Can Passenger Rail Operations Become Profitable and Lure Private Interest?

By Rich Sampson

In October 2009, a partnership between Amtrak – the nation's intercity passenger rail carrier – and the state of Virginia launched a new daily roundtrip train between Washington, D.C. and Lynchburg. Although the city of more than 77,000 was already served by the railroad's daily Crescent train between Washington and New Orleans, La., that train calls at Lynchburg's historic 1912 Kemper Street Station either late at night or early in the morning and is often delayed. Seeking a better way for residents of Lynchburg and elsewhere in Southwestern Virginia to reach the nation's capital and other key Northeast Corridor cities, Amtrak extended one of its daily Regional trains to offer two daily rail options on the roughly 175-mile corridor.

Of course, Amtrak has extended service in key intrastate corridors in recent years, most notably in places like North Carolina, Illinois and California. What makes the story of the second train from Lynchburg unusual is what happened after its debut: it began making money on its operations.

A New Environment for Passenger Rail?

Since the privately-held railroads turned over their passenger rail operations to Amtrak beginning in 1971, operating passenger trains has largely been a negative revenue proposition. Certainly, Amtrak has seen skyrocketing ridership over the past decade and the railroad has made dramatic strides in becoming a more efficient mobility provider, to the extent that its annual requests for operating investment has declined in consecutive years. Moreover, its well-utilized Northeast Corridor between Boston, Mass., and Washington is believed to produce substantial operating surpluses each year, which the railroad returns into its overall budget to support its nationwide network.

The new Northeast Regional train to Lynch-

The *CapeFlyer* train in Hyannis, Mass., on its inaugural trip.

burg immediately began returning dividends for both Amtrak and the communities it serves. Even though the state of Virginia had set aside operating investment to support the new service, within its first full year of operation it brought in more than enough revenue to cover its operating costs. Today, the route still is operating in the black, drawing more than 172,000 passengers in 2012, an increase of more than 22,000 compared to 2011.

"What that means for us is that in attracting new business investment or working with existing businesses to expand, we can point to the train as a real way of connecting to major metro areas," said Bryan David, Executive Director of the Region 2000 Economic Development Council, which promotes growth in the Lynchburg region. "I certainly use the train service and its great success in my telling the story of the region."

As impressive as the Lynchburg Regional train's success has been so far, even more exciting is that it is not alone. From late 2012, two new additional passenger rail operations have been launched that are likewise matching their operating expenses with passenger revenue. On Dec. 12, 2012, the Amtrak-Virginia partnership once again expanded service in the state, with daily intercity rail service returning to Norfolk for the first time in 35 years. Like the Lynchburg train, the new Norfolk route is an extension of existing Amtrak's Regional service, in this case from its previous terminus in Richmond. Through the first half of 2013, trains to and from Norfolk have carried more than 71,0000 riders, leading Amtrak and Virginia leaders to project the route will earn enough revenue to support its operating costs in its first full service year.

"States now have formalized relationships with Amtrak to upgrade tracks, operate routes, and redevelop stations," notes a recent study by The Brookings Institution. "The result is a new federalist partnership where Amtrak, the federal government, and states share responsibility for the network's successes and failures."

Further north, a new seasonal train between Boston and Cape Cod is also expected to produce a positive revenue operation. The CapeFlyer – operated by a partnership between the Massachusetts Bay Transportation Authority in Boston and the Cape Cod Regional Transit Authority (CCRTA) – began this past May, hoping to attract passengers tired of massive congestion on highways leading to Cape Cod and offer a more enjoyable travel experience. So far, the results have been staggering: although the CapeFlyer only operates on weekends, more than 9,000 passengers rode the train since service began on Memorial Day weekend. Moreover, even though train trips will continue as long as Columbus Day in October, the service has already attracted enough riders to balance the costs of operating the trains.

The promising initial returns of new passenger rail services in Virginia and Massachusetts suggest a broadening window for rail options that attract enough riders to cover any expenses associated with the service. If two points make a line, do three examples demonstrate a trend?

"There's no question in my mind that passenger rail service, if it's done right, can be overwhelmingly successful," says Thomas Cahir, Administrator of the CCRTA.

Do Increased Speeds + Greater Frequency = Higher Profits?

Inasmuch as new trains to Lynchburg, Norfolk and Cape Cod suggest opportunities for fiscally efficient passenger rail options using conventional trains and infrastructure, could more advanced passenger rail operations see even greater returns and attract private-sector involvement?

This is the economic calculus that leaders of the Florida East Coast Railway (FEC) seem prepared to embrace through their All Aboard Florida project, which aims to introduce higher-speed, high-frequency passenger rail service between Orlando and Miami by 2015. The company – which owns a 350-mile freight rail corridor between Jacksonville and Miami – believes large numbers of travelers in the already-congested Orlando-Miami corridor will take intercity passenger rail service that operates frequently with ample amenities, including food service, business class seating, electric outlets and more. Trains will depart every hour in both directions and travel the 230-mile route in three hours – competitive with both air and highway options, including intermediate stops in Fort Lauderdale and West Palm Beach.

"The two-city pair of Miami to Orlando is the best city pair that you could ask for," said Husein Cumber, FECs Executive Vice President for Corporate Development. "Orlando is the most-visited city in the country and Miami has its airport and ports and many other attractions."

