passenger need to be reduced by 40pc to reach the average of France, the Netherlands, Sweden and Switzerland – and called for 30pc cut in costs by 2018/19.

"The excessively high costs of GB rail inevitably result in passenger fares being too high and taxpayers paying too much," the report found.

Sir Roy's study blamed ministers for failing to provide "sufficient clarity about what Government policy is" – and the industry for not taking "responsibility" to cut costs. This included "salary increases in excess of the increase in average earnings".

The "fragmentation" between Network Rail and the train companies was another "barrier to efficiency".

Responding to the report, the CBI business lobby said: "We will not see much-needed investment in our rail network unless the Government delivers on more flexible, longer-term rail franchises, and backs modernisation of outdated working practices."

Mr. SHUSTER. Thank you very much.

The gentlelady from Washington.

Ms. BEUTLER. Thank you, Mr. Chairman. And this for Mr. Wytkind. Am I saying that—Wytkind? OK.

In your statement, you said, "Private sector companies simply cannot make a profit without Federal support." Yet we have seen the example of Virgin Rail in the U.K., where Virgin makes a profit without Government subsidy, as well as other models. Can you maybe elaborate on your statement in light of that?

Mr. WYTKIND. Sure. Thank you. Thanks for the question.

The premise of the question is not accurate. In all of these so-called private models, whether it is Virgin Rail or, frankly, any other one around the world, there is a massive underpinning of public support to build the infrastructure. As Ms. Brown said, China is spending billions——

Ms. BEUTLER. Wait a minute. Let me add a clarification there. You said underpinning of public support, or public investment? You are talking about public investment?

Mr. WYTKIND. Well, that is what I mean by support, yes. Public money. Our infrastructure in this country, like it is around the world, governments are badly outspending us because they believe it is part of their economic future. And anybody can find a particular route or system in our transportation network that can "make money." But most of that making money is above the rail, and everyone knows that.

Ms. BEUTLER. So can you identify——

Mr. WYTKIND. And we conveniently ignore the infrastructure costs that the Government put money in.

Ms. BEUTLER. Let me head in there because I am interested in this. Rails is something in Washington State we utilize, whether it is passenger rail, freight rail, or possibly a high-speed rail. I have not seen an area where it makes money, or even pencils. Can you provide for me and for this committee some examples? Is that possible?

Mr. WYTKIND. Well, that is the point I made in my testimony. There really is very little in our transportation system when it comes to our infrastructure that "makes money." I know that Amtrak, which should have been a witness here today since they run the Northeast Corridor, makes money on the Northeast Corridor above rail. It ranges from 40, 45 cents to, I think, 75 to 80 cents on the dollar. That is pretty good metrics. But they weren't invited here to provide those metrics for you. The truth is that they have the ability——

Ms. BEUTLER. I am sorry. I am out of time.

Mr. SHUSTER. Finish your thought.

Mr. WYTKIND. No. What I was going to say is there is a way to "make money" and make some profit out of certain routes, certain systems within our transportation network. But the underpinning of the costs is the long-term infrastructure maintenance and other development costs that go into it. And without a robust Government role, it is an absolute losing proposition.

Mr. SHUSTER. And the proposal that is coming forward is still going to include public sector money——

Mr. WYTKIND. Right.

Mr. SHUSTER [continuing]. Making those investments. But we are talking about, where you can recoup those costs, we should do it. And then the British Rail model, Virgin Rail, is doing just that and actually turning it back, creating jobs, too, union jobs, I might add.

Mr. Bucshon from Indiana, 2 minutes.

Dr. BUCSHON. Thank you. I have just a couple questions, basically for anyone on the panel. And I will just go down the line.

Where do you think we should get the money to fund this stuff when the Federal Government is broke? Quickly.

Mr. BONILLA. You have no options. You either look to the private sector or you look to Amtrak and $117 billion. If you don't look to the private sector, there is no funding opportunity.

If I could—briefly, the comment was made earlier that we are falling behind the rest of the world in high-speed rail. That may be true, but we don't know if the rest of the world is racing off a cliff.

Dr. BUCSHON. OK. Just go down the line. Because this is a problem not only in infrastructure but in a lot of things we are dealing with right now in the Federal Government. Where are we going to get this money? I am interested in people's ideas.

Mr. JAYANTI. I think it is easy to ask the Government for more money and more money and more money. We have heard that Amtrak has received over $38 billion in the last 40 years and is still requiring a billion and a half a year.

Dr. BUCSHON. Well, let's make the presumption that the Federal Government is broke and that we don't have any money to hand out. So if that is the case, with that premise, where are we going to get the money for infrastructure?

Mr. JAYANTI. You need the private sector.

Dr. BUCSHON. Mr. Richardson?

Mr. RICHARDSON. In order to get the private sector involved, you need to look at the stations and the locations and the destinations that you are creating. If you create strong destinations and service, you are going to increase your ridership and your revenues, and you will get private investment to come in to build developments around those stations, which will increase the tax coffers of the local communities and the States.

Dr. BUCSHON. Mr. Hart?

Mr. HART. Yes. Transit-oriented development is important. It is a source of revenue. So is competition. Amtrak should not be the only one operating trains on the Northeast Corridor. The infrastructure can be maintained, and there can be access fees provided. We can get capital from the private sector if the political dynamic is balanced and there is some certainty and continuity in our plan. There is $500 billion available for that.

Dr. BUCSHON. I am going to move on to the last two. I am running out of time.

Mr. GOETZ. Public/private partnerships. I think we need to get the private sector involved.

Dr. BUCSHON. And Mr. Wytkind?

Mr. WYTKIND. Well, I guess you won't be surprised to hear I don't think the Federal Government is broke. It just needs to reprioritize how it spends its money, and transportation needs to be——

Dr. BUCSHON. Totally valid.

Mr. WYTKIND [continuing]. A higher priority than it has been in the past.

Dr. BUCSHON. OK. Thank you all.

Mr. SHUSTER. Mr. Southerland is recognized for questions for 2 minutes.

Mr. SOUTHERLAND. I get pretty passionate about wasting taxpayer dollars. And we have made reference hr today about what is criminal. And I think what the American people are having to deal with right now is criminal.

We often hear the raising China as the model. I have just got to tell you, we are financing their infrastructure. Pathetically negotiated trade agreements, where they have access to our markets and we don't have access to theirs. That is criminal.

And so Government regulation pushing down upon the family farm, pushing down upon oystermen and those that make their living working 20-hour days in the Gulf, trying to fish and perpetuate on boats that are being held together by paperclips, that is criminal.

And so I just want to make sure that when we talk about that word, that we look no farther than what the American people right now are having to bear. To throw that word around—what I have seen here in 5 months sickens me. And I go home and I hurt with my people. That is criminal, what they are being made to bear.

And so that is not a question, but that is a deeply held statement. Mr. Chairman, I yield back.

Mr. SHUSTER. I thank the gentleman.

Mr. Richardson, can you talk about some specific examples on investing along the corridor? Because I know that—I think it is in Hong Kong where they have invested in a station that is—that is the way they are making the money, or the bulk of the money, on the system. So I wonder if you could maybe talk about the Northeast Corridor or other places where we might make those investments to recoup our cost.

Mr. RICHARDSON. Thank you. Our model pretty much—and let me give you an example. Let's say if you took a station and you develop $100 million worth of commercial residential parking around the station or within the station itself, retail, et cetera. And you create a $10 million NOI on at that time, and then in addition to that you create a special tax district that took advantage of all the incremental increases of the taxes.

You could probably raise another $10 million. So you basically have about $20 million a year to pay off a $100 million investment. Based on that, you would pay it off in less than 6 years. That $10 million can then go back into the operation costs of the stations, and go back into infrastructure; and also, the other $10 million of the tax district goes back into the State coffers.

You take and you can do multiple stations along a corridor, and you create the continuity and you create the branding between all these stations, and naming rights, and you increase more revenues. And that is where we should take advantage of those opportunities.

Mr. SHUSTER. For example, taking the 30th Street Station in Philadelphia and building an office tower above it, or is that kind of——

Mr. RICHARDSON. Absolutely. That is one thing we don't do right now, and a lot of Amtrak stations you go in and you see a big hall. You don't necessarily see the retail shoved back in a corner somewhere. It is not out in front. It is not taking advantage.

So I understand the fact that you want to move people in and out of the stations. But it is the same thing as our airports; when they added the retail into the airports, it started creating revenues and started helping the operation costs of the airports themselves.

So there is a tremendous advantage in the TODs and how to leverage them and get private investment in there.

Mr. SHUSTER. Mr. Jayanti, can you comment on the British system, how they have gone about it, specifically Virgin Rail? And the East and the West Coast—the East Coast line is run by a Government entity, and I understand it is not profitable; and the West Coast line is Virgin Rail, and Virgin Rail actually have separated it three ways. There is an infrastructure company, there is a rolling stock company franchise, and then there is the operations side.

In your plan, it doesn't separate it out that way. Is that correct? And can you comment on that British model?

Mr. JAYANTI. I can't comment specifically on the British model. I can submit some facts for the record separately. But under our plan, the infrastructure is separate from passenger train service provision, and the infrastructure has a long-term investment plan attached to it which results in the ability to provide better service for the train ridership and I think will actually result in lower costs.

Mr. SHUSTER. Good. Thank you.

And Mr. Wytkind, come back to you on 29,000 and 19,000. Have at it.

Mr. WYTKIND. We think that 19,000 should be 119,000. And if we actually invest——

Mr. SHUSTER. So you would agree to a Government mandate that we made it 119,000?

Mr. WYTKIND. Yes. I could endorse that today.

Mr. SHUSTER. I figured that.

Mr. WYTKIND. The issue of—it is all related. It is the point I was making 10 minutes ago. We have underinvested in the enterprise by a lot, and that has led directly to the job creation or job loss issue at the company. The company has never been even—rarely has it ever even been fully funded, as authorized by this committee. It is always scrambling to come close. And so it is an underfunded enterprise, and then it is told it is a failure at the end of the process.

So I think if we fully fund at this and give it a chance to compete as a centerpiece of high-speed rail, that 19,000 figure will boom off the charts.

Mr. SHUSTER. So it is all about funding. It has nothing to do with mismanagement or contracts, labor contracts that don't give us the flexibility to do things? Because when you look at Amtrak and you look at the concessions, they lose money. And it is a monopoly. I can't stop at the local—put my hand out the window and get a Coke while I am going by. I have got to go to the rail car, the beverage car, and get my food there.

So how are they not able to do that? Isn't that a mismanagement problem?

Mr. WYTKIND. Well, my submitted testimony said—I have had a lot of differences with previous Amtrak management, and we have had a lot of problem with previous managers who didn't really treat their employees right, and frankly, the way they managed collective bargaining wasn't as good as it could have been.

But the current leadership is attempting to transform the company, and it is now competing vigorously in the States to try to provide some of the higher speed rail that some of the States want. It has appointed a new person to oversee that area. And it has repaired the worst labor-management relations I saw in my career when Joe Boardman took over the company. The way it repaired it is that it became a collaborative process from the floor all the way up.

And it is just a different kind of company. Perhaps we can give it a chance to succeed with the right level of funding.

Mr. SHUSTER. He got a contract, too. That helps out a good deal, I am sure.

Mr. WYTKIND. Well, obviously, collective bargaining is about——

Mr. SHUSTER. Now, I made the statement about the freight rails. I made the statement about the freight rails, and you said, "That is apples to oranges." I get it. Freight is different than passengers. But it is still running an operation. The private sector in America versus everywhere else in the world, they make a profit. It doesn't require the Government to put forth huge subsidies for operations.

Mr. WYTKIND. But not in the public transportation of people. It is not——

Mr. SHUSTER. But why is that? Why can't that be? Because we have never really tried it.

Mr. WYTKIND. Because it is a worldwide problem.

Mr. SHUSTER. We have never tried—but no, no, no.

Mr. WYTKIND. You cannot——

Mr. SHUSTER. That's right. The Governments control it. So why don't we try a different mode?

Mr. WYTKIND. No. The problem is the railroads got out of the business because they couldn't make money doing it.

Mr. SHUSTER. Why is that?

Mr. WYTKIND. Bring the freight railroads up here to explain that.

Mr. SHUSTER. I don't need them here. I know the history.

Mr. WYTKIND. Because in the 1960s they were going broke.

Mr. SHUSTER. The issue is the interstate highway system and the airlines started to transport people. And people wanted to fly, and people wanted to drive cars on these new modern highways. That is what happened.

Now things have changed in this country. We have recurring congestion. The Senator said earlier we went from 200 million to 300 million people over 60 years. We are going to go from 300 million to 400 million people in 30 years.

Mr. WYTKIND. Right.

Mr. SHUSTER. We have got to figure out better modes of transportation. But we are not going to be able to expand I–95, so we need passenger rail. So would you agree that we should focus on the Northeast Corridor? Would you at least agree with me on that?

Focus on the Northeast Corridor, to make that a high-speed rail corridor.

Mr. WYTKIND. We also believed you should focus on the Northeast Corridor. But don't ignore all the other highly successful corridors that will even be more successful if you give them a chance to have higher speed service.

Mr. SHUSTER. Do you support what the President did, just sprinkling money everywhere and having no real impact?

Mr. WYTKIND. I supported what the President did. The $8 billion probably should have been $80 billion. But Congress wasn't going to give that kind of money to high-speed rail. My point is, you get what you pay for in this country. If you underinvest in transportation, then you get a lousy transportation system. That is to me what the problem is.

Mr. SHUSTER. Unfortunately, it is not always "you get what you pay for." Sometimes you pay for things and you get lousy service. You get lousy management. You get things that you paid for but don't get a return on. That is what I think we have got——

Mr. WYTKIND. Well, poll the Acela riders. They will tell you they are not getting lousy service. They are getting really good service.

Mr. SHUSTER. Well, they could get better service.

Mr. WYTKIND. I couldn't agree with you more, and I would like to work with you to get that done.

Mr. SHUSTER. And we have to focus. We just can't keep spending money and spending money or we will end up going down the tubes. The Chinese are——

Mr. WYTKIND. I think we are going to go down the tubes if we don't spend money. That is the problem.

Mr. SHUSTER. We have got to spend it the right way. That is what we need to do.

With that, we still haven't got votes called.

Ms. BROWN. Yes. And I would like——

Mr. SHUSTER. You may have 2 minutes.

Ms. BROWN. Thank you. I know it is just 2 minutes.

But let's be clear, Mr. Wytkind. One of the reasons why Amtrak could not pay the management is because Congress didn't fund it. Remember, we got a Democratic Congress, and we gave the money so that Amtrak could negotiate those prior agreements. It did not just happen.

Amtrak did not have the money. Let's be clear. Over the years, as you said, we have not given Amtrak the money that they needed. Someone asked about the Northeast Corridor. Let's just be clear, Mr. Hart. There are 10 different services that run on Amtrak. And you have got all of those different communities. You have got all of those different mayors, different Governors. So they have to work together.

Mr. HART. Absolutely.

Ms. BROWN. And it is not anything we can just come in and take over the services. And let's be clear. What the President did, the Department of Transportation, was based on what we pass in Congress. Let's be clear. They didn't just come up with it. We gave them the law and they implemented the law.

And I do know certain people want just the Northeast Corridor. Well, I just want Northeast Corridor/Florida/Washington. We need

a comprehensive transportation system. And when someone sits up here and says the rest of the world is going over the cliff, I need to know what kind of research you are doing. Where did you go to school? Because everybody else feels it is important to invest in infrastructure transportation.

You have people coming up here and saying, well, we don't want the Government. But yet you are coming up here asking for $25 billion for the RRIF loan. That is a Government program, for your information. You need to know it is a partnership between the Federal and the State and local and private. And that is what we need to do to get infrastructure moving in this country. And keep in mind, one model is the airports. The airports, we invest in the major infrastructure, and then different operators run the airports.

So there is no form of transportation in this country that just runs on its own. We are in the business in Congress of picking winners and losers, and we had better make sure it is fair, or what happened in Wall Street will happen throughout the system.

Mr. HART. We proposed models of nine countries that have successful public/private partnerships in operation right now. We did not highlight the Chinese system. So China is an example, but not the only example of profitable public/private partnerships in operation right now throughout the world.

And we can do a similar type of public/private partnership that preserves Amtrak's integrity, that preserves the labor, but also increases competition and provides a better service than we have right now.

Mr. SHUSTER. Thank you, Mr. Hart.

Mr. BONILLA. Mr. Shuster, if I might for a second?

Mr. SHUSTER. Yes, sir.

Mr. BONILLA. Department of Transportation a couple of years back put out a study talking about subsidies in different modes of transportation, and reported that road transportation has essentially no subsidy because we charge users a fee to build and maintain those roads. Air transportation has some subsidy, not as much as it looks because we collect passenger facility charges, fuel tax on aviation gasoline, and the highest subsidy was on rail.

We are here because we don't know how to pay for it and we don't believe that the users are willing to use it enough if they have to pay the full cost of it.

Mr. SHUSTER. All right. Understand. Thank you. It is my time now, and we are getting ready to finish up. They called a vote.

A couple things, though. First of all, I have heard Wall Street get beat up a little bit here. Wall Street deserves to get beat up for what happened. But we should also remember a big, big player in our collapse were quasi-government institutions, Fannie and Freddie, that were encouraged by Congress and Presidents from both parties to loan money to people that couldn't afford housing.

And so beating up Wall Street is a thing we do in public a lot to folks. But we also have to remember, again, the history of it is that it is not just all Wall Street. We had a fair hand in it ourselves.

And as we move forward, we need to look at different modes. There are Members on my side of the aisle that say, sell off all of Amtrak. Get rid of it. It has failed. There are those on this side

of the aisle and those on the panel that say, oh, you can't. It is everywhere in the world. There is no possible way.

Yet I believe it is possible. We have a freight rail system that works that way. We, I believe, could have a passenger rail system if we size it the right way, if we focus on the right areas of this country, that will use the system significantly.

And I think we need to find a solution because of the increased population that we are going to experience and the increased competition we are going to experience in the world because we are seeing our transportation system begin to crumble and falter.

We need to make significant investments. We have made investments in this country, spending taxpayers' dollars that weren't investments; they were poorly spent dollars on the stimulus spending. We should have spent most of that money on transportation and infrastructure. But we were not heard. Our voice was not heard on that.

The other thing I want to point out is we keep getting reports from British newspapers, and if you know the British newspapers, most of them tell you right up front, they are liberal-leaning, conservative-leaning, because they basically editorialize; they don't report in Great Britain.

In the British Rail system, the West Coast line is being rebid, and they are going through the normal bidding process. There have been some delays and push-backs. But the West Coast line is successful over there. It is giving the Government money back. And I think that is a testament to what the private sector can do.

And I think we ought to take a chance with that. We don't have the money in this country to spend as Amtrak wants, $117 billion. We also don't have the time to wait 30 years for that investment, their plan, to take hold. We can do it in a shorter period of time, and I think with robust involvement of the private sector—again, the public sector is going to be there; we are not going to stop contributing, I am certain of that. But having a new model to use, I think, is important.

