

# Public-Private Partnerships in Passenger Rail

*In his written testimony prepared for the U.S. House of Representatives Committee on Transportation and Infrastructure, Cornell University Associate Professor, Department of Policy Analysis and Management, R. Richard Geddes, provided informative and useful background information on what's meant by public-private partnerships, particularly in the context of passenger rail. RAIL Magazine has excerpted Mr. Geddes' December 11, 2011 public testimony here:*

Public-private partnerships (PPPs) are the main vehicle for incorporating private investment into the provision and operation of infrastructure. It is important to first define PPPs in general. The term *public-private partnership* refers to a contractual relationship between a public-sector project sponsor (where the project may include operation and maintenance of passenger trains as well as improvements to the underlying infrastructure) and a private-sector firm or firms coordinating to provide a critical public good or service. The PPP contract is subject to all of the standard rules of contracting, and it is useful to think of a PPP as one application of a broader contracting approach.

Before discussing the benefits of the PPP approach, let's review the structure of PPPs, and how they can be adapted to meet differing social objec-



tives. A passenger rail PPP can be structured in different ways, depending on the objective of the public PPP sponsor. 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, which reduces the amount of public dollars necessary for that upgrade. This can be accomplished if the public project sponsor conducts competitive bidding for the grant of a concession or lease of operational rights, 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.

Although some commentators focus on revenue from rates paid by riders, there are additional possible sources of revenue that can be used to attract private-sector investment, which may make private investment in high-speed rail more feasible than first imagined. For example, the winning private partner could be granted commercial or residential real estate development rights in areas adjacent to stations. Other possible revenue sources include naming rights for stations and bulk purchases of tickets by corporate entities, among many others.



The public PPP sponsor may have a goal other than maximizing private investment in passenger rail infrastructure. The goal may be obtaining the best fare/service quality combination, for example. 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 key insight is that the PPP contracting approach is flexible enough to accommodate a variety of public-sector sponsor objectives. I next review several salient benefits of the PPP-contracting approach.

**The introduction of competition.** One important social benefit of the PPP approach is that it allows for competition to be introduced. Competition encourages firms to provide quality service at a low cost, to be responsive to customer's needs, and to encourage competitors to innovate. The competitive benefits of PPPs can be realized on various types of rail service.

The articulation and enforcement of clear key

**performance indicators.** An important social benefit of the PPP approach is simply that a contract exists. The contract includes details regarding what actions constitute adequate performance on the contract. The PPP approach thus encourages the public sponsor to reflect upon, and articulate, what specific actions by the private partner constitute excellent – or poor – performance. This will improve service provision. This may include metrics about major issues, such as the reliability and frequency of train travel, but also more detailed considerations such as cleanliness.

**The provision of fresh capital.** One key consideration is that the PPP approach allows fresh capital to be injected into passenger rail in the United States. In many cases, the public sector simply does not possess the necessary resources. Reliance on private capital is thus the only way to complete necessary renovations, upgrades, and maintenance that result in safer, faster and more efficient service. But it also results in substantial savings, since a project will be completed faster under the PPP contracting approach where the private capital is readily available to get work done quickly.

**The introduction of new technologies and the fostering of innovation.** One key advantage of the PPP approach is that the private sector has incentives to develop new technologies, and has the resources to implement them. This results in lower costs and improved service.

**The assumption of risk by private partners.** Under the current approach in the United States, taxpayers assume virtually all the risks associated with designing, constructing, operating and maintaining passenger rail systems. In a PPP, some of those risks can be allocated to the private partner,

which reduces risks borne by taxpayers.

In thinking about future efforts, two useful distinctions in the use of PPPs in the United States should be made. The first is between provision of the underlying infrastructure versus operating services. PPPs can be applied to operations in a straightforward manner. This includes such tasks as actual train operation, ticketing, advertising and marketing, as well as providing new rolling stock where necessary. It may also include the maintenance of right of way and stations. As noted, competitive bidding among private train operating firms can take place on the basis of various criteria, such as the lowest fares or, if optimal fares are predetermined, on the basis of the size of an upfront concession payment that can then be applied to infrastructure improvements.

A second type of PPP is already in widespread use, which utilizes private assistance to design, build, and renovate the rail infrastructure on which passenger trains operate. In bidding out this second type of PPP, policy makers should pay close attention to how the design of the rail infrastructure affects train operations. ■