"We consider it an important project for the state in general," Michael Reininger, President and Chief Development Officer for All Aboard Florida, said during an interview with Miami Today. "Orlando being an important tourist destination that has a propensity towards domestic tourism and Miami an equally large market that has a high degree of international visitors, particularly through the Miami International Airport."

While the privately-run All Aboard Florida would mark a more robust version of intercity passenger rail service, true high-speed rail projects offer even greater opportunities for private sector participation. That was true for the proposed high-speed rail line between Orlando and Tampa, which was cancelled by Governor Rick Scott in 2011, even though it had received full

All Aboard Florida trains will offer hourly service between Miami and Orlando beginning in 2015.

funding for its capital infrastructure through federal sources. Multiple news reports (see here and here) indicated that private investment firms were willing to assume any capital and operating cost risks in exchange for contracts to operate the service, pointing to the route's potential as a money-maker.

Currently, several high-speed rail projects in various stages of planning and development are exploring private investment opportunities. California's high-speed rail network is investigating numerous possible mechanisms to incorporate private financing, including operating contracts, energy production and transmission, fiber-optic cable and more. Foreign sources of private capital – especially from China and Japan – are also possible.

"This project will throw off operating cash surpluses. Well, that then makes it very attractive for a private-sector operator to be able to come in and bid for the right to be able to operate the system," California High Speed Rail Authority Chairman Dan Richard told Politico. "Our business plan counts on the innovation of the private sector coming in. They are the ones that are going to put up the train sets, collect the fares and operate and maintain the system."

Texas Central Railroad: Responding to a Glaring Need

The Dallas-Fort Worth and Houston metropolitan regions are the fourth- and fifth-most population regions in the United States, respectively. And yet, despite their enormous size and the relatively-close 240-mile distance between them, there currently is no scheduled passenger rail service connecting the two regions. Enter the Texas Central Railway (TCR), which hopes to introduce high-speed rail service in a market almost perfectly-suited for the mode.

With flat terrain and two large and growing metropolitan regions in close proximity, the TCR unites prospective investment from the Central Japan Railway – the most profitable and highest-volume high-speed rail operator in Japan – with American business interests to cultivate fast and frequent rail service between Houston and the Dallas-Fort Worth Metroplex. The entity is currently in the process of raising $10 billion in private investment to construct the high-speed infrastructure by 2020, which would be a far less daunting proposition than other projects in places like California and the Northeast Corridor due to the corridor's relatively unencumbered geography. Previous high-speed rail efforts in Texas have failed to materialize, largely to a lack of public investment.

"We are not the traditional state-run railroad," said Robert Eckels, President of Texas Central Railway and a former Harris County judge. "This is designed to be a profitable high-speed rail system that will serve the people of these two great cities and in between and, ultimately, the whole state of Texas."

Currently, local leaders in both regions are debating the merits of station locations in urban areas, airports and smaller communities along the route. The heightened level of discussion over station locations does not reflect contention over the need for high-speed rail between the two metropolitan areas, but rather a recognition of the importance of adding viable rail service as an option to improve connectivity between Dallas-Fort Worth and Houston.

The Dallas-Houston corridor targeted by the Texas Central Railway benefits from flat terrain and large populations.

Traversing the Desert: Connecting Southern California to Vegas

One of the most inhospitable stretches of travel in the United States stretches through portions of the nation's most extreme desert climates: the 265 miles between the populous Southern California valley and the entertainment capital of Las Vegas. The corridor is begging for a passenger rail solution, as Interstate 15 is routinely transformed into a parking lot on weekends and runway slots and airport gates in both areas could be better used by flights heading to more distant destinations. Two separate firms hope to address this challenging travel span by installing new intercity passenger rail options, one using conventional rail equipment and infrastructure and the other striving for high-speed rail service.

Seeking immediate relief for the Southern California – Las Vegas travel market is The Vegas X Train, which would travel over existing Union Pacific Railroad tracks from Fullerton to Las Vegas from Thursday to Sunday. The five-hour trip – with tickets expected to be priced at $99 each way – would mark the first scheduled passenger rail service in the corridor since Amtrak's Desert Wind was discontinued in 1997.

The *X Train* terminal in Las Vegas will tie-in to the city's legendary entertainment scene.

Las Vegas Railway Express, Inc. – which will own the X Train service – already has acquired former Chicago & Northwestern commuter rail coaches to provide the service and completed an agreement with the Union Pacific last November to operate over their rail line. Service is expected to begin in late 2013.

"We are proud that Union Pacific is working with us on this exciting and historic project," said Michael Barron, President and CEO of Las Vegas Railway Express, Inc. "This moment will be long remembered as an important milestone in providing a great experience for X Train customers."

An Expanded Role for Private Passenger Rail

The number of collaborative projects between private and public entities in American metropolitan areas suggests a broadening horizon of involvement by private firms and companies previously reluctant to engage in the intercity passenger rail realm. The substantial levels of investment necessary to institute new high-speed or intercity rail projects demands more varied sources of support than the public sector can provide on its own.

The Takeaway

New rail services are demonstrating an increasingly cost-effective and perhaps even profitable operating environment for passenger rail. Over the coming years and decades, new projects – including high-speed rail routes – with greater private-sector backing will test the long-held myth that passenger rail is an inherently money-losing proposition.

In our next edition of RAIL, we'll examine how the benefits of tax policy, low-interest rates and guaranteed principle protection may lure private investment into passenger rail.