And we have to have a successful corridor, higher speed, high-speed corridor in this country or the American people are never going to buy it. We can all sit here and talk abut it and try to get labor to agree with me, and they won't, that let's get one thing right.

We are not going to get it all right, all at the same time. Let's get one-quarter correct. Let's get high-speed rail in the Northeast Corridor. Then we can show the other corridors in this country, these are the problems we have faced, these are the ways we overcame them, these are the successes. Then we can roll it out through the country and let it spread organically into our rail system, compared to something that we try to impose on the American people.

Again, I appreciate all the witnesses being here today. We do have votes. We have 9 minutes to get over there. Again, the chairman has said he will do a roundtable and we can continue this. And a roundtable, I have found, gets even more livelier than it has been here today.

But we are going to have to say that the gentlelady from Florida can't talk about the Governor of Florida because she just gets too upset about it. I am concerned about her.

Ms. BROWN. Keep in mind, I must have more partners at the table.

Mr. SHUSTER. Well, you need to talk to the chairman about that.

But again, appreciate everybody being here, and sorry that we didn't have more time. Thank you very much.

[Whereupon, at 12:32 p.m., the committee hearing was adjourned.]

Opening Statement
Representative Thomas E. Petri
10:00 a.m. on May 26, 2011
House Transportation and Infrastructure Committee
Opening the Northeast Corridor to Private Competition for the Development of High-Speed Rail

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Mr. Chairman, thank you for holding this important hearing today.

The Northeast Corridor between Washington, D.C., and Boston holds the potential to become a true high-speed rail operation, with maximum private participation in a new generation of public private partnerships. I commend Chairman Mica for the priority he is giving this initiative.

In this regard, I am particularly interested in the testimony we will hear from the Alliance for Passenger Oriented Development. They are proposing station area development across the Northeast Corridor as an integral part of an emerging high-speed rail system. The plan would capture some of the increasing value of the development, which in turn would help finance high-speed corridor infrastructure and operational expenses. The organized commercial development plan would put an emphasis on intermodal connectors and state-of-the-art mixed use that can create vibrant communities along the corridor.

A national reform initiative for rail passenger oriented development has the potential to add a vital new element to leveraging private participation in the development of high speed service in the Northeast Corridor and in the rehabilitation of intercity passenger corridors across the country.

I took forward to working with the committee to craft a rail initiative that will encourage competition to transform the Northeast Corridor into a true high-speed rail system.

Thank you, Mr. Chairman.

High-Speed Rail for the Northeast Corridor

Testimony of
Carlos Bonilla and Robert W. Poole, Jr.
Reason Foundation

House Transportation & Infrastructure Committee
Rayburn House Office Building
May 26, 2011

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Introduction

I am Carlos Bonilla. I am a former Special Assistant for Economic Policy to President George W. Bush where, among other responsibilities, I held the aviation and labor portfolios, including extensive work on Railway Labor Act and pension issues. I am a partner in an aviation analysis firm, Airline Forecasts. I have an MA in economics from Georgetown University. Today I am representing the Reason Foundation, where I am an Adjunct Fellow. My recent work on High Speed Rail was first published by the American Action Forum, where I am an Outside Expert.

My coauthor of this testimony is Robert Poole, Director of Transportation Policy at the Reason Foundation. He has advised the US DOT Office of the Secretary, the Federal Highway Administration, the Federal Transit Administration, and the state DOTs of California, Florida, Georgia, Indiana, Texas, Utah, Virginia, and Washington State. He wrote the first book on privatization of government services (*Cutting Back City Hall*, Universe Books, 1980). For the past 20 years he has specialized in transportation policy, including toll finance, congestion pricing, and public-private partnerships. He received his B.S. and M.S. in engineering from MIT and did graduate work in operations research at NYU.

Success Factors for High-Speed Rail

There is a general consensus among transportation researchers about where high-speed rail (HSR) has the best chance of success. A report from the World Bank in 2010[1] concludes that the most promising corridors would share the following characteristics:

- Already host to (conventional) trunk rail service that demonstrates high demand for passenger rail service (or if there is no rail service, evidencing serious congestion in the corridor's air and auto modes);
- Major city-pairs separated by more than 100 km. (62 miles) and less than 750 km. (465 miles);
- Potential for 30 million passengers per year (in developed countries);
- Strong willingness to pay for the time savings offered; and
- High interconnectivity to other modes (e.g., urban transit).

These criteria have been referred to positively in recent reports from the Congressional Research Service[2] and the Government Accountability Office.[3]

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[1] John Scales, et al., "High-Speed Rail: The Fast Track to Economic Development?" The World Bank, report no. 55856, July 2010

[2] David Randall Peterman, et al., "High Speed Rail (HSR) in the United States," Congressional Research Service, 7-5700, R40973, December 8, 2009.

[3] Government Accountability Office, "High Speed Passenger Rail: Future Development Will Depend on Addressing Financial and Other Challenges and Establishing a Clear Federal Rols," GAO-09-317, Washington, DC, March 2009.

A detailed report on potential U.S. HSR corridors accepted most of the World Bank guidelines. America 2050 evaluated 27,000 city pairs, using an index of potential success factors that it sought to quantify, so as to rank 100 possible city pairs as to their suitability for HSR.[4] Their principal criteria were as follows:

- Large metro area population;
- Distance of between 100 and 500 miles, with 250 miles ranked highest;
- Existing metro-area transit systems, including regional rail, commuter rail, and local transit networks;
- High metro-area GDP and GDP per capita;
- High levels of auto congestion, as measured by the Travel Time Index;
- Metro areas located within a mega-region.

Using the scores developed in this study, America 2050's most promising corridor (scored at 100) was New York-Washington. Of its top 10 corridors between city-pairs, six of the ten were in the Northeast Corridor.

Amtrak's NEC proposal

In 2010 Amtrak laid out its vision for High Speed Rail in the Northeast Corridor (NEC)[5]. At the time it estimated that development of HSR on the NEC alone would cost $117 billion (in 2010 dollars).

A review of the Amtrak proposal shows that the system envisioned would never come close to repaying its costs. As forecast by Amtrak, the fully built High Speed Rail in the Northeast Corridor (HSR-NEC) would have annual revenues of $2.533 billion. Operating and maintenance costs would come to $1.605 billion yielding an *operating* profit of $928 million. But fully amortizing the construction costs (over 30 years at an interest rate of 4.5 percent -- roughly the rate on 30 year Treasury debt) adds an additional $7.2 billion in annual costs. The HSR-NEC therefore is designed with a built-in loss of $6.25 billion per year.

To put this in perspective, Amtrak envisions 17.7 million passengers a year, yielding an average fare of $143 per trip. Each of these trips would have a built-in subsidy of $353 per passenger. That passenger subsidy is calculated from the debt service cost on the initial construction less the projected operating profit and assumes that the operating profit is returned to the Treasury. If, as Amtrak argues for, the operating profit is retained for investment in additional high speed rail, the subsidy rises to $406 per passenger.

A sensitivity analysis shows that additional fiscal dangers exist in this proposal. If Operating and Maintenance Costs are only 5 percent higher than forecast, the operating profit of $928 million disappears and becomes an annual *operating* loss of $757 million. A combination of 20 percent higher costs, 20 percent lower revenue (if, for example, airlines competitively reduce fares to retain traffic) coupled with the construction subsidy creates a system with a built-in loss of $14 billion a year.

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[4] Yoav Hagler and Petra Todorovich, "Where High Speed Rail Works Best," America 2050, [date, etc.]
[5] "A Vision for High-Speed Rail in the Northeast Corridor." Amtrak, September 2010

Forecasts for the costs and revenues associated with transportation project are notoriously optimistic. In 2008 The Department of Transportation analyzed 21 transit projects (including commuter rail, light rail, heavy rail, and bus rapid transit) and found that, on average, their costs exceeded early estimates by 40 percent. Similarly, a subset of 18 projects showed that on average actual ridership was only 61 percent of what was forecast when the project was envisioned. Only two projects (both light rail) met or exceeded their ridership forecasts[6].

Given this bleak financial analysis, it should come as no surprise that three states – Wisconsin, Ohio and most recently Florida – have already rejected the high speed rail funding put forward by the Administration earlier this year. The *Washington Post* on May 18th characterized California's use of federal funding for its HSR project as a scandal. The current model (the one embraced by Amtrak), characterized by a large upfront capital investment by the federal government which is then turned over to Amtrak, is clearly one that is not achievable given the current fiscal realities.

Some Cautions on Economic Development

Advocates for HSR often point to the benefits to the economy as a whole from investment in these projects. These claims deserve to be carefully reviewed.

The previously cited World Bank report points out that introducing HSR "will inevitably affect the overall performance of a country's transport system," but that its effects on regional economic development "are the hardest effects to predict and quantify." Hence, "the overall developmental benefits of high-speed rail can neither be presupposed nor dismissed out of hand," but should be analyzed via careful cost-benefit analysis in each case.

A special report on HSR commissioned by the OECD's International Transport Forum concluded that "[The] high proportion of fixed and sunk costs, indivisibilities, long life, and asset specificity make this public investment risky, with a very wide range of values for the average cost per passenger trip. . . . Even in the case of particularly favorable conditions, the net present value of HSR investment has to be compared with other 'do something' alternatives [such] as road or airport pricing and/or investment, upgrading of conventional trains, etc."[7]

Two Barcelona-based transport economists released a study in 2010 offering policy-makers lessons from the HSR experiences of Europe and Japan[8]. Among them were the following:

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[6] "The Predicted and Actual Impacts of new Starts Projects – 2007: Capital Cost and Ridership," US Department of Transportation, Federal Transit Administration. The three excluded projects did not include ridership forecasts.

[7] Gines de Rus, "The Economic Effects of High Speed Rail Investment, Discussion Paper No. 2008-16, revised, OECD International Transport Forum, October 2008.

[8] Daniel Albalate and Germa Bel, "High-Speed Rail: Lessons for Policy-Makers from Experiences Abroad," University of Barcelona, 2010 (www.ub.edu/irea/working_papers/2010/201003.pdf)

- HSR does not generate net new economic activity, nor does it attract new firms and investment to a country, but does help to consolidate and promote ongoing economic activities in large cities.
- HSR may put medium-size cities at a disadvantage, due to shifting some economic activities to larger (hub) cities.
- Political pressures (e.g., for additional station stops or route extensions to lower-traffic points) often lead to higher costs and reduced benefits.
- It is difficult to justify HSR in corridors where first-year demand is below 8 to 10 million annual passengers.

Finally, economist David Levinson last year produced an excellent survey article, "Economic Development Impacts of High-Speed Rail."[9] Since there is not much real empirical evidence on this question itself, he first surveyed the more-extensive research on urban rail systems and economic development. Most studies find some increased land values near stations but negative land-value impacts alongside the tracks between stations. What little research there is on HSR and economic development yields contradictory findings—some studies find little impact and others find somewhat more. But several studies do agree with the Barcelona research finding that HSR tends to shift economic activity to the major hub cities, possibly at the expense of cities along the way (which one researcher called a "tunnel effect" for the places in between).

Government Rail Subsidies in Europe

Before we can discuss Europe's experience with public-private partnerships (PPPs) for HSR, it is important first to understand that all European rail service is subsidized, though the extent of this subsidization is often concealed. In 2008 Amtrak's Inspector General released a report documenting the extent of such subsidies.[10] In most countries, passenger train operating companies are separate from the infrastructure (track and signals) company. The train operating company (TOC) must pay fees to the Infrastructure Manager (IM) to use the track. The TOC counts as "revenues" not only what it receives in passenger fares but also its annual government funding. From this total of revenue, it pays operating and maintenance costs, including the fees it is charged by the IM. Most European TOCs report an overall profit, without disclosing the large fraction of their revenue that comes from the government.

In addition to operating subsidies, leading EU governments also provide "off-balance sheet" funding to TOCs to cover things like pension costs, debt service, restructuring costs, and previous capital investments. For the six TOCs covered in the IG's study[11],

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[9] David Levinson, "Economic Development Impacts of High-Speed Rail," University of Minnesota Dept. of Civil Engineering, May 27, 2010 (http://nexus.umn.edu/Papers/EconomicDevelopmentImpactsofHSR.pdf)

[10] Amtrak Office of the Inspector General, "Public Funding Levels of European Passenger Railroads," Evaluation Report E-08-02, April 22, 2008.

[11] Austria, Denmark, France, Germany, Spain, and the United Kingdom

these off-balance sheet payments averaged $15.8 billion per year—but do not show up in the TOCs' financial statements.

For the six TOCs in the study, reported 2006 operating profits ranged from $.46 to $6.27 per train mile. But after adjusting those numbers for the government subsidies to each company (both on-books and off-books), the Amtrak IG study showed that all six made losses, ranging from $15.05 per train mile to $36.78 per train mile.

Moreover, although the Infrastructure Manager (IM) companies charge the TOCs for each train they run, those charges do not cover the IMs' full costs. The IMs likewise receive government subsidies, ranging from $88 per track mile to $685 per track mile, with an average value of $261.

HSR Public-Private Partnerships in Europe

In recent years a number of new HSR lines in Europe have been developed via long-term PPP arrangements. What is being "privatized" in these arrangements is the design, construction, operation, and maintenance of the infrastructure, which is then made available to whichever TOCs the government allows to operate on that infrastructure. So we are talking here mostly about privatizing the infrastructure—the track, stations, and any associated property.

Nearly all these PPP concessions are financed based on "availability payments." Under this model, the government commits to making annual payments to the concession company over the life of the agreement (which may be 30 to 50 years). Based on that contractual commitment, the company is able to issue long-term bonds and arrange other financing to cover the capital costs of designing and building the rail infrastructure. In most cases, the government also pays directly for a significant fraction of the capital costs (which means that what the company has to finance is only, say, half the total capital investment). This kind of structure is consistent with the general European practice of government subsidizing both the rail infrastructure managers (the IMs) and the TOCs.

An example is the current procurement in Spain for the $8.2 billion line between Olmedo and Ourense in Galicia.[12] The government will provide half the project cost ($4.1 billion). Another $3.1 billion will come from debt provided by a consortium of commercial banks and the European Investment Bank. The winning company is expected to put in the remaining $1 billion as equity. Once the line is built, the company will receive availability payments from the government, out of which it must pay debt service and (it hopes) make a return on its equity investment. Thus, the company's *revenues* are guaranteed for the 30-year concession period. It hopes to make a profit by controlling both construction costs and operating & maintenance costs.

[12] Bill Reinhardt, "Spain Bids $8.2 Billion High-Speed Rail," *Public Works Financing*, January 2011.

Two recent projects have been financed somewhat more like toll roads. One is the French TGV route from Tours to Bordeaux[13] and the other is the Perpignan-Figueras line linking the French and Spanish HSR lines via a tunnel beneath the Pyrenees.[14] In both cases, government is again providing approximately half the project cost (which totals $9.6 billion in the first case and $1.4 billion in the second). The other half is financed by a combination of debt and equity, in an 80%-20% ratio. In both of these cases, the revenue will come from fees paid to the infrastructure company by TOCs. Thus, in these two projects the infrastructure companies are taking on traffic risk, rather than relying on guaranteed annual payments from the government.

Proponents point out that this latter kind of structure, as in toll road concession deals, provides incentives to the parties in several important ways:

- It aligns the incentives of government, construction contractor, investors, and the infrastructure operator, all of whom have a stake in the economic success of the venture.
- It makes "value engineering" especially important, to find innovative design solutions that deliver high performance at lower cost.
- It requires the design and construction to be focused on maximizing traffic, since the infrastructure company's revenue depends on the amount of traffic (which means it will open the tracks to service by more than one TOC).
- It also focuses the team on winning local support.

This is a relatively new model. The French-Spanish cross-border concession was signed in 2004 and the project was completed in 2009, but these are still early days in terms of traffic and revenue. The much larger French project is nearing the financing stage as this is written.

Suggested PPP approach for the NEC

It is widely acknowledged that only two of the world's HSR lines *may* be recovering their capital costs as well as their operating and maintenance costs from farebox revenues: the first Japanese line from Tokyo to Osaka and the first TGV line in France, from Paris to Lyon. All subsequent HSR lines worldwide have involved significant government subsidy of their capital costs, including the two PPP concession projects noted above in which the principal source of revenue to the Infrastructure Manager company is payments by the various TOCs for use of the infrastructure.

It is conceivable that the NEC, as the best U.S. candidate for HSR, could be a self-supporting project. But the overall global HSR experience cautions against assuming that this will be the case. The challenge is to figure out how to harness the incentives provided by a PPP approach to at least minimize the degree of taxpayer subsidy required.

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[13] Bill Reinhardt, "French Rapid Rail Concession to Include Ridership Risk," *Public Works Financing*, April 2010.

[14] Angus Leslie Melville, "The Train in Spain," *Inspiratia*, May 2011 (www.inspiratia.com)

There is no obvious way to fund the grandiose project outlined by Amtrak, and as we have noted previously, there is no conceivable way a $117 billion investment could be recouped from passenger fares. Part of the reason for the Amtrak plan's huge cost was its assumption of mostly new right of way with curves no sharper than a three-mile radius, and much new station construction, as well as a somewhat arbitrary 220 mph top speed. What is needed is outside-the-box thinking that asks and answers the question: *how much is enough?* In other words, how much of an improvement in trip times is worth investing in? Would adding HSR express trackage in the existing Amtrak-owned right of way be "good enough"—together with other physical and policy changes—to attract significant new ridership? And how much would NEC rail travelers pay for various reductions in trip time?

One reason Amtrak's current Acela rolling stock was so costly is that it had to meet Federal Railroad Administration safety standards for operating on tracks shared with freight railroads. That precluded use of off-the-shelf European tilt trains that could have achieved higher speeds on existing curve radii of the NEC right of way, especially if they had exclusive HSR tracks.

Assuming Congress decides to separate the NEC from Amtrak in order to revamp it via a long-term PPP, a useful first step would be to issue to the private sector a Request for Information (RFI). Interested potential developer/operators would be asked to spell out what they think it would take to make possible a viable business model for HSR in the NEC. The RFI should make it clear that Congress is willing to start with a clean sheet of paper, potentially exempting the NEC from many of the conditions that lead to Amtrak's current high cost structure. Among the factors that might make a considerable difference in developing a commercial business plan could be:

- No specific high-speed requirement, leaving that to be determined as part of the business plan;
- Freedom to define stations served (and not served) without political interference;
- Exemption from Buy America provisions, to permit acquisition of commercial, off-the-shelf rolling stock from abroad;
- Labor-management relations built on the premise that compensation must be based on the profitability of the enterprise (and could include profit-sharing if the operation can be made profitable). There are obvious trade-offs between traditional work rules and operating costs that could make a real difference in whether profitability is achieved;
- Serious review by the federal government of how existing policies and regulations either foster or hinder the goal of successful HSR, from construction on through operations.

Some of these may not be considered obstacles by the private sector, but others might make a large difference in devising a viable commercial business model for NEC HSR operations.

