



**U.S. House of Representatives
Committee on Transportation and Infrastructure**

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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"

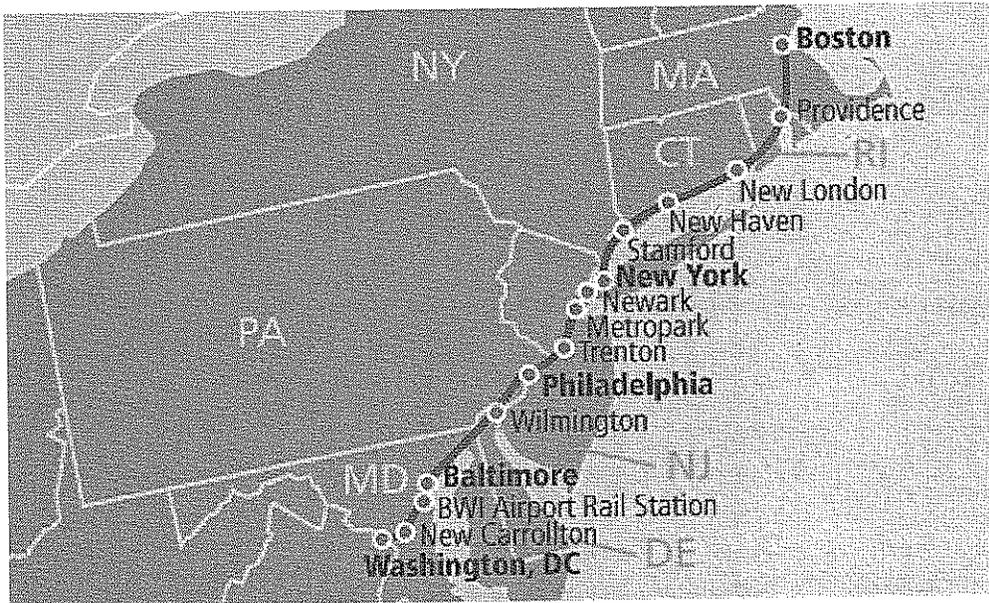
I. Purpose of Hearing

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