In order for potential developer/operators to take the RFI seriously enough to put significant effort into developing responses, it would be wise for Congress to take the prior step of separating the NEC organizationally from Amtrak, enabling it to operate as a

self-contained business during the interim period before the corridor was leased to a winning bidder. Such a move would increase the transparency of Amtrak's financial reports which currently blend the NEC with all other operations, making it difficult for parties interested in the RFI to accurately gauge the risks and rewards of entering into a PPP.

One key question that should be explored in the RFI would be whether the private sector would be most interested in simply revamping, operating, and maintaining the infrastructure (as in the two recent European PPP projects described previously) or whether they would prefer to develop HSR and other services as a vertically integrated (infrastructure plus train operations) business.

The responses to the RFI would provide valuable feedback as to what the private sector thinks is feasible. That would enable the government to develop a request for proposals (RFP), inviting qualified teams to respond with specific proposals for how they would transform the NEC. Bidders would have to commit to maintaining access for existing commuter and freight services operated by other rail providers on the NEC right of way, but they would be free to propose changes in all passenger services currently offered by Amtrak in the NEC, so as to allow for an array of local, express, and HSR express services.

As general guidelines for the RFP, we suggest the following:

- Offer a long-term/concession of the NEC right of way, with or without train operations (depending on responses to the RFI);
- Permit multiple Train Operating Companies to provide services on the revamped NEC right of way, if that is preferred by potential bidders for the infrastructure;
- Teams would compete on the least amount of federal capital subsidy requested, to achieve what the RFP calls for;
- No operating subsidies would be offered; the business model must be based on self-supporting operations recovering operating and maintenance costs and the non-federal portion of capital;
- Only companies or teams of companies that had previously submitted their qualifications and made it onto an approved "short list" would be invited to submit proposals in response to the RFP.

These provisions are drawn from current best practices in applying PPP principles and private finance to the provision of HSR infrastructure globally. We commend them to the Committee's attention.

"Government Financed Rail Construction and Maintenance—
A call for Maximum Open and Fair Competition"
Hearing on
Opening the Northeast Corridor to Private Competition
For the Development of High-Speed Rail
Before the House Committee on Transportation & Infrastructure

Testimony of Michael Goetz
Executive Director - RAILCET[1],
On behalf of
Organized Rail Construction Management and Labor

May 26, 2011

My testimony today is on behalf of thirty railroad contractors and three international construction unions that build and maintain rail infrastructure across America. We ask that the Rail Title of the next Surface Transportation Act authorize a high performance intercity and urban passenger rail network. We suggest that the Northeast Corridor should be the crown jewel in that network. We agree with the President's goal that within 25 years 80% of all Americans should have the option of a high performance rail passenger alternative to highway and aviation.

In these difficult budget times, we know that we cannot meet the goal of a revitalized passenger rail network by enacting a massive new grant program as we did with the creation of the interstate highway network. Therefore, we support new approaches to leverage resources through the introduction of innovative financing, public private partnerships (P3s) and competition in the design, construction and maintenance of rail passenger systems.[2] High speed rail service in the Northeast Corridor and the West, and the existing state supported passenger corridors,[3] should be the foundation for a new national intercity and urban passenger network.

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[1] *The **Railroad Cooperation and Education Trust (RAILCET)**, is comprised of 30 rail contractors which hold a single national agreement with the **Laborers International Union of North America** (LIUNA) and the **International Union of Operating Engineers** (IUOE). The **United Brotherhood of Carpenters** (UBC) which represents Herzog Industries in rail operations and construction and maintenance, also endorses this testimony.*

[2] *Specifically we support expansion of the RRIF and TIFIA federal loan programs mixed with grant financing and made available to official P3 partners to maximize financial resources in delivering urban and intercity passenger rail projects. We believe it would be appropriate to create a significant Special RRIF Fund to transform the Corridor into a true HSR operation. We support the consistent application of existing prevailing wage requirements as established in the current federal framework under Title 23, Title 45 and Title 49 to any proposed innovative financing mechanisms.*

[3] We propose a program of accelerated development of the state supported corridors around the country. This is the foundation for a national passenger system that links city pairs. In addition to the NEC we support the continued development of a California HSR system as well as the DesertXpress project between Las Vegas and Southern California.

To transform the Northeast Corridor and existing intercity and urban routes into a high performance network will be a massive undertaking over a long period of time.[4] To be successful it must have major private sector involvement and cost control in the construction, maintenance and rehabilitation of this rail network. To provide the maximum value for the taxpayer's dollar, we specifically call for fair and open competition for the construction of publicly funded or financed rail projects. We propose the following policy for construction:

- States and public authorities shall competitively bid out all publicly funded or financed rail construction, rehabilitation and maintenance projects on *publicly owned rights of way*. Federal, state, regional and local public authorities shall create no impediment to full, fair and open competition on federally funded projects.

- To the maximum extent possible, states and public authorities shall competitively bid out all publicly funded or financed rail construction, rehabilitation and maintenance projects on *private rights of way*. While the burden of proof should favor competition, we support limited exceptions to honor existing rail labor agreements in effect on date of passage of this statute. Clear Guidelines should be established to promote fair competition and enforcement by the Department of Transportation and the States. (Suggested Guidelines are attached)

In recent months there have been some unfortunate statements made before the Railroad Subcommittee that our contractors and their employees have less than professional skills and qualifications because they do not operate under the railway labor laws. That is nonsense. The fact that our employees are organized under the National Labor Relations Act, along with other private sector employees in America, does not adversely impact the quality of the work we perform or the conditions of employment. We have superior benefits with solid health and pension plans. We jointly-administer world-class training programs and utilize work standards that are second to none. We perform rail maintenance and construction efficiently and safely, as well as any in-house labor force. The skilled construction workers from the Carpenters, Laborers and Operating Engineers perform complex construction projects in a wide range of industries, including rail projects.

It is true that our companies operate in a highly competitive environment. Our unions and management work closely together through cooperative strategies that demand high quality work at the best price. The bottom line is we must get our jobs done safely, on time and on budget. We will happily compare our record of quality, safety, and productivity with any similarly situated in-house workforce in America.

We also present a unified labor-management voice on legislative issues as we are doing here today. We will work with Congress for a specific proposal on the Northeast Corridor. What we respectfully ask is that principles of competition for rail construction projects be applied

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[4] We express no opinion on the operational issues surrounding AMTRAK, or the rest of the proposed network. We are exclusively focused on the proposed network from a construction industry perspective.

here and on all other publicly funded rail projects. That way, as a high performance American passenger rail network is developed, the taxpayer will receive the highest quality work at the best price.

Potential Policy Guidelines for Bids on publicly financed projects on private rights of way

1. Once procurement transactions for each federally financed construction project are identified, a state must issue a request for preliminary information (RFI) from potential contractors.

2. In response to the RFI, a private track owner may request a sole-source award if deemed required by existing labor agreements. If the Secretary (or State) concurs, the state may make a sole-source award for the specified transactions. The Sole-Source Awardee shall supply full and transparent information on the project cost to the state for the public record. The burden of proof in reaching a sole source decision shall favor competition consistent with existing federal law and the contractual rail labor agreements in existence at the time of passage of this authorizing statute.

3. With the exception of sole source awards, each project contract shall be competitively selected. The track owning railroad shall prequalify contractors for work on their rights of way, and may manage the bid process (under state guidelines) and construction for all work on their rights of way, but may not unreasonably withhold qualification for anti-competitive reasons.

4. Private parties may not enter into future agreements intended to secure sole source contracts and stifle the competitive process in the award of public funds for public interest projects on private rights of way.

TESTIMONY OF THOMAS A. HART, JR., ESQ.[1]
VICE PRESIDENT FOR GOVERNMENT AFFAIRS AND GENERAL COUNSEL
US HIGH SPEED RAIL ASSOCIATION
To US House of Representatives, Committee on Transportation and Infrastructure,
With Chairman John Mica Presiding

Thursday, May 26, 2011

On behalf of the United States High Speed Rail Association (USHSR), its Directors, Andy Kunz, and Joe Shelhorse, and its 250 members, I extend greetings to this prestigious Committee on Transportation and Infrastructure. I am here representing USHSR as its Vice President for Government Affairs and General Counsel. I also serve as the Director of the Washington office of the national law firm of Quarles & Brady. The USHSR is a non-profit trade association committed to advancing a state-of-the-art, nationwide, "true" high speed rail (HSR) system - to be completed in phases around the country. Our mission is to build widespread public, business, and political support for major investments in a national HSR network by the public and private sectors.

I. BACKGROUND

The USHSR is pleased to share its thoughts on how to expedite the development of HSR by opening the Northeast Corridor (NEC) to private competition. In January, I had the pleasure to testify in New York City before this Committee's first hearing of this Congress. Last month, I testified before the Subcommittee on Railroads, Pipelines, and Hazardous Materials to

[1] USHSR is located at 10 G Street, NW, Suite 710, Washington, DC, 20002; telephone 202-248-5001; thart@ushsr.com; learn more about USHSR, and its upcoming conference at www.ushsr.com

emphasize, the importance of establishing federal programs that will spur the creation of public-private partnerships for funding HSR systems.

Presently, most of our national transportation systems are overloaded and in a state of disrepair - which causes delays - costing the nation more than $100 billion dollars per year in lost time and wasted fuel. The price of oil is already trading over $100 dollars a barrel, and is expected to continue rising indefinitely. The more quickly America can build alternative forms of transportation not dependent on foreign oil, the better the nation will be and the sooner we can recover from the current recession. Ironically, increased oil prices translate into increased rail ridership, which in turn improves the business case for HSR. We have already seen this happen in the summer of 2008 when oil hit $147 per barrel, and the ridership on America's rail systems rose to record levels. With the right development and adequate investment in HSR, a vast consumer base can be tapped into for a true HSR network that can deliver safe, efficient, and faster travel.

America has a history of investing in state-of-the-art transportation infrastructure with the government funding the base infrastructure and private companies operating the transportation vehicles within that base infrastructure. This is how our highway system and our aviation systems were built and operate today. The infrastructure was built and is owned and maintained by the government, while the vehicles are operated by private, for-profit companies.

The popular Washington, DC to Boston passenger train route, otherwise known as the Northeast Corridor (NEC), is particularly ideal for HSR investments not only because it stretches across seven states totaling 480 miles, but also because it has the most robust ridership level

from a resident population of approximately 50 million. In 2009 Amtrak's daily rail ridership in the NEC was more than 27,000 passengers. Economically strong, the Northeast Corridor has among the highest income levels per capita in the nation. Such demographics make the NEC ripe for HSR development and investment by the private sector.

We believe this is the best model for the new high speed rail network in America, starting with the NEC, since this private sector development and investment has precedent in the majority of our current forms of transportation, and it is the way many high speed rail systems are developed and operated around the world.

The U.S. Government already owns the NEC through Amtrak, and it is already a busy and successful rail corridor. The key to unlocking the great value of the NEC is twofold. 1) the entire NEC needs to be upgraded to international high speed rail standards to allow for trains to travel at speeds up to 220 mph; and 2) train operations need to be separated from the infrastructure operations, as in our other forms of transportation here in America. This will allow private, for-profit rail operators to compete for passengers in the newly upgraded NEC. In this scenario the infrastructure would be owned and controlled by the U.S. Government and affected States and it can then be managed and maintained by a private company as a for-profit business. This separation would then allow a second layer of for-profit businesses to operate trains in the corridor.

II. AMTRAK OVERVIEW

Over the past 40 years Amtrak has provided a unique and valuable public service to the nation as it is the primary carrier of the nation's rail passengers. Amtrak has over 1900 employees, many of whom come from 13 organized and hard working employee unions.

In the NEC, Amtrak coordinates eight commuter rail carriers and 2,000 trains per day over NEC track. Amtrak deserves credit for their recent commitment to a HSR network by the appointment of Al Engel as their VP for HSR Deployment. Al is a seasoned veteran and expert in the field. Amtrak and the nation are lucky to have him lead this important project.

Although Amtrak has made a number of recent advancements, including making a profit last year, it must do much more to reach its full potential. The current slogan in Washington is that "everything is on the table." In this globally challenging economic environment, even Amtrak is "on the table" for critique and evaluation. Although USHSR does not support the "privatization" of Amtrak, the association does call for rapid improvements in rail service created by competition, innovation and private investment.

Despite the common misconception, Amtrak's Acela is not true HSR. Globally, HSR trains regularly operate at speeds of 186 to 220 mph. In some countries, (like Japan and China) HSR systems reach speeds in excess of 300 mph. Although the Acela has many merits, it falls short of maximizing the potential a true HSR line would deliver to both consumers and its operators. Currently, the Acela is limited by its own operating speed, compounded by the lack of separate, dedicated track. The Acela averages 79 mph on most of the line because it shares its track with other passenger and freight trains. Therefore, the development of a true HSR

system would necessitate new dedicated track independent of freight operations. Additionally, the two routes that Amtrak runs out of New York City along the NEC generate much of the entire system's revenue and are two of the few Amtrak lines that actually return considerable profits. However, with the right development and adequate investment in HSR, there is a vast consumer base that can be tapped into for a true HSR line that can deliver safe, efficient, and faster travel.

Over the years, Amtrak has become one of the nation's major recipients of government funds and subsidies. Amtrak recently received over $450 million dollars for improvements in the NEC. Although Amtrak has begun the procurement process, it has yet to develop a comprehensive business plan that sets out goals, timetables and procedures.

Moreover, like the Federal Railroad Administration, Amtrak lacks clear government mandates for small and minority business development. As we examine ways to increase private investment and create jobs, this Committee should also develop procedures and programs to ensure small and minority business procurement by Amtrak.

III. THE NEED FOR PRIVATE INVESTMENT IN HSR

The debate is now how do we fund and operate one of the most important transportation infrastructure projects in America? With the continuing economic and political climate focused on reducing public spending and the challenges in attempting to balance the budget, the future of HSR development in America will depend in part upon private sector investment. As you know, over the past two years there has been a renewed commitment for federal investment in rail transportation, but more capital is needed to ensure a successful

project that meets the expectations of consumers in an efficient and profitable manner. In essence, there must be an on-going federal HSR program established to signal that this project is one of "National Significance" similar to the way the transcontinental railroad and the interstate highway system were built. Moreover, public-private partnerships (PPPs) are needed to carry out this important national program, and global experience shows that they can be successful.

According to the Infrastructure Management Group, PPPs frequently serve the public interest by:

- reducing costs
- expediting project completion
- decreasing tax-payer risk
- lowering government subsidies
- extending the life-cycle of the project
- sparking innovation and efficiency
- insulating the project from the political change
- leveraging the use of public funds by mobilizing financial resources from the private sector
- creating jobs and small business opportunities

IV. PPP/HIGH SPEED RAIL PROJECTS AROUND THE WORLD

1. UK High Speed Rail (High Speed 1 (Channel Tunnel Rail Link)

In 1996 a tender was issued for a project to construct a high speed rail line from London to the UK end of the Channel Tunnel. The line was to be built to carry passenger traffic

from the UK to the Continent, as well as to enhance internal passenger travel within the UK. Construction on the project was started in 1998, the project was later split into two portions to enable completion of each, and both sections of the project build were open by 2007. The concessionaire was the London & Continental Railways Limited, and the PPP consortium included Arup, Bechtel, SBC Warburg and London Electric. Ultimate ownership of the project: the UK Economics & Finance Ministry. Financing is based on operating income. The total investment in the line is approximately $12 billion dollars.

The project was restructured into two project portions to better contain project risk and address political and financial problems and several changes in ownership.

Last year, the UK government auctioned off a 30-year concession for the right to own and operate its first high speed railway, the HS-1, linking London to the Channel Tunnel. The sale generated approximately $3.4 billion dollars[2], and the leasee was a consortium of two Canadian pension funds - Borealis Infrastructure and the Ontario Teacher's Pension Plan. The concession sale is estimated to return 40 percent of the original construction cost to the British treasury.[3] Such savings are likely to help reduce the British government's record deficit. In 2040 - when the concession ends - the railway reverts back to the government, which anticipates re-bidding it for an equal or higher price. "[O]ver the course of its 150-year-plus lifecycle, [HS-1] repays its construction

[2] Mark Reutter, British Deal Shows Private Investment Demand for High-Speed Rail, PROGRESSIVE FIX (December 10, 2010) available at http://www.progressivefix.com/british-deal-shows-private-investment-demand-for-high-speed-rail.
[3] *Id.*

cost, probably several times over."[4] Reportedly, the "higher-than-expected bids for the UK's only dedicated [HSR] line revealed [a] strong demand for such assets" and demonstrates an alternative solution to funding HSR development, especially in the Northeast Corridor which has one of the densest market of riders.[5]

2. **Dutch and Belgian High Speed Rail (HSL Zuid (High Speed Line - South)**

In 1999 a tender was issued for bids for construction of a 125-kilometer high speed rail line from Amsterdam Airport Schiphol to Belgium. Construction was started in 2000, and the line was opened in 2007. The concessionaire is Infraspeed BV, and the PPP consortium includes Fluor Daniel, Siemens, Bayerische Hypo-und Vereinsbank, ING, Dexia Public Finance Bank and Rabobank. Ownership of the project is in the Dutch Ministry of Transport, Public Works and Water Management. Financing is based on a performance fee in return for 99% availability. The total project investment in the line was approximately $10 billion dollars.

The Dutch government retained demand risk and infrastructure risk, and all rights with respect to operating, capacity utilization and tariff structure; the project was substantially delayed by a long initial negotiation, construction problems resulting in increased, costs, lawsuits over deliveries of infrastructure and delays in delivery of trains. In hindsight, the contract for the project did not specifically address financial and time overruns and did not shift enough responsibility to the private sector.

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[4] *Id.*

[5] Robert Wright, £2.1bn HS1 Sale Lifts Privatisation Prospects, FINANCIAL TIMES (November 10, 2010) available at http://www.ft.com/cms/s/0/6be9c170-e90d-11df-a1b4-00144feab49a.html#axzz1BgsRnLPT.

3. Swedish High Speed Rail (Arlanda-Express)

In 1993, a tender was issued for a high speed rail project that would connect Stockholm's Central Station with the Arlanda Airport in Stockholm. Construction was started in 1995, and the line was opened in 1999. The concessionaire is A-Train AB which is owned by the Macquarie European Infrastructure Fund. The PPP consortium includes Alstom, Vattenfall and Mowlem Nordic. Ownership of the project is in the Swedish government, and the financing is based on operating income. The total investment in the line is approximately $700 million dollars.

The Swedish government is only responsible for operating and controlling traffic; the private consortium bears responsibility for all else, including all construction and management activities and market risk. The result has been mixed. In some instances it has overburdened the private consortium. Passenger forecasts have been over-optimistic, and the line is not fully integrated with the Swedish railway system.

4. Taiwanese High Speed Rail

In 1996 a tender was issued for a 345-kilometer high speed rail network along the western coast of Taiwan, from Taipei to Kaohsiung. Construction was started in 2002, and the line was opened in 2007. The concessionaire was Taiwan High Speed Rail, and the PPP consortium included Alstom and Siemens. Ownership of the project is in the Taiwanese government, and the financing is based on operating income. The total investment in the project is approximately $14 billion.

There was delay in opening the finished line that increased project costs, and the consortium encountered construction difficulties in urban areas. Numerous lawsuits were filed after tendering and actual passenger numbers were below forecasts. As a result the government is today practically the sole owner due to the concessionaire's financial problems.

5. Japanese High Speed Rail Systems

Japan commissioned the world's first high-speed rail line, the *Tokaido Shinkansen*, in 1964, between the country's densest urban and commercial centers from Tokyo to Osaka. The *Tokaido Shinkansen* is today the world's busiest and most successful high-speed rail system. However, this success was not preordained or inevitable. For about the first two decades of its existence, Japanese high-speed rail was wholly owned and operated by the government. By the mid-1980s, it became increasingly evident that this model was not functioning. Bureaucratic mismanagement and political meddling conspired to drive the industry into an unsustainable financial position. Against powerful objections, the decision was finally made that privatization offered the only avenue to reverse high speed rail's decline. Japan's national network was therefore broken up by region. In 1987, the Central Japan Railway Company (JRC) was established to take ownership of the *Tokaido Shinkansen* line.

Through a series of corporate reforms and adoption of better business practices, JRC restored the economic standing of the *Tokaido Shinkansen*, and also diversified its portfolio to include real estate, merchandising, and other services. Within 10 years, the company was publicly traded on the Tokyo, Nagoya, Osaka, and Kyoto stock exchanges.

In 2006, the Japanese government completed the sale of all its common stock in JRC, formally signaling the end of any public involvement in the company.

JRC is today a completely private entity with an enviable balance sheet by any measure. In 2010 it generated nearly $16 billion in annual revenue, with a net income of nearly $1 billion. For JRC's investors, this translated into a 2010 return on equity of 8.7%, outperforming most other transportation companies. Not only is JRC able cover its operating expenses without any public subsidies, it is sufficiently profitable to pay dividends to its investors, pay down its long-term debt, and invest funds back into the company for future growth. Indeed, JRC recently announced plans to invest roughly $60 billion to build a new high-speed line to reduce congestion on the *Tokaido Shinkansen*. This line will utilize using cutting-edge, super-conducting magnetic levitation technology (SCMAGLEV), which operates at a top speed of 361 mph. JRC will bear the entire cost of this $60 billion investment without recourse to any public funding.

6. **Italian High Speed Rail**

The Italian example is similar in that the government is building the track and infrastructure while the CEO of Ferrari and several other business leaders have formed a new for-profit railway called NTV. They will be starting operations this summer with a brand new fleet of 25 state-of-the-art high speed trains serving all the main cities of Italy with over 50 services offered each day. This private operator will pay a track fee for using the infrastructure that will more than cover all maintenance costs of the system, while making a profit for their efforts. The advantage of this model is that the government gets all track maintenance costs covered while also collecting fees to help

pay down the capital costs, while the public gets the best train services at competitive prices.

7. **French High Speed Rail (TGV)**

The first line of the TGV network was first opened in 1981 between Paris and Lyon and the network now extends throughout the country, with eight new lines either under construction or in the pipeline, including extensions within France and to surrounding countries. The network is currently operated by VFE, the long-distance rail branch of SNCF, the French national rail operator. Réseau Ferré de France (RFF), also state owned, owns and manages the network, and is responsible for upgrading, developing, and enhancing it and ensuring its overall coherence.

In 2007 RFF was allowed to enter into PPPs to finance and deliver projects, after safety and development legislation came into effect. This has allowed France to build more projects beyond the capacity of the state budget, as well as share risks with project partners. More recently, TGV lines have been procured on a PPP basis, with either demand or availability risk, which has allowed more lines to be built with the help of private financing and expertise.

Standard French public procurement is similar to US design-bid-build, with the same downsides. Now the French allow HSR concession contracts and availability-based contracts (design-build-finance-operate-maintain), as follows:

- HSR concession contracts (Example project: Sud Europe Atlantique HSL)

  • Contract awarded to concessionaire, which has to operate, maintain, and make financial investment

- Concessionaire operates infrastructure independently, at its own risk for long periods (50 years)
- Revenues from railroad operator access fees
- No revenue guarantee; however, public subsidy made available at bid process partially funds construction costs

- Availability-based contracts (design-build-finance-operate-maintain) (This was the model for the Florida project) GSM-R, Bretagne-Pays de la Loire, Contournement de Nîmes Montpellier
  - Public sector comparator process required
  - Contracting authority pays:
    - During operation
    - Based on performance & availability
  - Revenues may (minimally) come from additional sources and/or revenues subject to commercial risk

8. High Speed Rail in Spain

The Spanish Ministry of Transport has begun the tender process for the $8 billion dollar Olmedo to Orense high-speed rail line PPP, which is the country's largest PPP to date. The mega-project will require the private sector to build and maintain the high-speed railway that will help link Madrid to the Galicia region, including 344 kilometers of greenfield track connecting Olmedo to Orense, for a period of 30 years. It will also require the private partner to help design the rail line, build and maintain it, and implement the required signaling and telecommunications infrastructure. The tender process will involve three stages: the pre-qualification of candidates; submission of initial offers followed by a negotiation period; and a final offer stage. The ministry hopes to have the line operational by the end of 2015.

Like all projects that form part of Spain's PPP program, the high-speed rail line will be backed by availability payments – public contributions that are paid to the private sector in return for making an asset available in good condition. The government is expected to contribute 40 percent of the $6 billion dollars (excluding VAT) required for the project, with the maintenance to cost $2 billion dollars (excluding VAT) over a 25-year period. It is expected that the successful bidders of each of these concessions will form a limited company in which ADIF, the state-owned company overseen by the Department of Transport and charged with the management of the project, will have a minority holding.

In addition, it was announced on April 26, 2011 the start of tendering for two PPP contracts to complete the 450 km high speed line between Madrid and Badajoz in Extremadura. The winning bidders would part-finance work with a combined estimated cost of $5 billion dollars, including maintenance over a period of 25 years, forming a special-purpose vehicle with infrastructure manager ADIF to execute the project. The first contract covers civil works and maintenance on the Madrid - Sevilla high speed line and Oropesa. Tracklaying, electrification, signaling, telecommunications and other railway equipment will be let in a second package. According to the Spanish Ministry of Development, civil works and tracklaying are expected to cost up to $3.3 billion dollars, while the budget for other railway works is 3.5 billion dollars. Of these totals, 40% would be provided by ADIF during the construction phase, with the remainder raised through long-term debt. Availability payments would be made over 25 years.

9. Summary of International HSR Projects with PPPs.

In sum, a number of European and Asian high speed rail projects have been constructed, are proposed for construction, or are already under construction. Of those proposed or under construction, including new builds within an existing system using a PPP structure is recognized as a viable and effective way to manage certain project risks, reduce government expense and produce expedited results.

Although there have not been public-private partnerships undertaken in the American railroad industry for over 80 years, there have been several other developments of transportation infrastructure in a similar manner, such as in the development of toll roadways or parking concessions.

In establishing creative public-private partnerships, governments can tap into the $500 billion that is currently available for investment in such projects from private financial institutions on Wall Street, in pension funds, and in the banking sector. The federal government must create the proper political environment and financial incentives that minimize risk and maximize return. Furthermore, there is a potential for a high return on investment (ROI) for public projects such as this because of the existing market of experienced rail riders in large urban areas along the NEC and other urban areas.

V. BEST PRACTICES FOR U.S. HIGH SPEED RAIL PROJECTS

One of advantages to being last to market is the ability to learn from those that paved the way before us. Thus, we can learn from the many examples of PPP's used before. The key to success is to incentivize the private sector in conjunction with targeted expenditures of public funds. These incentives must be created and implemented through federal legislation. USHSR has proposed and distributed publically a model legislation entitled the "Private Investment in High Speed Rail Act of 2011." Under such legislation, private companies seeking to invest in rail projects stand to gain specialized benefits as well as other concessions for investment in the construction and operation of the nation's HSR rail lines.

The experience of countries implementing a high speed rail system suggests certain "best practices" for consideration in construction of a U.S. high speed rail network. Among those practices are:

1) Establish bi-partisan political support for the project, as there almost certainly will be changes in politics during the time from the tender for bids to first operations.
2) Ensure strong and robust project participants and organization, especially from the private side.
3) Determine the right level of risk transfer from the public to the private sector.
4) Unbundle the overall project into more manageable portions and phases that will attract private parties.
5) Standardize project build specifications and components for integration with other builds and to achieve cost savings through volume purchases.
6) Control integration of the various project components, with each other and with the legacy system.
7) Use both the private and the public markets to raise capital.
8) Anticipate technological and other changes affecting the project.

VI. SIGNIFICANT PROVISIONS OF THE BILL

The key to success is to incentivize the private sector in conjunction with targeted expenditures of public funds. These incentives can be created and implemented through federal legislation. Last month USHSR proposed and publicly distributed model legislation entitled "Private Investment in High Speed Rail Act of 2011." Under such legislation, private companies seeking to invest in public projects stand to gain specialized benefits as well as other concessions for investment in the construction and operation of the nation's HSR rail lines.

The Bill aims to designate HSR systems as "Projects of National Significance" to justify expedited processing of requests for environmental approvals, permits, and funding. It includes incentives that will 1) create jobs through support of the "Buy America," green energy and small business initiatives, 2) revitalize our transportation infrastructure, 3) allow private investment in Amtrak through stock and bond issuances, 4) give tax credits and flexible repayment options to businesses, 5) expand RRIF and TIFIA programs, 6) advance the creation of an infrastructure bank as proposed by a bipartisan group of Senators led by John Kerry, Kay Bailey Hutchison and Mark Warner, and 7) use public funds from FRA to leverage state public-private partnerships financing for HSR. The end result means less reliance on public funds, thereby expediting HSR development, design, and construction at a reduced cost. Meanwhile, the public partner (federal and state governments) retains some control and management of the overall rail program to ensure that public and government standards are met.

Many states have already signed legislation that encourages public-private partnerships. Most recently Illinois has passed and the Governor just signed legislation that will create the Midwest Illinois HSR Commission that will be responsible for recommending the best way to

implement a public-private partnership to supplement a portion of its HSR funding gap. Moreover, Georgia and Ohio have both signed bills heralding a new wave of thinking about funding projects of this magnitude. In Georgia, its General Assembly approved a water project bill that allows construction of reservoirs by public-private partnerships. Last month, Ohio's Governor John Kasich signed a $6.8 billion transportation budget bill which includes a public-private partnership option. He remarked that it will help the state "get more infrastructures for less." It is this growing trend that illustrates the necessity of establishing a federal program that will further assist the development of HSR projects. Due to the current economic climate and record budget deficits, America must use all available financial resources to make our rail transportation network more competitive with other nations' around the world.

VII. CONCLUSION

At this time, this Committee and the entire Congress have an excellent opportunity to develop a public-private partnership model to fill a portion of the gap for HSR funding. The public-private partnership team of investors, lawyers, and public officials that successfully develops this model will likely be applauded for decades as the private sector helps develops HSR systems across America. We are confident that market forces will make the business case for HSR and this will show that additional federal funding is well placed as the foundation of our nation's infrastructure. The first test of the private market should occur this year when several states are expected to release their Requests For Qualifications (RFQs) to bidders. The RFQs will likely contain a requirement for private investment to supplement federal and state funding. In closing, we invite members of this Committee to continue this discussion at our upcoming HSR Conference in Chicago during the first week of June. Public-private partnerships

will be a key part of the agenda at the conference. Special guest speakers include Senator Dick Durbin, Congressman Jim Oberstar, Governor Pat Quinn of Illinois and Administrator Joe Szabo from the Federal Railroad Administration, as well as others. We anticipate generating much support and enthusiasm for building a true HSR system in America that is financed by both the public and private sectors.

Thank you, Mr. Chairman and Members of the Committee, for your time and your leadership. The USHSR looks forward to working with you in the future, and I welcome the Committee's questions and comments.

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Establishing and Funding Private Competition for Northeast Corridor High-Speed Rail

The Infrastructure Management Organization Plan

Statement of
Ignacio Jayanti
Former member of the
Working Group on Intercity Passenger Rail

Chairman Mica, Ranking Member Rahall, and distinguished Committee Members:

Thank you for the opportunity to review the recommendations of the Working Group on Intercity Passenger Rail, colloquially known as the Amtrak 'Blue Ribbon Panel'. The Blue Ribbon Panel, of which I was a member while a banker at JP Morgan, issued a report in 1997. The report's recommendations regarding private sector high-speed rail competition on the Northeast Corridor are as applicable and even more pertinent today than they were then.

The foundation for today's hearing and my testimony was laid by the Blue Ribbon Panel, a panel established by Congressman Bud Shuster, then Chairman of this committee, and by Congresswoman Susan Molinari, then Chairwoman of the Subcommittee on Railroads.

The Panel was convened because Congress and Amtrak faced the same problems then that they face now: a government-owned and managed Northeast Corridor rail infrastructure that requires significantly more investments than Amtrak can afford and that Congress can politically fund.

The solution to this problem—which has persisted for 35 years (because for the first 5 years, Amtrak did not own the NEC)—and the way to unlock the potential of the Northeast Corridor ("NEC") is found in the conclusion of the Blue Ribbon Panel report:

".... the working group is of the view that a division between infrastructure management and operations affords the best chance for the preservation and renewal of passenger rail service in this country. Amtrak has operated for too long under conditions that no business could endure."

After the Blue Ribbon Panel, I took action. The recommendations of the Blue Ribbon Panel are both a means to address an important public policy challenge and a business opportunity. Accordingly, I took steps to implement the Blue Ribbon Panel's recommendations.

I enlisted Robert Serlin, who, for over 25 years, has developed business solutions to revitalize capital-intensive transportation and basic commodity companies. In turn, he assembled a group of experienced rail industry professionals and companies to develop a plan to implement the recommendation of the Blue Ribbon Panel that is built on a viable business model and that is responsive to the many stakeholders associated with the NEC.

Ultimately, using techniques from existing legislation and Federal programs, a method to inject significant private sector funds into Amtrak and its owned infrastructure was identified. The solution was embodied in the Infrastructure Management Organization ("IMO") Plan.

The IMO Plan, developed as a direct result of numerous meetings with stakeholders interested in better intercity rail service—

- preserves Amtrak as our country's single national passenger rail carrier;
- keeps all of Amtrak's assets under Federal ownership and oversight;
- reduces Amtrak's grant-requirement by about $1 billion per year;
- permits the FRA's to redirect Amtrak capital grants to Amtrak's fleet renewal;
- provides a platform to grow train services and rail industry employment; and
- creates thousands of new, long-term, high-paying jobs.

The vision for the IMO Plan—and the basis for its success—is entirely dependent on a very positive view of the NEC's passenger rail potential. We believe in the tremendous opportunity inherent in the Northeast Corridor and we are prepared to make a substantial investment in the corridor—on the order of $60 billion of private sector capital over the lifetime of our investment.

We are prepared to do this precisely because we know there is great demand for passenger service in the NEC that is not being met today. The NEC is the most densely populated, affluent corridor in the world, yet the current service has not adapted to meet the needs of the traveling public.

The IMO Plan is a transformative, not radical. The plan creates a new model that will help realize the potential of the NEC by relying on the proven principles of free markets and competition with appropriate federal oversight and regulations. This model—with separate management for rail infrastructure and for passenger transportation operations—is entirely consistent with all other modes of transportation and with the way in which the rest of the world is structuring passenger rail service today.

BACKGROUND

Amtrak is active in two different businesses: furnishing rail transportation services, and owning and operating rail infrastructure.

- The rail transportation services business is a variable cost business. New train services can be added and existing train services dropped or modified on short notice with few drastic or unforeseeable financial consequences.
- The rail infrastructure business, in contrast, is a fixed cost business. Infrastructure projects take years, sometimes decades, to implement. During the implementation period, there is very little to show other than large front-loaded outlays. Furthermore, once completed, those formerly new infrastructures must be repaired, maintained and upgraded—invisible tasks, for which the public has little appreciation, and consequently, for which it has proven not possible to appropriate funds.

Amtrak's owned rail infrastructure is the overwhelming problem. It has been recognized for decades as the part of Amtrak that singularly requires the most funds. Amtrak cannot live without using its owned infrastructure, but it also cannot afford to keep it.

While Amtrak operates passenger trains over roughly 22,000 route-miles, it owns and is responsible for only less than 3% or 600 route-miles (about 500 route-miles in the Northeast and about 100 route-miles primarily in Michigan).

Former Amtrak President David Gunn stated in a Railway Age article that it is a myth that Amtrak's long-distance trains are the primary source of Amtrak's losses. "Out of our current year Federal subsidy of $1.05 billion, only $300 million will go to covering the operating loss of long-distance trains."[i] Kenneth Mead, former Inspector General, US Department of Transportation, found that eliminating long distance trains would only reduce operating losses by $300 million[ii]. In 2003, Amtrak had a comprehensive loss of approximately $1.3 billion[iii]. Consequently, losses of about $1 billion must be attributable primarily to Amtrak's owned infrastructure. In 2010, Amtrak's comprehensive loss was somewhat under $1.5 billion[iv]. 2010 losses attributable to its owned infrastructure can, therefore, be expected to be on the order of $1.2 billion.

A previous Amtrak President, W. Graham Claytor, Jr., once said Amtrak would be congressionally unfundable were the country to recognize that the great majority of Amtrak's annual appropriations went into Amtrak-owned rail infrastructure in just a few Northeastern states. On a route-mile basis, two states alone (Pennsylvania and Maryland) account for about 50% of Amtrak's owned Northeast Corridor infrastructure.

Even without political considerations, it is inherently harder to secure public support for infrastructure projects than for transportation services. Infrastructure investment benefits are not immediately, publicly apparent and can easily be delayed with few immediately visible consequences. Yet, infrastructures must be funded. Without continuous funding, infrastructure will deteriorate to the point of being unusable.

Since 1997, the Department of Transportation's Inspector General, the Government Accountability Office and, most recently, numerous members of Congress have reached the conclusion: Amtrak's status quo is not sustainable and change is necessary.

Ken Mead, the former Department of Transportation Inspector General put it most succinctly on September 21, 2005 when, before the House Committee on Transportation and Infrastructure, Railroads Subcommittee he stated: "We have testified numerous times since Amtrak's authorization expired in 2002 that the current model is broken. Amtrak continues to incur unsustainably large operating losses, provide poor on-time performance, and bear increasing levels of deferred infrastructure and fleet investment on its system."[v]

Infrastructure degradation reduces service reliability, and jeopardizes all of Amtrak and its national rail system.

The IMO Plan is the best solution both to Amtrak's short-term funding requirements and the two-pronged challenge of Amtrak's infrastructure needs—injecting new current maintenance funds annually into Amtrak's owned Midwest and Northeast infrastructures, and addressing Amtrak's looming $9 billion plus deferred maintenance liability.

Under the IMO Plan, the IMO—

- makes a one-time payment of about $1 billion to Amtrak;
- assumes from Amtrak almost $500 million in infrastructure-secured debt; and
- invests not less than $1 billion annually in Amtrak's owned Midwest and Northeast infrastructures.

THE IMO PLAN

The IMO Plan separates Amtrak into two federally owned entities.

The first Federal entity, Amtrak, continues its primary responsibility as a transportation service provider. It retains the reservations system, locomotives, passenger cars, maintenance of equipment workshops, and operating rights on the nation's rail network. It continues to operate all of its current intercity, Northeast Corridor and contract commuter trains.

By separating Amtrak's train operating functions from its owned infrastructure, William Crosbie, Amtrak's Senior Vice President of Operations estimated that the current forty-six state network can be sustained on an annual appropriation of under $500 million[vi]—significantly less than the $1.5 billion that Amtrak requested for FY'08.

The second Federal entity owns the 600 route-miles of Amtrak infrastructure, passenger stations on that infrastructure, and overhead wires that power the trains. The Surface Transportation Board (STB), in a process similar to its existing "directed service" authority, would conduct a public solicitation and select a private sector IMO from among the qualified applicants.

The IMO, for a period of fifty years, is responsible for managing and funding all rail infrastructure operations and improvements. This time period is necessary due to the very high level of front-end loaded investments—it is projected that the IMO will require about fifteen years to generate enough revenue to break even. Each improvement becomes the property of the Federal government as it is made. At the end of the fifty years, the Federal government can either re-bid the management concession or operate the infrastructure itself. At any time during the concession, the designation of the IMO is revocable for cause.

FUNDING STRUCTURE

The IMO is financed using the existing Railroad Rehabilitation Infrastructure Financing ("RRIF") loan program. Under the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2005 (SAFETEA-LU), RRIF program authorization was increased to $35 billion.

The IMO would be allowed to borrow up to $25 billion under the RRIF program, after having given the United States Treasury a repayment guarantee issued by an investment-grade third party in the amount of the full $25 billion.

As interest on the loan, the IMO is required to invest a minimum average of $1 billion annually in the Federal Government's owned infrastructure. This "payment-in-kind" has been successfully used in other Federal government initiatives in defense and power generation. On average, this statutory minimum investment exceeds by almost 400% the average amount Amtrak spent annually on its owned infrastructure between 2000 and 2009, prior to the one-time benefits accrued from the American Recovery and Reinvestment Act of 2009[vii]. It is my expectation that the IMO will consistently invest in excess of $1 billion annually.

The IMO Plan does more than just shift the financial burden of Amtrak's owned infrastructure from Congress to the private sector; it provides natural incentives to increase capacity, services, reliability and safety. It is the IMO's responding to these incentives that translate into an increase in the number of passengers carried by all transportation service providers and, in turn, into new revenues for the IMO. Revenue increases come from new train services that pay track-mileage fees to the IMO and from which the IMO pays for infrastructure improvements.

STAKEHOLDER BENEFITS

The IMO Plan is predicated upon growth and funding that growth. That growth will fuel new long-term, high-paying jobs both within and outside the rail industry. Job creation comes from two sources. The first is from the funds being invested in the infrastructure. This will result both in increased IMO employment to handle year-around maintenance and capital improvements, and construction industry jobs to handle the major infrastructure improvements. (DOT has estimated that for every $1 billion spent on infrastructure projects between 20,000 and 30,000 new jobs are created.) The second is new rail transportation jobs necessary to move the increased number of passengers the IMO Plan will generate.

The IMO Plan creates a platform upon which new and exciting rail services can be launched by Amtrak, existing commuter operators, or new transportation service providers, while the IMO, which is prohibited from operating trains, focuses on infrastructure management and improvements. The result will be more service

options with greater access to both the Northeastern and Midwestern rail networks, allowing more passengers to enjoy the efficiencies and benefits of rail travel.

The Plan forces the IMO to innovate by developing new opportunities for transportation service providers. To meet these goals, the IMO must be a truly neutral party. This is achieved by not permitting the IMO to operate its own trains. The IMO may not compete with its customers—the users of the infrastructure it manages. The only way the IMO should succeed is if its customers succeed.

This vision of rail passenger service can be reached. The IMO Plan is the route:

- High-speed train trip-times between New York and Washington will be reduced from close to three hours to roughly two hours through capital expenditures that eliminate choke points and provide infrastructure redundancy.
- Commuter carriers will be able to integrate their services by operating new run-through trains, as the IMO adds infrastructure capacity, instead of being confined to historic geographic areas. For example, New Jersey Transit and SEPTA will each be able to save millions of dollars and be able to offer faster and more attractive travel options by instituting a pooled New York—Philadelphia service, instead of forcing all passengers to change trains at Trenton, NJ.
- New city pair combinations will be encouraged to permit rail passenger traffic to expand meaningfully. For example, Princeton Junction, NJ has sufficient population and business activity to support multiple direct trains daily to Baltimore and Washington. New riders will be attracted by convenient and faster direct trains offering expanded travel options.
- Building fourteen new stations in the first twenty years at rail / highway intersections will attract more travelers though more convenient access.
- Dedicated airport express train services will help speed travelers to airline check-in while reducing airport overcrowding.
- Redundancy of infrastructure will provide more security and reliability.
- More employment will be created to build and maintain the enhanced infrastructure.
- Further employment will be created to staff and operate added train services.
- Carbon emissions will be reduced by seamlessly shifting travelers from automobiles to electrically powered trains.

STAKEHOLDER PROTECTIONS

Addressing the needs of principal stakeholders is a key element of the IMO Plan's win-win solution.

Federal Government

The RRIF loan principal is not at risk because it is fully secured by an investment-grade third party guarantee in the full amount of the RRIF loan.

The Inspector General of the Department of Transportation is vested with the authority to certify compliance with the terms of the legislation. The IMO is also required to file with the Secretary of Transportation and Congress annual reports both of its audited financial results and its operations, thus ensuring accountability to the public and to Congress.

To align the long-term interests of the owners of the IMO to those of the Federal government, ownership of the IMO is non-transferable for the full fifty-year management concession term.

Under the IMO Plan, Congress continues to maintain oversight over both Amtrak and Amtrak's owned infrastructure, yet is relieved of the burden of funding Amtrak's owned infrastructure since the IMO, using non-appropriated funds, is now responsible. It frees Congress to focus more on transportation services that constituents demand, and that states and other governmental entities desire.

States

Through the Passenger Rail Investment and Improvement Act of 2008, the states have achieved a strong voice and role in planning infrastructure investment. The IMO Plan protects the states from having to assume financial responsibility for the NEC.

Under the IMO Plan, multi-state compacts are not required and states are not obligated to fund the maintenance of or capital expenditures in the government's owned infrastructure. Multi-state compacts are fraught with problems: for example, timing issues arising from different states having different legislative schedules and the failure by one or more states to appropriate its or their proportional share. Should a state fail to contribute its share, the functionality of the compact is compromised. (It is interesting to note that Washington, DC and New York State have relatively similar route-mile shares, but significantly different funding capacities.) On the other hand, should the states count on the Federal government to fund it or its undertaking, what's the point of the multi-state compact?

Labor

The existing Amtrak employees are a great and irreplaceable resource. Labor must be treated fairly and equitably in order to assure the success of the IMO. Wages must be increased to be competitive in the region.

Under the IMO Plan, the IMO is required to offer employment in seniority order to all Amtrak employees performing infrastructure work to be performed by the IMO. The IMO is also required to honor existing collective bargaining agreements. On a personal note, in order to make the IMO Northeast wage-competitive, I would not be surprised were the IMO to negotiate with the labor organizations to increase rates of pay and improve working conditions for the IMO employees.

The IMO is investing more than $1 billion annually in the NEC infrastructure. Numerous times, the US DOT has stated that between 20,000 and 30,000 jobs are created for each $1 billion spent. In the case of the IMO, these jobs will be long-term and high-paying.

To summarize, the IMO Plan—

- makes the IMO subject to the Railway Labor Act, the Railroad Retirement and Unemployment Insurance Acts, FELA, and all rail safety legislation and FRA regulations;
- protects employees affected by the transfer; and
- preserves collective bargaining agreements and rights, including labor representation for IMO employees.

Amtrak

The IMO Plan improves Amtrak's financial statements by—

- transferring about $1 billion to Amtrak;
- assuming from Amtrak up to $500 million in infrastructure-secured debt;
- relieving Amtrak of its responsible for the roughly $1 billion in annual losses attributable to Amtrak's owned infrastructure, most of which are incurred in just five Northeastern states;
- positioning Amtrak to offer third-party, intercity rail car maintenance on a cost plus basis; and
- allowing Amtrak to pay only for those train-miles used.

The Plan allows Amtrak to run its high-speed trainsets at speeds of 150 mph and more between Boston and Washington, to offer Washington to New York service in as few as two hours.

This furnishes Amtrak the means and allows it the time to address the needs of its entire forty-six state system, including the need to acquire new passenger cars and locomotives.

Commuter Carriers and Freight Railroads

Vested commuter carriers and freight railroads with operating rights must also be protected. All pre-existing contracts and agreements are transferred to and

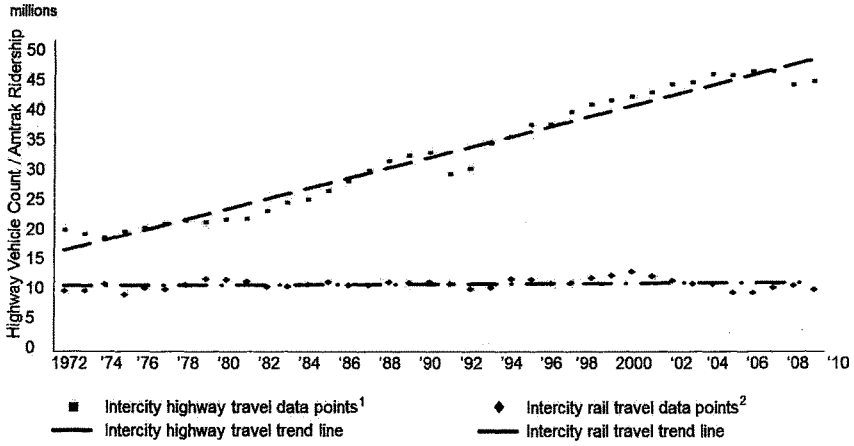
honored by the IMO, including the commuter carriers' "avoidable cost" access fee structure codified in Title 49, United States Code[viii].

The Traveling Public

For the traveling public, the IMO plan is the best path. Reliability and security redundancy will increase, while trip-times will be reduced by the IMO's addressing deferred maintenance through aggressive engineering and construction, and major new capital investments. Train riders will also enjoy more frequent service, increased travel options, new city pairs, and—very likely—lower prices.

The traveling public is looking for transportation options. Rail can offer such options, but it requires a new vision. In 1977, Amtrak reported carrying approximately 10.6 million Northeast Corridor riders[ix]. By 2010 this figure had declined to approximately 10.5 million[x]. Despite the fact that the number of I-95 automobile trip more than doubled over the same period of time[xi], Amtrak's ridership remained flat[xii]. The following graph shows this long-term divergence.

NEC Ridership vs. I-95 Highway Count



1. Cecil County, MD Susquehanna River crossings
2. Includes non-NEC Spine trains using NEC

Since its inception, burdened by its ownership of the NEC, Amtrak has seen no growth in ridership on the Northeast Corridor. Amtrak's NEC ridership numbers have been flat at roughly 11 million per year for about 40 years. Amtrak's long-distance services have also been flat, averaging about 5 million riders per year. Only Amtrak's state supported services have increase—and they have increase dramatically, rising from about 4.6 million in 1977 to about 14.6 million in 2010.

Amtrak Ridership (in millions)[xiii]

Year *	NEC Spine	Long Distance	Total NEC Spine & Long Distance	State Supported & Other	Total
1972					16.6
1973					16.9
1974					18.2
1975					17.4
1976					18.2
1977	10.6	4.0	14.6	4.6	19.2
1978					18.9
1979					21.4
1980					21.2
1981					20.6
1982					19.0
1986	10.7	5.1	15.8	4.4	20.2
1987	10.7	5.2	15.9	4.5	20.4
1988	11.2	5.4	16.6	4.8	21.4
1989	11.1	5.5	16.6	4.7	21.3
1990	11.2	5.8	17.0	5.2	22.2
1991	10.9	na		na	22.0
1992	10.1	na		na	21.3
1993	10.3	na		na	22.1
1994	11.7	6.3	18.0	3.2	21.2
1995	11.6	6.1	17.7	3.0	20.7
1996	11.0	5.4	16.4	3.3	19.7
1997	11.1	5.4	16.5	3.7	20.2
1998	11.9	5.6	17.5	3.6	21.1
1999	12.3	5.5	17.8	3.7	21.5
2000	12.9	5.5	18.4	4.1	22.5
2003	11.0	3.9	14.9	9.7	24.6
2004	10.9	3.7	14.6	10.2	24.8
2005	9.5	3.8	13.3	10.8	24.1
2006	9.5	3.8	13.3	11.3	24.5
2007	10.4	3.9	14.3	12.3	26.6
2008	10.7	4.2	14.9	13.8	28.7
2009	10.0	4.2	14.2	13.1	27.3
2010	10.5	4.5	15.0	14.1	29.1

THE STATUS QUO HAS FAILED—AMTRAK'S HIDDEN LIABILITY

Amtrak's owned infrastructure, particularly its Northeast Corridor, suffers from many years of deferred maintenance and depreciated assets. Major infrastructure components, renewed in the early 1980's, are now approaching the end of their useful and reliable lives, and will soon have to be replaced.

According to Kenneth Mead, former Inspector General, US Department of Transportation, "Amtrak [had in 2002] an estimated $5 billion backlog of state-of-good-repair investments, and underinvestment is becoming increasingly visible in its effects on service quality and reliability."[xiv] In 2009, Senator David Obey reported that "The Department of Transportation's Inspector General estimates the North East Corridor alone has a backlog of over $10 billion."[xv]

In light of the Federal deficit and Amtrak's potentially reduced capital grant for FY 2012, the "$1.1 billion [Amtrak received] to improve the speed and capacity of intercity passenger rail service"[xvi] under the American Recovery and Reinvestment Act of 2009 will, at best, temporarily slow down the rate of increase in Amtrak's backlog of state-of-good-repair investments.

If Amtrak's deferred maintenance is not addressed in a timely and continuous manner, the integrity of the Federal Government's owned infrastructure will be in jeopardy. Trip-times will be increased. Service will be degraded. Safety could be compromised. 'Deferred maintenance' may be defined as maintenance, which should have done, but was not done causing an asset to no longer function as designed.

The Government Accountability Office defines "state-of-good-repair" to be a condition requiring only cyclical maintenance. The last time the Northeast Corridor was in a state of good repair, was in 1981 at the conclusion of the Northeast Corridor Improvement Project.[xvii]

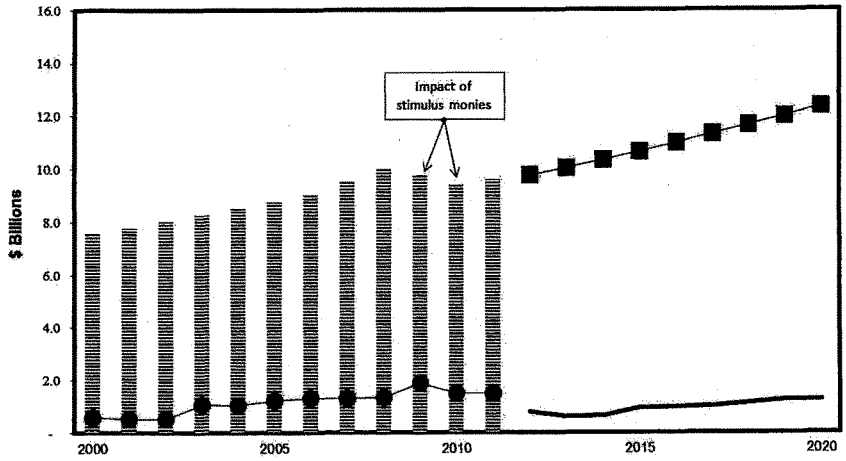
If all we do today is desire to bring the corridor up to a state-of-good-repair, we are aspiring to return it to its state in 1981. Is that our goal in 2011, to return the corridor to its condition in 1981?

My answer is: No! I believe that the Northeast Corridor should move into the 21st century and am personally prepared to help facilitate the investments to move it there.

Through enactment of the IMO Plan, the repair, operations, and improvement of Amtrak's owned infrastructure are fully funded using non-appropriated funds.

The following graph underscores the positive effects of transferring the Federal Government's infrastructure liability to the private sector and of reducing—by about two-thirds—Amtrak's required annual appropriations.

Amtrak's Hidden Liabilities



Federal, deferred maintenance liability
Federal, deferred maintenance liability eliminated under IMO Plan
Amtrak's historic appropriations
Amtrak's required appropriations without infrastructure

* Based upon DOT IG's 2009 deferred maintenance liability estimate and Amtrak's 2009 PRIIA-mandated NEC State of Good Repair Spend Plan.

APPROPRIATION CHALLENGES

The Federal government is able to fund Amtrak's annual operating budget. Amtrak's transportation services-related commitments (whether capitalized or expensed) tend to be completed in less than one year—a time period that corresponds to an appropriation cycle. Those outlays are expended throughout the forty-six states through which Amtrak operates.

The Federal government has been unsuccessful at funding all of Amtrak's capital improvements and infrastructure investments. Infrastructure undertakings tend to be multi-year in nature and, to be implemented efficiently and cost-effectively, require multi-year funding commitments. They, by their very nature, do not conform to the appropriations process. This has resulted in the massive and increasing deferred maintenance liability shown in the graph.

LESSONS LEARNED FROM THE UK EXPERIENCE

Over the last several decades most of the world has separated rail infrastructure ownership and management from rail transportation. In Europe, this was initially mandated through European Union Directive 91-440. Beginning with Sweden, the separation process worked quietly and effectively. In one cases, the UK, it didn't work well. But the UK situation represents very different circumstances with none of the legislative protections conceived to protect US rail users.

The problems experienced in the UK are unique to the UK—inadequate safety oversight, a lack of senior infrastructure management rail experience, and a misdirected incentive system. They are not applicable in the United States and not applicable under the IMO Plan.

In the UK there was no separate, independent safety regulatory agency to oversee the new system. The safety and performance failures were, in retrospect, almost foreseeable, but neither are nor were ever possible in the US, given the established roles played by the FRA, STB, and other transportation regulatory agencies.

To assure the IMO's management competency, the IMO is statutorily obligated to hire those Amtrak's employees currently performing infrastructure work. Additionally, in order to be awarded the right to be the IMO, the awardee will be subject to a rigorous selection process based upon its demonstrated qualifications and senior personnel. The IMO Plan, through the enabling legislation, is subject to:

- strong oversight by the FRA and DOT Inspector General;
- regular reports to Congress and the President;
- statutorily mandated long-term (50 years) incentives;
- significant financial risk associated with a $25 billion RRIF loan; and
- authority of the US Government to revoke the concession for failure to perform.

Despite failures of the UK's Railtrack, bifurcation and privatization have resulted in a continuous increase of train ridership. Ridership has more than doubled in the last 15 years. In 2010 about 33 billion passenger-miles were achieved, the highest total passenger-miles ever.

U.K. Passenger-miles at Highest Levels Ever

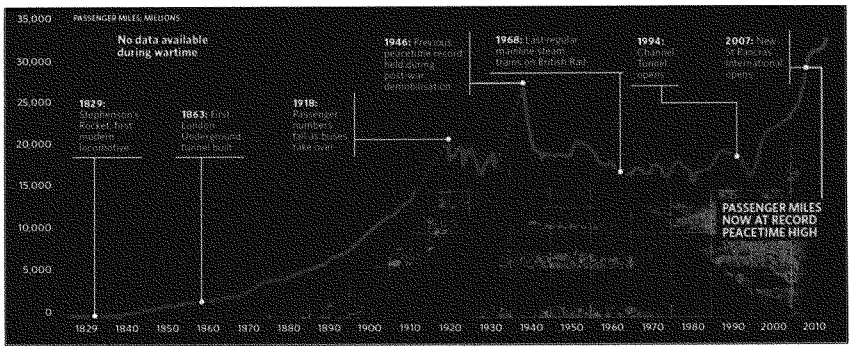


Image and graph credit: The Independent. Modified by the addition of 2010 data.

CONCLUSION: THE SOLUTION IS AT HAND

By increasing the RRIF loan authority in 2005, Congress expanded a loan program that enables the private sector to fund our nation's rail infrastructure multi-year investments. The vehicle to achieve this is the IMO Plan—a Plan that benefits labor, the Federal government, states, the commuter carriers, and Amtrak.

By enacting the IMO Plan, Amtrak's infrastructure improvements and debt repayment appropriation-requirements will be reduced by over $1 billion annually. And, that $1 billion will be available to this Subcommittee to allow Federal funds to focus on providing enhanced passenger rail service to the United States.

The IMO Plan is a win-win opportunity for the nation's rail passenger stakeholders—labor, the states, rail passengers, transportation service providers, Amtrak. It provides a solid base upon which to build the modern rail passenger network that government leaders and travel advocates have championed for the past thirty years.

The Northeast Corridor is the wealthiest, most densely populated corridor of any in the world. Given the capital requirements of the Northeast Corridor; the size and seriousness of the Federal deficit; and the lack of funding alternatives, it is my view that now is the time to implement: (1) the Blue Ribbon Panel's recommendation to bifurcate Amtrak and (2) the IMO Plan to assume the funding and management (not ownership) responsibilities for Amtrak's owned infrastructure assets.

I believe that Amtrak, unburdened by infrastructure ownership, can fulfill the new vision.

BENEFITS OF THE IMO PLAN

The IMO Plan:

- **Retains full Federal Government ownership of all Amtrak infrastructure assets**
- **Keeps Amtrak as the single national rail passenger carrier**
- **Assures Amtrak's infrastructure employees their positions, preserves their collective bargaining agreements and rights**
- **Creates new jobs both in infrastructure and train operations**
- **Invests almost 400% more annually in Amtrak's owned infrastructure than now**
- **Allows Amtrak to run entire current National System for an operating appropriations of $600 million annually plus a capital appropriation**
- **Permits Amtrak to match passenger revenues with train costs to increase accounting transparency to public agencies, as required by PRIIA**

[i] David Gunn, *Separating Fact from Fiction, Railway Age (May 2003).*
[ii] *Hearing Before the Subcomm. on Railroads, Transp., H. Comm. on Trans. And Infrastructure,* 109th Cong., 1st Sess., Dep't of Transp. Doc. No. CC-2005-070, at 8 (2005) (statement of Kenneth M. Mead, Inspector General, Department of Transportation) [hereinafter IG TESTIMONY].
[iii] *See* NAT'L R.R. PASSENGER CORP., 2003 CONSOLIDATED FINANCIAL STATEMENT, CONSOLIDATED STATEMENT OF OPERATIONS (2004)
[iv] See NAT'L R.R. PASSENGER CORP., 2010 CONSOLIDATED FINANCIAL STATEMENT, CONSOLIDATED STATEMENT OF OPERATIONS (2010)
[v] IG TESTIMONY at 2.
[vi] William Crosbie, Senior Vice President of Operations, National Rail Passenger Corporation, Remarks at Railway Age Conference (October 17, 2006).
[vii] The change in Right-of-way and Other Properties and Leasehold Improvements between the years 2000 and 2009, inclusive. *See* NAT'L R.R. PASSENGER CORP., 2000 THROUGH 2009 CONSOLIDATED FINANCIAL STATEMENTS, CONSOLIDATED BALANCE SHEETS.
[viii] *See* 49 USC. § 10904.
[ix] NAT'L R.R. PASSENGER CORP. 1977 CONSOLIDATED FINANCIAL STATEMENT. Multiplied Northeast Corridor passenger percentage by total ridership.
[x] AMTRAK MONTHLY PERFORMANCE REPORTS -- Oct. FY'09 through Dec. FY'11 Ridership and Revenue.
[xi] Highway—Maryland Department of Transportation, State Highway Administration.
[xii] Amtrak—1972: ICC freight railroad filings; 1973-1976: extrapolated; AMTRAK ANNUAL REPORT 1975--Operating Statistics, page 22; AMTRAK ANNUAL REPORT 1977--Operating Statistics, page 24; AMTRAK ANNUAL REPORT 1977--Marketing commentary, page 6; AMTRAK ANNUAL REPORT 1982--Operating Statistics, page 27; 1983-1985: former Amtrak personnel; 1972-1976, 1978-1985 allocations from former Amtrak personnel; AMTRAK ANNUAL REPORT 1990, Operating Statistics, page 23; AMTRAK FY'2000 ANNUAL REPORT, Statistical Appendix, page 47; 2001, 2002: extrapolated; AMTRAK MONTHLY PERFORMANCE REPORTS -- Jan. FY'04 through Sept. FY'04 Ridership and Revenue section A-2.3; AMTRAK MONTHLY PERFORMANCE REPORTS -- Oct. FY'05 through Sept. FY'05 Ridership and Revenue section A-2.2; AMTRAK MONTHLY PERFORMANCE REPORTS -- Oct. FY'06 through Jan. FY'07 Ridership and Revenue section A-3.2; AMTRAK MONTHLY PERFORMANCE REPORTS -- Feb. FY'07 through Apr. FY'09 Ridership and Revenue section A-3.4; AMTRAK MONTHLY PERFORMANCE REPORTS -- May FY'09 Ridership and Revenue section A-3.5; AMTRAK MONTHLY PERFORMANCE REPORTS -- June FY'09 through Aug. FY'09 Ridership and Revenue section A-3.4; AMTRAK MONTHLY PERFORMANCE REPORTS -- Sep. FY'09 Ridership and Revenue section A-3.6; AMTRAK MONTHLY PERFORMANCE REPORTS -- Oct. FY'09 through Dec. FY'11 Ridership and Revenue section A-3.4. [hereinafter AMTRAK RIDERSHIP STATS].
[xiii] AMTRAK RIDERSHIP STATS AT 12.
[xiv] IG TESTIMONY at 2.
[xv] *Summary: American Recovery And Reinvestment, Senator David Obey, January 15, 2009 on the American Recovery and Reinvestment Act of 2009* [hereinafter Senator David Obey Summary].
[xvi] Senator David Obey Summary at 13.
[xvii] *Briefing Report to the Chairman, Subcomm. on Surface Transp. and Merchant Marine of the S. Comm. on Commerce, Science and Transp., 104th Cong., 1st Sess., Gen. Accounting Office Doc. No. RCED-95-151BR, at 47 (1995).*

Statement of U.S. Sen. Frank R. Lautenberg (D-NJ) at House Transportation and Infrastructure Committee hearing:

"Mr. Chairman, thank you for the opportunity to come before this Committee to discuss our nation's passenger rail system, and specifically the Northeast Corridor.

"America is facing a transportation crisis—and our future depends on the steps we take to meet the economic, environmental and congestion challenges facing our workers, families and businesses every single day. But first, we must recognize some facts.

"The Northeast Corridor is the most densely populated area in the United States. More than 1,800 trains operate each day on the Northeast Corridor—and on weekdays, more than 700,000 commuters use these rails. The Northeast Corridor alone takes 243 flights out of our skies and 30,000 cars off our highways each weekday.

"Put another way, if we shut down the Northeast Corridor rail service, you'd have to build seven new lanes on Interstate 95 just to carry all the travelers that use these trains every day. Just imagine what that would look like. Cars piling up on highways, pollution spitting into the air, pockets drained at the pump, businesses waiting hours or days for products they need to sell to make payroll and boost the economy.

"The fact is: Amtrak makes our region work—and we must invest in this critical asset. Last year, we spent more than $40 billion on highways. Over Amtrak's entire 40-year history, we've spent just under $38 billion total. That's worth repeating: Amtrak has received less federal money in its history than highways get in a single year.

"Other countries—including China, Spain, France, Japan and Germany—are prioritizing rail investments, while we're stuck at the station. This must change. We must be bold and make the investments that will make our economy and our country more prosperous.

"We started this process in 2008, when both parties came together and passed my Passenger Rail Investment and Improvement Act, which reauthorized and strengthened Amtrak. This was a bipartisan bill signed into law by President George W. Bush. Our Amtrak law created the high-speed rail grants that are moving forward today in my state and many of your states. It also made critical investments in the Northeast Corridor and required Amtrak to work with the states and the federal government to bring the Corridor into a state of good repair.

"Amtrak has been making great strides to improve its service in the Northeast Corridor—and the proof is evident in the skyrocketing ridership numbers. Last year, Amtrak's nationwide ridership hit historic highs—carrying nearly 29 million passengers—and it is on track to beat that number this year.

"Amtrak also recently launched an ambitious and aggressive plan to enlist private sector investment, asking the private sector to submit a robust business and financial plan to develop higher speed rail in the Northeast Corridor. So far, several investment firms have expressed interest in working with Amtrak. Investors know that working with Amtrak to strengthen passenger rail will help our economy, as businesses flock to communities served by faster trains.

"A stronger national rail service will also be good for our national security and the environment because it will help our country kick its dangerous oil addiction. But let me be clear: privatizing the Northeast Corridor is not a smart or viable way to meet these challenges.

"Let's not forget: Congress created Amtrak in 1970 because the private railroads could no longer sustain inter-city passenger service on their own. If we all do our part, we'll be able to build great projects like the Gateway Tunnel, an innovative project that will expand high-speed rail in the Northeast Corridor. Building

the Gateway Tunnel and achieving high-speed rail service on the Northeast Corridor are no small undertakings. Unfortunately, some say we can't afford vital public investments right now. I would argue that we can't afford not to make these investments.

"When I was building my business, I learned firsthand—if you want to be successful tomorrow, you must begin laying the foundation today. The same principle applies here. If we want to leave our children and grandchildren a better country, we must make smart investments on their behalf—and that means investing in Amtrak."

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House Transportation and Infrastructure Committee
Hearing On
Opening the Northeast Corridor to Private Competition
For the Development of High-Speed Rail

"Passenger Oriented Development Planning Initiative"

Testimony of James H. Richardson
Senior Vice President
FC Asset Services LLC

May 26, 2011

This testimony is on behalf of FC Asset Services, which together with Woolpert[1], has formed an Alliance for Passenger Oriented Development (APOD). In previous testimony introduced into the record by Congressman Tom Petri on March 11, we recommended an organized approach to station area development that would make commercial improvement an integral element in the revitalization of passenger rail corridors across the country. The goal is to create a package that provides a stream of revenues from escalating land and commercial values in the station area. This revenue can then be plowed back to operating subsidies, maintenance, and capital projects across a high performance intercity or urban passenger rail corridor. Currently, station oriented development is undertaken on an ad hoc basis. There is frequently little coordination between the economic development opportunities, the passenger rail operation itself and the intermodal connections to that operation. We submit that this new proposal can be a part of a holistic solution to the most vexing problem of providing high performance passenger rail corridors additional streams of revenue that will underpin the operations. A summary of our legislative proposal is attached at the end of this testimony.

We believe that this approach can apply to any urban rail or intercity passenger corridor and it is ideal for the Northeast Corridor. There are incredible commercial development opportunities along the Northeast Corridor. With this plan, we are proposing to capture some of the value of these development opportunities to help finance high speed corridor infrastructure investments and operational expenses.

Following are principles we recommend for the Northeast Corridor:

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[1]FC Asset Services is a subsidiary of Forest City Enterprises, Inc., an NYSE-listed national real estate company principally engaged in the ownership, development, management and acquisition of commercial and residential real estate. Forest City has developed numerous Transit Oriented Developments across the country. Woolpert is a design, engineering, and geospatial firm that integrates services and applies technologies for federal, local/state, and private-sector clients.

- A corridor wide real estate plan should be developed under a Master Planner Development Administrator (MPDA). While certainly European and other international developers with experience may be subcontractors, this should be an American led planning effort. The MPDA will have specific responsibilities:

    - Prior to any competition that would open the Northeast Corridor to public private partnership control, there should be a survey of all available real estate and an overlay with an estimate of development potential that should be made available to help support the infrastructure/operations expenses and the development opportunities that will be available to a bid consortiums

    - Following a competition, the design, construction, management, operation, maintenance of the high speed rail system, and commercial development for the corridor should be under the singular control of a Corridor Management Group which will work through the MPDA to:

        - ✓ Create Revenue Capture Assessment Districts in each station area.

        - ✓ Establish an NEC Rail Corridor Development Fund that will plow back revenue into infrastructure and ongoing high speed rail service requirements.

        - ✓ Create continuity with common branding across all station areas in the corridor with maximum revenue generation from advertising and related sources as well as coordinating all of the stations to create destination centers that will drive ridership and revenues.

        - ✓ Combine the above to establish a core development program that will be corridor wide. The core program will generate income and be under the direct ownership and control of the Corridor Management Group. This should be not less than 10% of the total target commercial investment. These will be essential properties; particularly those tied to intermodal connections. The control of the core will provide leadership and leverage. This will in turn yield consistency and financial stability over the entire corridor commercial development program.

Because these projects will combine public interest mobility and rail access with commercial development pure commercial bank interest rates and terms will not work. Therefore we propose access to innovative finance such as the Railroad Rehabilitation & Improvement Finance (RRIF) and the Transportation Infrastructure and Innovation Act (TIFIA) that can leverage private investment in a true public-private partnership (P3) arrangement.

As America is lagging far behind most of the developed world in high speed rail, we would suggest a special initiative for high performance corridor development in the Northeast Corridor and other emerging corridors. Perhaps a National Corridor Bonding or Passenger

Corridor Infrastructure Bank could be established. Through this dedicated mechanism, this innovative finance could be made available to each corridor for both operational and qualified station area development. This program should be deficit neutral. Revenues from the Corridor Development Fund could be used to pay back the funds/bonds as well as to support operational cost.

This proposal will provide a new source of revenue for the basic maintenance and upkeep of the high speed rail operation. Just as importantly, it can make a large contribution to creating vibrant urban communities with state of the art intermodal station areas that will integrate access to passenger rail service with other transportation options.

In conclusion, we propose Congress make station area development an integral part of an emerging high speed rail operation under the control of a common a Corridor Management Group in the Northeast Corridor. We believe the same concept can be applied to the designated state supported corridors that have potential to become the backbone of a high performance American intercity passenger system. By engaging P3s and station oriented development, together with streamlining regulatory approval, we believe the objective can be achieved in the shortest possible timeframe.

Thank you.

LEGISLATIVE OUTLINE
NATIONAL REFORM INITIATIVE
RAIL PASSENGER ORIENTED DEVELOPMENT

Establish a P3 Passenger Rail Commission on High Performance Rail Passenger Area Oriented Development.

Purpose: The Commission will guide a robust program of station area development that will return revenues to emerging and new high speed, regional and urban passenger rail operations.

Commissioners: 1) The Secretary of Transportation, Chair; 2) States (representing the Northeast Corridor; 3) States (representing state assisted intercity passenger corridors; 4) Renowned Station area Development Expert (appointed by the President); 5) Building Trades Labor. A broad based advisory committee will be established.

Commission Role. Will provide consistent and coordinated policy guidance on how to attract private investment into the station area districts across high performance urban and state supported passenger rail corridors throughout the country. It will oversee a special initiative on potential P3 property development along the entire Northeast Corridor as a part of a plan to open the Northeast Corridor to private competition in the development of high speed rail. It will provide technical assistance and best practices for station area development and master planning. It will put forward model programs for workable public-private partnerships, methods for generating revenues and establishing corridor development funds that support rail operations.

The Commission, working through a Master Planner Development Administrator (MPDA) will provide guidance for the creation of Special Assessment Areas or Districts. These in turn will permit the State or Local Authority to establish a Rail Service Corridor Development Fund that will assure ongoing success of the basic passenger rail service. It will establish guidelines for Qualified Programs which will make the station areas eligible for federal incentives such as Railroad Rehabilitation and Improvement Financing (RRIF) for approved projects, planning grants[2] as may be available as well as expedited regulatory treatment.

Specifically, the Commission will retain a Master Planner Development Administrator (MPDA) that will:

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[2] We understand the Administration will shortly submit a "Transportation Opportunities Act" that will propose a grant program for development of a "National High Performance Rail System." Station development that meets stated intermodal goals will receive a high priority under this proposal.

- **Provide technical assistance and guidelines to emerging high speed, regional and urban rail passenger corridors on station area development.**

  - Make available consistent and coordinated Guidelines. These Guidelines will identify best practices for planning, design and implementation which include best station area planning factors such as station site selection; physical site assessment; market feasibility assessment; brand development; public involvement and station area master planning as well as economic and market assessment and funding strategies. "Best practices" will be identified by the Commission. The Guidelines will enable minimum best practices that can be utilized across the entire high performance passenger rail network.

- **Provide Technical Assistance in Developing Model Programs for Public Private Partnerships**

  - Model programs will be developed to maximize use of PPP type of project financing. These will include management and ownership sharing through long term, performance-based contracts where appropriate risks can be transferred cost effectively to a private sector partner. Models will be developed for a PPP which includes a Station Area Development Authority that will be centrally administered and responsible for all aspects of the design, build, operation, and maintenance and financing of the project.

- **Develop Model Programs for Generating Revenues from Increased Values and for Corridor Development Funds.**

  - Working with state and local governments, model *station area revenue producing programs* will be made available to the states and communities to develop high speed, regional or urban rail corridors. These will include Special Assessment Districts; Tax Increment Financing; Joint Development; Assessed Taxes and other value capture strategies.

  - In addition the MPDA will model Rail Corridor Development Funds that can deploy revenues from strategies for plow back into the corridor passenger railroad operation.

Each Urban or State Intercity Corridor may establish Corridor-Commissions to oversee the implementation of Corridor High Performance Passenger Area Development Plans. The National Commission will issue guidelines for establishing official Corridor Commissions. Each Corridor Commission will apply to the National Commission for recognition. Each shall be chaired by a State or Local Authority deemed most responsible for the development of the passenger rail corridor development. Each Corridor Commission will coordinate with the National MPDA. Each Corridor Commission shall have an advisory board which shall include, but not be limited to, the governors of states (or representatives); mayors of major municipalities; commuter operator (if any), rail construction labor, Amtrak and an alternative rail operator (recommended by the Association of Independent Passenger Rail Operators- AIPRO), and a local economic development and real estate expert/s. Each Corridor Commission with the assistance of the MDPA will:

- Assure corridor-wide consistency in site selection and station area planning which will include rail passenger corridor branding and revenue producing strategies.

- Assure that each Plan includes a *revenue assessment program* and a *Rail Corridor Development Fund.* That fund may be used to finance capital development, operating subsidies and maintenance of the core passenger operation. The Development Fund revenues may be used to pay back RRIF loans used in the development of the high speed or regional corridor operation.

The Commission may provide federal incentives for Qualified Station Development Programs.[3]

Qualified Corridor programs are those Corridor programs that meet the basic guideline for capturing increased property values to return funds to operations. These Corridors will have access to federal financial incentives which include RRIF loan funding for approved projects. Available federal high speed, intercity and urban passenger grant funding will be made available, and could be used to subsidize RRIF loans to generate additional public and private congressional leverage. Qualified Corridor Projects are available for streamlined regulatory processing. These projects must build value in the station area that return revenues back to operations.[4]

Commission will adopt Streamlined Regulatory Reform Plan.

The Commission will have the authority to establish and implement a program of expedited federal regulatory approvals for Qualified Station Projects. The Commission will, notwithstanding any other provision of law, establish a "Passenger Oriented Development Regulatory Reasonableness Plan." The "Reasonableness Plan" must address impacts on existing environmental law and regulation and how any adverse impacts to the environment would be mitigated. The Regulatory Plan the may reform, coordinate, or expedite regulatory approvals that will simplify and speed qualified passenger rail oriented development projects. Specific regulatory requirements deemed non-essential to mitigating adverse impacts may be identified and streamlined to expedite corridor development, but it must be stipulated by the Commission that there are no substantial adverse impacts. The Commission shall designate a lead agency to coordinate project delivery as authorized by the Regulatory Reform Plan.

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[3] Beyond establishing the Commission, the program will require no special funding. The RRIF program is deficit neutral. The Qualified PPP's would be eligible for grant funding to the extent it became available under the Intercity Passenger Rail capital investment grant program authorized under Section 24402 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA)

[4] We believe the RRIF program should be modernized and reformed. We endorse the proposal of the American High Speed Rail Alliance to reform the RRIF program and make it more accessible which was put forward at this hearing.

TTD
A bold voice for transportation workers

WRITTEN STATEMENT OF
EDWARD WYTKIND, PRESIDENT
TRANSPORTATION TRADES DEPARTMENT, AFL-CIO

HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
ON
OPENING THE NORTHEAST CORRIDOR TO PRIVATE COMPETITION
FOR DEVELOPMENT OF HIGH-SPEED RAIL

May 26, 2011

Chairman Mica and Ranking Member Rahall, thank you for the opportunity to testify on behalf of the 32 member unions of the Transportation Trades Department, AFL-CIO (TTD). TTD represents several million men and women who work throughout America's transportation sector, including those who operate, maintain and build our nation's railroads.

Everybody agrees that America desperately needs new investment in its transportation system and infrastructure. In 2009, a report from the National Surface Transportation Infrastructure Financing Commission concluded that our country must invest $172 billion each year simply to maintain its existing transportation infrastructure. The costs to invest in new transport systems like modern transit and high-speed rail will require a major boost in investment. Throughout its more than 20 year history, TTD has engaged policy leaders on the need to improve and expand our transportation system as a proven way to create good jobs, weather economic downturns and ensure long-term economic growth and productivity. I might add that on these points and others the major business lobby groups, such as the U.S. Chamber of Commerce, concur with many of our views.

As members of this committee know, TTD is one of Amtrak's biggest supporters. After all, our affiliated unions proudly represent the majority of the 19,000 people who work for the railroad. But our support for Amtrak is based on more than just the fact that it is a major employer of highly skilled employees. Amtrak is an essential component of a multi-modal, inter-connected transportation system that our country desperately needs. Amtrak is a leader in developing next-generation high-speed rail with a strong record of ridership growth, partnerships with states, high quality commuter operations and innovative planning. And Amtrak manages one of the world's finest and most complex transportation corridors in the world: the Northeast Corridor (NEC).

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Edward Wytkind, President / Larry I. Willis, Secretary-Treasurer

Most in this room today will agree that America needs high-speed rail because it is essential to our national economic future and, with a plan for better and more efficient connectivity with other modes of transport such as transit and aviation, it could revolutionize our transportation system. So the question to consider in this hearing is not whether we want high-speed rail, but rather how we want high-speed rail to be implemented. And that discussion should begin with a review of the state of Amtrak.

As someone who has worked on passenger rail issues throughout my two decade career, it is frustrating to hear some of the criticism directed at the railroad's leadership. As this committee knows I have had my differences with past Amtrak management and with previous Amtrak boards. But as someone who cares deeply about Amtrak's future, I am impressed by the current leadership's relentless focus on creating one of the world's great passenger railroads and making true high-speed rail service a reality. Many of Amtrak's critics are not paying attention. They rely on old perceptions of a struggling, visionless carrier. Those views are simply outdated.

First, Amtrak service has never been more popular, efficient and cost-effective. In fiscal year 2010, more than 28.7 million people took Amtrak and 2.7 million passengers rode just last month, which is a 10 percent increase over the previous April. Overall, Amtrak ridership rose every month for the last year and a half and set annual records for seven of the last eight fiscal years. The NEC is part of this success story. Over one-third of Amtrak's passengers in fiscal year 2010 rode on the NEC and in fiscal year 2011 thus far ridership on the NEC is up almost five percent.

Second, Amtrak has set forth a strategic vision to dramatically expand passenger rail and to specially develop enhanced high speed rail service on the NEC. And let me be clear: Amtrak's plan embraces private sector participation. Just last month, it issued a request for proposals that will develop private sector partnerships and stimulate private investment.

Amtrak's Next-Gen High-Speed Rail plan would develop a 220 m.p.h. high-speed rail system connecting Washington, D.C. to Boston. This new system will require new engineering and dedicated tracks that meet new design guidelines allowing high-speed service to operate safely. The Next-Gen plan will be a major boost to the economy and our transportation system. It will support 44,000 jobs a year during construction with over 120,000 permanent jobs after it is completed. Amtrak's careful original estimates projected a $900 million surplus annually. In fact, reviews by peers involved in high-speed rail across the globe conclude that Amtrak's business and ridership projections are actually too conservative. Of course, we will quarrel over important details. And yes, with additional resources the plan could be executed faster. But in the end, this is a bold and long overdue initiative and one that contemplates a robust role for the private sector.

Despite these many successes, some seem to relish in belittling the carrier and calling it nothing more than a "Soviet-style railroad." While that may be a catchy phrase, it describes a railroad that simply doesn't exist. And for those who would continue to use this comparison, I would suggest we actually pay attention to the fact that Russia is developing a 250 m.p.h. high-speed

rail line between St. Petersburg and Moscow that is dependent on significant government assistance. And other governments around the globe are advancing and funding aggressive plans to modernize their transportation systems with long-term investments in high-speed rail.

Proposals to privatize Amtrak's NEC operations ignore both the inherent problems created when we allow for-profit companies to operate intercity passenger rail and the lesson learned from past privatization efforts. There is no high-speed passenger rail system in the world that operates without significant government assistance. Private sector companies simply cannot make a profit without federal support. By now, we should all know about Margaret Thatcher's ill-fated privatization of British Rail, which led to fatal accidents, deferred maintenance and required a massive taxpayer bailout. In Japan, high-speed passenger rail companies make money, but only because the national government makes major capital investments that do not show up on the books. I bet Amtrak's balance sheets would look far better if everyone agreed to ignore the federal government's contributions to passenger rail capital budgets and if all we were measuring was Amtrak's "above rail" performance on the NEC, for example. That would show an operation comfortably in the black. But in the real world, long-term capital is vital and must be a constant and reliable aspect of running a modern passenger transportation system.

Amtrak was created because private sector freight railroad companies simply could not make a profit operating passenger rail service. Today the NEC is a popular, modern operation that would not exist without Amtrak. In 1976, Amtrak took over the NEC because the private sector company providing the service went bankrupt. At that time, the route was dilapidated, dependent on decades-old signal systems and lacked a rational system to separate commuter and inter-city traffic through New York City.

During much of its 40 years of existence, Amtrak had to fight constantly to survive from year to year. Even in those almost impossible circumstances, the railroad managed to improve the NEC. From 1976 to 1990, Amtrak completely rebuilt the New York to Washington leg to allow it to handle higher speed trains. It rebuilt the signal system, substituted automation for manual control wherever possible and improved safety by closing grade crossings. In the 1990s, the railroad electrified the Boston to New Haven leg to allow trains to run the length of the NEC without changing engines. Those investments, which took years to implement because of cash starved budgets, paved the way for Acela, which today enjoys record ridership, trains often filled to capacity and projections for significant growth well into the future. The success story of the Acela service should lay to rest the old, tired rhetoric about Amtrak's ineffectiveness. The fact is that Amtrak built this wildly popular NEC service – and achieved today's improving performance metrics – despite many consecutive years of chronic under-funding, ill-advised "shut down" federal budgets and unwanted privatization mandates.

The fact is, the private sector does not appear interested in operating on the NEC. In order to spur the development of high-speed rail, the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) required the Department of Transportation (DOT) to encourage public-private partnerships. In late 2008, the Federal Railroad Administration (FRA) issued a request for proposals to finance, design, construct, operate and maintain a high-speed intercity passenger rail

system. Although eight submissions were received, there were no proposals for high-speed rail on the NEC and instead those proposals focused on other rail corridors. This is not surprising to those of us who have evaluated the experiences of other successful high-speed passenger rail operations around the world.

High-speed and passenger rail operations need federal funding. No amount of wishful thinking or fairy dust will replace the need for real dollars. The private sector will not participate at a robust level without a reliable and steady stream of federal support. It is time to stop parroting disproven assertions about privatization.

We also must remember the complexities of managing the NEC and the inherent risks if we turn over operations to a new for-profit company. The NEC serves a region that produces more than 21 percent of America's GDP on only two percent of our land area. Every day, more than 700,000 people use 1,800 commuter trains to get to work along the NEC and cities and states are utterly dependent on the continuity of this service.

The NEC is one of the most complex rail networks on earth. At least 15 different rail carriers operate on the corridor. These include seven commuter operators (Long Island Rail Road, Maryland Area Regional Commuter, Massachusetts Bay Transportation Authority, Metro-North, New Jersey Transit, Shore Line East and Southeastern Pennsylvania Transportation Authority), seven freight carriers (Canadian Pacific, Connecticut Southern, Conrail, CSX, Norfolk Southern, Pan Am Railway and Providence & Worcester) and, of course, Amtrak. Amtrak provides dispatching to every one of the passenger, commuter and freight rail trains operating on the NEC. Any plan to remove Amtrak would need to replace the carrier's role as dispatcher in our nation's most intricate rail network.

The fact that this complex, nine-state operation functions every day is no small feat. Policy makers cannot ignore the impact on safety and the economy that any switch away from the current arrangement would have. At its core, a long-term NEC plan must embrace Amtrak as the entity that operates the trains and maintains the system and equipment. It makes no sense to replace Amtrak and ignore the decades of service and expertise the company's skilled employees provided to the nation.

This hearing may focus on the NEC, but we cannot ignore the fact that Amtrak operates a national passenger rail network. That system provides service to small and large communities around the country. More than 150 Amtrak stations are in rural areas, where the railroad is one of the few, if not the only, non-driving options for local residents. The decisions made here today could have a significant impact on those routes. The NEC is central to Amtrak's financial health. The operating profits from the NEC allow Amtrak to support most of the other train service it provides in the U.S. In other words, to undermine Amtrak's leadership role on the NEC is to undermine Amtrak's ability to operate outside of the NEC. If the NEC is removed from the Amtrak system, there will be no way for the railroad to contribute to funding its operation of a national passenger rail network.

The labor movement has long argued that our country should simultaneously develop both a strong transportation system and a solid domestic manufacturing base through mutually beneficial Buy America requirements. These rules ensure the production of raw materials and finished products, including train equipment, here in the United States. PRIIA and the Recovery Act both applied Buy America requirements to Amtrak. Through its high-speed rail grants, the FRA has aggressively pursued a job creation agenda through the strict application of these same requirements. But there are also other important roles for the private sector in the development of the NEC.

As these operations are expanded, labor protections and statutes that cover government investments must be applied. Any construction work undertaken, whether in construction of new railroad lines or to increase building in new tax districts around rail stations, must be covered by Davis-Bacon prevailing wage requirements. For almost 80 years, prevailing wage standards have required contractors to pay workers current rates in a community where a project is under construction. Additionally, longstanding rail laws must apply to workers in this sector. The Railway Labor Act, the Railroad Retirement Act and the Railroad Unemployment Insurance Act all provide essential protections for workers' living standards and rights. By maintaining these longstanding protections, NEC high-speed rail investments can benefit everyone.

There is a clear role for private sector participation, but we must beware of an experimental free-for-all that puts the economy or jobs at risk. In particular, we have to ignore those whose support for a particular project is based on its ability to generate lucrative transaction fees. The development of a high-speed rail system on the NEC will generate significant revenues for a legion of lawyers and bankers who write the contracts and help transfer assets. Their only financial interest is in generating an asset transfer, regardless of whether it will grow our economy, improve traffic congestion or create jobs. These financial speculators have done enough harm to our economy and our country. We must be wary of their self-interested advice and motivations and instead support a transportation vision that will be in the national interest and profit our shared economic future.

Transportation labor supports Amtrak and endorses finding ways to boost private sector participation. But in the end Amtrak is and should remain the main provider of high-speed rail service on the NEC and across the country. It has proven its ability to provide safe, reliable service even in the worst of times. Today, we should invest in Amtrak's high-speed rail network to improve our nation's economic future and we should avoid risky privatization experiments on one of the world's premier transportation corridors.

Thank you for giving us the opportunity to testify.

COMMITTEES:
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June 2, 2011

The Honorable John Mica
Chair
Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

The Honorable Bill Shuster
Chair
Subcommittee on Railroads, Pipelines, and
Hazardous Materials
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Mica and Chairman Shuster:

On May 26, 2011, the Committee on Transportation and Infrastructure held a hearing on "Opening the Northeast Corridor to Private Competition for Development of High-Speed Rail." At that hearing, you circulated a chart derived from Amtrak annual and monthly reports which showed a decrease in ridership on the Northeast Corridor (NEC) from 10.6 million riders in 1977 to 10.5 million riders in 2010.

The chart compares "apples" to "oranges". You cannot compare riders in 2010 with riders in 1976 when many of the trains and routes that operated in 1976 no longer exist. Your staff used Amtrak annual and monthly reports to obtain the information; however, Amtrak's assignment of routes to ridership categories has changed significantly over time. Therefore, staff should have reviewed the trains and routes within those categories to provide an accurate comparison. For example, in 1976, Amtrak ran Clocker trains, which was a commuter train from New York to Philadelphia. That service made up about one-half of the ridership on the NEC; however, the service was taken over by New Jersey Transit in 2005. To compare 1976 ridership (which included Clocker ridership) with 2010 ridership (which had no Clocker service) does not provide a valid comparison. If you remove the Clocker service from the calculation, which is an accurate comparison, then service on the NEC has actually increased from 6.4 million riders in 1976 to 10.4 million riders in 2010, a 38 percent increase.

Your chart also maintained that NEC ridership peaked in 2000, with a total of 12.9 million riders. In 2000, NEC ridership in Amtrak's annual and monthly reports included the following trains: Metroliners, the Ethan Allen Express, the Vermonter, the Northeast Direct, the Clockers, Philadelphia to Harrisburg, the Empire, the Adirondack, New York – Harrisburg, and Special Trains. However, in 2010, many of these trains are now assigned to State-supported routes and are no longer assigned to the NEC, which is why the 2010 ridership levels show a lower number of riders.

A corrected chart shows that ridership on the NEC peaked in 2008, with 10.9 million riders. There was a slight decrease from 2008 to 2009 due to the economic crisis but ridership for 2011 is likely to exceed 2008 levels, and set a new Amtrak NEC ridership record.

Similar issues rise regarding calculation of long distance and state-supported routes because some of the long distance routes that existed in the 1990s no longer exist or are now State-supported routes. A more accurate depiction of long distance and state-supported routes would be to compare the annual number of train-miles, which I included in a separate chart.

I am submitting the enclosed charts for the record but I wanted to make sure I brought these issues to your personal attention in advance.

Sincerely,

Corrine Brown
Ranking Democrat
Subcommittee on Railroads, Pipelines, and
Hazardous Materials

Cc: The Honorable Nick Rahall, Ranking Democrat, Committee on Transportation and Infrastructure

CORRECT VERSION

Amtrak Ridership (millions)					
using consistent route groupings as defined in 2010					
from Amtrak Monthly Earnings Reports					
	NEC Spine			State supported/	
Fiscal Year	Clockers only	without Clockers	Long Distance	Short distance	System Total
1971					
1972					16.6
1973					16.9
1974					18.2
1975					17.4
1976	3.1	6.4	4.0	4.5	18.0
1977	3.1	6.8	4.3	5.1	19.2
1978	2.7	7.0	3.9	5.3	18.9
1979	2.3	7.9	4.9	6.2	21.4
1980	2.4	7.9	4.2	6.6	21.2
1981	2.2	7.4	4.5	6.5	20.6
1982	2.0	7.4	3.9	5.8	19.0
1983	2.4	7.0	4.0	5.6	19.0
1984	2.4	7.7	4.4	5.5	19.9
1985	2.3	8.2	4.5	5.8	20.8
1986	2.0	8.2	4.6	5.5	20.3
1987	2.1	8.2	4.7	5.5	20.4
1988	2.1	8.7	5.0	5.6	21.5
1989	2.0	8.7	5.0	5.7	21.4
1990	2.0	8.5	5.1	6.6	22.2
1991	1.9	8.3	5.2	6.7	22.0
1992	1.7	7.8	5.0	6.8	21.4
1993	1.7	7.9	5.0	7.1	21.8
1994	1.7	7.6	4.6	7.3	21.2
1995	1.7	7.9	4.2	6.8	20.7
1996	1.6	7.7	3.8	6.5	19.7
1997	1.5	7.7	3.9	7.2	20.2
1998	1.7	8.0	4.0	7.4	21.1
1999	1.7	8.1	4.0	7.7	21.5
2000	1.8	8.6	4.0	8.2	22.5
2001	2.0	9.0	3.8	8.7	23.5
2002	2.0	9.2	3.6	8.6	23.4
2003	2.0	8.9	3.8	9.4	24.0
2004	1.9	9.5	3.9	9.7	25.1
2005	1.6	9.6	3.9	10.4	25.4
2006	0.0	9.5	3.7	11.1	24.4
2007	0.0	10.1	3.8	12.0	25.8
2008	0.0	10.9	4.2	13.6	28.7
2009	0.0	10.0	4.2	13.0	27.2
2010	0.0	10.4	4.5	13.8	28.7

NEC Spine includes:
--Acela, Metroliner
--Regionals, NEDirect, Conventional
--Clockers (taken over by NJT end of FY05)
--Twilight Shoreliner (2001-2002) only
--Special trains in NE

Does not include "leap quarter" July-Sep 1976

The recession caused most services to decline from 2008 to 2009; NEC ridership had not fully recovered in 2010 and will come close to matching the record in 2011

TRAIN - MILES

Amtrak Train-Miles (millions) using consistent route groupings as defined in 2010 from Amtrak Monthly Earnings Reports					
	NEC Spine			State supported/	
Fiscal Year	Clockers only	without Clockers	Long Distance	Short distance	System Total
1971					
1972					
1973					
1974					
1975					
1976					
1977	0.6	5.7	19.0	7.1	32.5
1978	0.5	5.6	18.2	7.3	31.5
1979	0.4	5.6	19.4	7.3	32.8
1980	0.4	6.1	15.2	8.2	29.8
1981	0.4	6.3	15.2	8.7	30.7
1982	0.3	5.8	14.4	8.1	28.7
1983	0.4	5.7	15.0	8.1	29.1
1984	0.4	6.0	15.2	7.5	29.0
1985	0.4	6.5	15.6	7.8	30.3
1986	0.3	6.5	15.4	6.9	29.1
1987	0.3	6.6	15.8	6.8	29.5
1988	0.3	6.9	16.1	6.8	30.2
1989	0.3	7.4	16.2	7.2	31.1
1990	0.3	7.6	16.8	8.4	33.0
1991	0.3	7.7	17.1	9.0	34.0
1992	0.3	7.6	17.3	9.3	34.5
1993	0.3	7.5	17.5	9.6	34.9
1994	0.3	7.7	16.6	9.8	34.3
1995	0.2	7.7	14.9	9.5	32.3
1996	0.2	7.2	13.5	9.0	29.8
1997	0.2	7.2	15.0	9.2	31.6
1998	0.2	7.5	15.4	9.6	32.8
1999	0.2	7.5	15.4	10.7	33.8
2000	0.2	7.8	15.7	11.5	35.1
2001	0.2	8.4	15.8	11.7	36.1
2002	0.2	9.5	15.7	12.1	37.5
2003	0.2	9.2	15.8	12.2	37.5
2004	0.2	9.2	15.6	12.2	37.2
2005	0.2	8.7	15.2	12.3	36.4
2006	0.0	8.6	14.6	12.5	35.8
2007	0.0	8.9	14.5	13.9	37.3
2008	0.0	9.1	14.6	13.9	37.7
2009	0.0	9.1	15.2	13.8	38.1
2010	0.0	9.0	15.2	14.4	38.6

Statement for the Record

Ross B. Capon, President & CEO
National Association of Railroad Passengers

Hearing: Opening the Northeast Corridor to Private Competition for the Development of High-Speed Rail

Before the
Committee on Transportation and Infrastructure
United States House of Representatives

May 26, 2011, Submitted June 9, 2011

Chairman Mica, Ranking Member Rahall, Subcommittee Chairman Shuster, Ranking Member Brown, and Committee Members: Thank you for the opportunity to comment for the record in this hearing.

We appreciate your interest in improved passenger train service and certainly agree that rail has the potential to play a much bigger role in the Northeast Corridor (NEC). At the same time, we believe it important that consideration of any significant change in the framework for providing passenger train service be well informed by careful consideration of many facts that have not gotten the attention they merit.

As the Committee is aware, and as I highlighted at your January 27 roundtable in New York City, the condition of the existing NEC railroad is of paramount importance, along with the capital investments outlined in the multi-agency Northeast Corridor Infrastructure Master Plan released June 4, 2010. This Corridor is not going to produce world-class high speeds but it likely always will be vital to more travelers than any "next generation" railroad devoted solely to high-fare, high-speed travel.

We are generally happy to make the case that investments in rail infrastructure are important for the nation's economic competitiveness and for the ability of future generations to travel efficiently. At the same time, when it appears that there is not even support for increasing the federal gasoline tax (the CEO of General Motors notwithstanding), it seems appropriate to caution that constrained resources force decisions about priorities. The public interest would not be served if a "next generation" focus leads to neglect and thus even a partial shutdown of the existing railroad.

There has been much discussion of NEC ridership trends over the past 34 years, and the suggestion that this "proves" Amtrak has been an unworthy steward of the NEC. As indicated by the attachments to Rep. Brown's June 2 letter, on an apples-to-apples basis, ridership on the "NEC Spine" (Boston-Washington) rose from 6.4 million in 1976 and 6.8 million in 1977 to 10.4 million in 2010. Thus, 2010 ridership was 62.5% higher than the 1976 level and 52.9% above 1977.

These figures are constrained by three, related factors.

- Amtrak has been mandated to maximize revenues, not ridership.
- The size of the available fleet could not support the significant traffic growth that lower fares would produce.
- Infrastructure "choke points" that partly stem from the tripling of NEC commuter trains since 1976. These important services consume a considerable amount of track capacity.

In major infrastructure projects, and particularly the NEC where a significant part of the task still involves addressing a backlog of deferred investment, **the private sector normally would not make a significant commitment absent an even bigger commitment by government.**

The value of Your January 27 roundtable was enhanced because you invited participants from the financial community. When asked if they had high-speed rail experience, Kent Rowey of Freshfields Bruckhaus Deringer noted his involvement with the Taiwan high-speed rail project, where he said government participation was 95% and private participation 5%. Thomas Hart's written statement for the May 25 hearing said, "There was delay in opening the finished line that increased project costs, and the consortium encountered construction difficulties in urban areas. Numerous lawsuits were filed after tendering and actual passenger numbers were below forecasts. As a result the government is today practically the sole owner due to the concessionaire's financial problems."

A next-generation Boston-Washington railroad certainly should attract more than 5% private participation, particularly taking into account station area development opportunities, but the cost to the public sector would still be staggering when compared with federal intercity passenger rail funding to date, though not of course compared with train investments in many other nations or the cost of providing the equivalent in highway and air capacity.

NARP certainly recognizes the value of private sector participation in areas that complement rail services, including development and operation of stations. But we cannot overstress recognition of the continued, essential role of the Federal Government if a realistic corridor development policy is to be crafted.

It is not clear that "30 years is too long" to build a brand-new Boston-Washington railroad or that this timeline is evidence that Amtrak cannot manage a large-scale project. Considering the land takings involved, the political and legal challenges associated with assembling new rights-of-way—particularly in populated areas, and the significant proportion of public funding we believe the project is likely to require, 30 years may well be realistic.

It has been stated that Amtrak's **on-board food service losses** may reflect bad management. After all, the snack bar has a monopoly because passengers are captive on the train. Actually, the snack bar is captive to a clientele that is limited to those passengers on board the train who want to eat and who have not brought food on board to avoid needing to purchase on board. As then-Senior Vice-President—Operations William L. Crosbie testified to your Railroads Subcommittee on June 9, 2005, regarding food service, "its primary purpose is to enhance ticket sales and ridership, not serve as a profit center." This is true in the travel industry generally, not just in passenger railroading. That said, there is room for improvement in Amtrak's NEC food service.

A May 25 witness testified about the importance of **generating revenue from retail tenants in stations.** The implication seemed to be that Amtrak is not doing this. Actually, Amtrak generates about $70 million a year from real estate transactions. Our impression is that they are aggressive in not letting space sit idle, but someone would have to take a closer look to evaluate whether or not money is "left on the table."

Amtrak has been criticized for reducing its number of employees from 29,000 to 19,000. About half that decline resulted from transfer of MBTA commuter rail service to a different operator; another 2,500 decline resulted from Amtrak abandoning its mail and freight businesses and closing the three former business units based in Philadelphia, Chicago and Oakland. That still means that Amtrak has posted increased ridership with roughly 2,500 fewer employees. In most businesses, that kind of productivity improvement would be praised. We take Chairman Mica's general point—the country needs many more passenger trains and if it had them there would be many more passenger train employees. But as in the NEC, Amtrak overall has had limited resources to work with and constant, intense pressure to become more efficient.

It bears repeating that Amtrak's ridership has been rising on *all* three types of services—short distance in and outside the NEC, and long-distance. That the latter category has not shown global growth since 1977 is a reflection of a reduction in the size of the relevant fleet as well as discontinuance of some routes, not a loss of passenger interest in use of the trains that remain.

Separation of Carrier and Infrastructure: The common model in the US is vertical integration, that is, a single entity owns both infrastructure and carrier. This is true for most

major railroads, many short lines, many major commuter railroads and for Amtrak New Rochelle, NY-Washington, and New Haven-Massachusetts line. (Massachusetts owns and Amtrak dispatches the railroad between South Station and the Rhode Island state line; Connecticut owns New Haven to the New York State line; New York MTA owns state line to New Rochelle; Metro-North Commuter Railroad dispatches New Haven to New Rochelle.)

United Kingdom: In the UK, full privatization was mandated by a 1993 law with implementation beginning in April, 1994. Train operating companies run trains and smaller stations and sell tickets. Passenger operators bid for levels of subsidy and freight operators pay for track access. Rolling stock companies procure and lease equipment to operators. An infrastructure company maintains infrastructure and handles dispatching. The infrastructure company was effectively taken into bankruptcy and renationalized as Network Rail in 2001-2002.

It is our understanding that the entire, balkanized UK operation has become less efficient—that is, per-unit costs have risen. A recent Ministry of Transport study found that costs were outpacing revenues and that the "percentage of funding" covered by the government had risen from around 40% to over 50%.

In a May 25 news article, "UK rail reform poses 'big test' for operators," *Financial Times* reported that "Train operators could take over the running and maintenance of the tracks, ending the separation between track and train management that has been blamed for many of the network's failings." The article noted that operator Stagecoach "supports the integration of track and trains."

Virgin Rail has been praised and cited as a contrast with Amtrak. Amtrak has been criticized for not providing faster New York-Washington service. However, as Chairman Shuster noted May 25, Virgin Rail (UK) is not "true" high speed either, although its ridership is strong. Given resource constraints in the U.S., one possible outcome for the near term and possibly longer is increased reliance on upgraded conventional rail, an approach adopted by many states—among them Washington, Illinois and North Carolina—and strongly supported by us.

Thank you very much for this opportunity to present our views.

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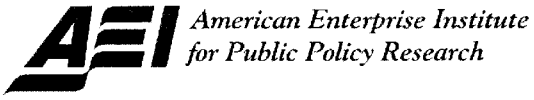

Statement before the House Committee on Transportation and Infrastructure

"Opening the Northeast Corridor to Private Competition for Development of High-Speed Rail"

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May 26, 2011

The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

Chairman Mica, Ranking Member Rahall, and Members of the Committee:

Thank you for the opportunity to submit this statement for the record of the hearing on "Opening the Northeast Corridor to Private Competition for Development of High-Speed Rail."

I am R. Richard Geddes, associate professor in the Department of Policy Analysis and Management at Cornell University, an adjunct scholar at the American Enterprise Institute, and the author of *The Road to Renewal: Private Investment in U.S. Transportation Infrastructure* (AEI Press, 2011).

High-speed rail is a commendable public policy objective that may provide valuable public benefits in some cases. It should be considered and pursued in the United States only where it makes economic sense. Some advocates of High-Speed Rail (HSR) appear to be impressed by systems in Europe, China, and Japan, holding those out as models to which we should aspire. However, this comparison does not account for U.S. demographic characteristics and historical choices that differ from Europe, China, and Japan.

At the time the country began its massive investment in the interstate highway system in the 1950s, there was a relatively high-speed passenger rail system operating throughout the United States. That system was created, built, owned and operated by privately owned railroads. However, by the late 1960s, passengers had abandoned that system in droves. America made an investment choice and its citizens stopped using the rail network in favor of personal control of their own mobility. That is a choice that will be nearly impossible to reverse without enormous costs and societal shifts. Nevertheless, investment in HSR is worth considering where it makes economic sense.

A look at the two HSR systems in the world that at least cover operating costs is instructive as we consider developing true HSR in the United States. These two -- the Japanese Shinkansen bullet trains and the French TGV – have been constructed on dedicated, electrified, banked, and gently curved tracks safely separated from pedestrians, motor vehicles and freight traffic. Stations are far enough apart to enable the trains to reach the promised high speeds. Most importantly, the population densities, and the economic and travel characteristics of communities and the people served, are sufficiently large to support the enormous operating expenses, not to mention capital requirements, necessary to make HSR viable in these two areas. That is, there are sufficient benefits to riders as reflected in their aggregate willingness to pay fares to at least cover the operating costs of these systems.

Unfortunately, most of the proposed HSR systems in the U.S. financed through the American Recovery and Reinvestment Act fail to meet the criteria of these successful systems. In fact, virtually none of them would deliver genuine high-speed rail service. With few exceptions, the proposed trains would operate on existing or newly constructed freight railroad tracks incompatible with true high speed. The result would only achieve somewhat higher-speed Amtrak-style operations, with service that would rarely exceed average highway speeds.

On the other hand, the Northeast Corridor (NEC) appears to possess the necessary pre-requisites for true HSR. In fact, it may be the only corridor in the United States that meets these requirements. The NEC may thus be the only location in the United States where HSR makes sense.

This conclusion is drawn from an assessment of the following characteristics applicable to the NEC. Moreover, these characteristics should serve as guideposts to the basic requirements upon which any other HSR lines are contemplated.

- Sufficient population density: There are currently in excess of 50 million people in the corridor, which constitutes less than 2% of the U.S. land mass.

- Demonstrated demand as measured by existing intercity auto, bus, air, and rail traffic: Three of the top 25 U.S. intercity air travel city pairs are among NEC cities, 60% of the top 25 U.S. intercity air travel pairs include one or more NEC cities, in excess of one-third of all of Amtrak's intercity traffic is among NEC cities, and NEC intercity bus traffic growth has been explosive in recent years.

- Unfettered access to the rights-of-way necessary to enable HSR trains to achieve sufficient speeds between stations; the essential right of way is already owned by Amtrak.

- Existence of robust local transit systems, which facilitate potential passengers' arrival at or departure from HSR stations along the route: The NEC route encompasses Washington, Baltimore, Philadelphia, New York, and Boston, all of which possess local transit systems that are among the most extensive in the U.S.

Even with these structural pre-requisites in place, the costs of construction are far beyond those that government can afford. The true costs – including capital costs, operating costs and other societal costs – of any HSR system are extremely high.

For example, Amtrak's 30-year master HSR proposal anticipates capital costs of $117 billion, or roughly $225 million per mile. While capital cost savings can be obtained through innovative financing and through project acceleration, contemporary HSR construction projects will nevertheless cost anywhere from the $45 million per mile estimated for the Shanghai-Suzhou line, to the estimated $166 million per mile for the planned Edinburgh-London high-speed line.

Taxpayers cannot afford this kind of investment in the current economic climate. Private capital will be essential to renovating HSR in the NEC.

Private capital can be injected into the NEC through an innovative public-private partnership, or PPP. This necessitates treating the NEC as a unit distinct from Amtrak's national network, which is justified based on the above analysis of its unique characteristics.

A PPP on the NEC can be structured in different ways depending on the objective of the public sponsor of the PPP. Under one approach, the public sponsor may wish to maximize the amount of private sector investment available for infrastructure renovation, such as upgrading tracks and expanding rights-of-way, thus reducing the amount of public dollars required for that upgrade. This could be done by competitive granting of a concession or lease of operational rights on the NEC, while retaining responsibility for infrastructure.

The public project sponsor would then determine all the key attributes of the desired service, such as train speed, frequency of service, allowable rates, lease length, and other contractual details. This proposed contract would also allocate various risks between the private partner and the public sponsor, such as the risk of cost overruns on system expansions and renovations, for example.

Consortia of private firms (typically a group of investors and an operating firm), would then bid against one another for the right to operate passenger trains on the NEC. The structure of the bidding is a critical variable. If the public sponsor's goal is to minimize reliance on public funds for infrastructure renovation, then consortia can bid on the basis of the largest investment they will offer in return for lease rights. Assuming a sufficient number of bidders to make the process competitive, this process will ensure that the amount offered is the best the public sponsor can do in terms of obtaining private sector support for infrastructure renovations in the NEC.

The discussion in this testimony suggests that ridership on the NEC is likely to be high enough so that private partners would be willing to pay for the right to offer passenger rail service on that line. However, contrary to common perception, ridership insufficient to cover costs does not preclude the use of a PPP. It simply changes the nature of the bidding. If the line requires a subsidy for its operation, bidding can take place on the basis of the lowest subsidy acceptable to the private partner in order to provide that service. The competition that such bidding allows ensures that the subsidy will be as low as possible, and that service will be efficiently provided.

There are many possible sources of revenue that can be used to attract private sector interest in addition to fare revenue, which may make HSR in the NEC more profitable than first imagined. For example, the winning private partner could be granted commercial or residential real estate development rights in areas adjacent to stations. It could also be granted the right to charge other users who benefit from NEC use for access to the network. Other possible revenue sources include naming rights for stations, and bulk purchases of tickets by corporate entities, among others.

Alternatively, the public sponsor may have a goal other than maximizing private investment in infrastructure. The goal may be obtaining the best fare/service quality combination. In that case, the sponsor can set the basic parameters of the contract, announce the precise criteria on which the winner will be determined, and accept bids.

The public sponsor may have still other objectives. The key social benefit in any case stems from the fact that private participation allows competition to be introduced into the process of providing high-speed passenger rail services on the NEC. This ensures that the best service will be provided at the lowest possible cost. It also ensures that the provider will use the latest, most innovative technologies and management techniques in order to win the bid.

A PPP on the NEC will generate other social benefits as well. Importantly, private participation enhances transparency. In addition to providing any subsidy at the least cost to taxpayers, as mentioned above, it makes any and all subsidies required to provide passenger rail service transparent. This lets taxpayers know how much they are paying for this service. Improved accounting for and transparency of subsidies leads to better decisions, and thus creates better governance of the organization on behalf of taxpayers.

With private sector participation, however, there are of course concerns about protecting the public interest from high fares, shoddy service, and poor maintenance, among others. That is why it is critical to structure the PPP concession contract carefully. The contract should precisely specify how fares will be determined, and what the expectations are for service quality and maintenance of assets. The contract should specify detailed penalties and rewards – based on measurable key performance indicators – for either exceptional or disappointing performance. This approach converts a public

interest concern into an advantage of PPPs: performance metrics can be transparent, can be determined *ex ante*, and incentives can be set up to achieve those metrics.

High-Speed Rail is a potentially viable service that could offer the public a valuable alternative to current transportation options in the NEC. However, it will be costly, very costly. To mitigate taxpayer costs, the private sector should be engaged as a full partner through a public-private partnership.

Private sector participation will foster operation of an NEC HSR system like a real, viable business with an inherent focus on meeting real market needs, with success evaluated on the basis of benefits to riders and the full costs of installation, maintenance and operation borne by the operator, not the taxpayer.

I enthusiastically recommend that the Committee adopt legislation that enables the NEC HSR to be built, operated, and equally importantly, financed, through a public-private partnership.

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