High-speed rail spending to be a boon to freight rail companies

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High-speed passenger rail -- that’s what the government calls it.

But spending billions of dollars in federal stimulus money on rail could also bring big benefits to freight rail companies.

“They have a very strong interest in getting as much of their infrastructure subsidized as possible,” says Samuel Staley, director of urban growth and land use policy for the Reason Foundation, a non-profit think tank that leans libertarian.

And that’s exactly what’s happening.

*The Illinois Department of Transportation is asking the federal government for more than $4 billion for improvements to Union Pacific Railroad track between St. Louis and Chicago, including installation of a new parallel track.

*In Michigan, transportation officials are asking for nearly $74 million for improvements to a rail freight terminal.

*Missouri transportation officials are spending $8 million on siding improvements to Union Pacific track between Kansas City and St. Louis and have applied for an additional $150 million in federal stimulus money on the same line to expand capacity.

In all these cases, freight rail companies would pay little or nothing.

Public spending on airports and highways has benefited airlines and trucking companies, but significant government investment in privately owned rail systems is new. Transportation experts say taxpayer investment in railroad properties will separate passenger trains from freights, increasing rail capacity, improving safety and boosting speeds for everyone.

“It’s sort of an odd situation,” says Rod Massman, administrator of railroads for the Missouri Department of Transportation. “The Union Pacific is a private company, and we’re using public funds to help build private infrastructure that will be theirs once it is built.

“The issue is, what other options do we have?” he asks.

New, publicly owned rail corridors could allow faster passenger trains, but would cost billions more than sharing track with freight companies. The challenge is figuring out ways to speed up passenger trains while also providing reasons for freight rail companies to become partners with the government. In some cases, that boils down to taxpayers footing the bills.

The freight rail industry liked what it heard on Oct. 14, when Joseph Szabo, head of the Federal Railroad Administration, told a House subcommittee that the Obama administration is committed to a world-class freight rail system and that the public benefits when the government spends money on tracks owned by freight companies.

"My CEO came out of there with a grin on his face," said Holly Arthur, spokeswoman for the Association of American Railroads, which includes the nation's biggest freight carriers as well as Amtrak.

Railroad revival

Freight rail companies have traditionally tried to keep bureaucrats out of their business. They realized a big part of that goal in 1980, when the federal government largely de-regulated the freight rail industry.

At the time, freight railroads were teetering, facing capital costs as high as $15 billion, recalls Robert Gallamore, a former Union Pacific executive and deputy administrator of the Federal Railroad Administration when Jimmy Carter was president.

Gallamore and other railroad experts credit de-regulation with reviving the freight rail industry. Dozens of railroads consolidated into seven major players with lines crisscrossing the nation. Unprofitable routes were shut down. And profits rose to the point that billions of private dollars have been spent on track improvements and deferred maintenance.

The railroads have attracted attention from such big-time investors such as Warren Buffett, who started buying railroad stocks in 2007 and boosted his stake in the BNSF Railway to more than 20 percent this year. Between 2003 and 2008, railroad stocks went up 250 percent, with some rising as high as 350 percent. Thanks to increasing operational efficiency, railroads have even earned profits during the economic downturn.

"I think freight railroads are an amazing success story, the way regulation was reduced and firms behaved," says William Garrison, a professor emeritus of civil engineering at the University of California-Berkeley who is considered one of the leading geographers of the 20th century. "They've got good management, good attitudes. They understand their technology. They run tight ships. They know their markets."

Garrison says he doesn't believe high-speed passenger rail will prove either popular or cost effective, and he can't understand why railroads would consider partnerships with the government after decades of fighting to be left alone.

“If I were a freight railroad, I would be very wary of this,” Garrison said. “In my judgment, they would not benefit. I think they’re getting in bed with the devil.”

But cooperation is key to the future of passenger rail, Gallamore said.

“The way we’re going to get improvements in rail passenger service is to come up with smart ways of joint operation between freight and passenger and smart ways of paying for it,” Gallamore said.

Expansion needed

A 2007 study on freight infrastructure needs funded by the Association of American Railroads paints a mixed picture over the next three decades.

The amount of freight hauled by railroads will increase by nearly 90 percent through the year 2035, according to the study, but the system in many places would slow to a near halt without major capacity enhancements.

Collectively, the nation’s seven largest railroads can afford to spend $96 billion to handle the projected flood of freight, but their total bill for capacity enhancements comes to $135 billion, according to the study performed by Cambridge Schematics.

“I think that’s as good an estimate as you can find at this point—those numbers are what I would estimate,” said Hani Mahmassani, director of the Northwestern University Transportation Center near Chicago.

Mahmassani says government subsidies for freight rail aren’t necessarily a bad thing. A healthy economy, subsidy supporters say, depends on reliable ways to quickly and efficiently move cargo around the country. And rail is a more environmentally friendly way to move goods than trucks.

“The question is, what is the quid pro quo here?” Mahmassani said. “Ultimately, who is going to have the final say in how that track is going to be utilized? Will the private companies relinquish authority on track because some of it is federally funded?”

Since August, states have asked the federal government for more than $100 billion to pay for rail projects, many of which would help freight railroads move more cargo faster.

“It’s a breath of fresh air,” Mahmassani said. “Everyone’s trying to maximize what they can get out of it.”

Arthur said the Association of American Railroads is working on revisions to the two-year-old freight rail infrastructure study.

“What has changed is the projected expansion in passenger rail,” Arthur said.

Arthur said it’s too soon to say whether the price tag for improvements will shrink or grow, but one thing is certain.

“There will certainly be some kind of gap between what we’re able to provide and what’s expected or demanded,” she said.

Who pays?

On Wall Street, analysts say public spending on passenger rail could help freight railroad companies, but the extent is hard to know.

“It’s hard to handicap what the impact on the freight rails would be,” says Kevin Kirkeby, a railroad analyst for Standard & Poors. “The big factor has to be the infrastructure: Who’s going to pay for it, and who’s going to pay to maintain it?”

Anthony Hatch, a New York consultant who specializes in railroad financing, says he believes public spending on passenger rail could make a real difference for freight companies.

“I think it can help alleviate their costs,” Hatch said. “There’s just tremendous opportunities that people are just now becoming aware of.”

Beyond capacity improvements, one possibility for freight companies is positive train control, a system designed to override humans and automatically stop trains to avert collisions.

After a head-on collision between a freight and passenger train killed 25 people near Los Angeles last year, Congress ordered that positive train control systems be installed on major tracks throughout the nation by 2015. Such systems could cost as much as $10 billion, Hatch said.

It’s a cost the Cambridge study didn’t consider, and it’s unclear who would pay. Since positive train control improves safety for passenger trains that share tracks with freight operators, Hatch said he believes there’s a good chance taxpayers will pick up at least some costs.

Cooperation between government-subsidized passenger rail and private freight rail companies makes sense when it comes to infrastructure improvements, Hatch said.

“On this one issue, they have really decided to bury the hatchet and work together,” Hatch said. “They have more in common than they don’t.”

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Illinois plans

The Union Pacific Railroad’s plans to increase freight traffic between St. Louis and Chicago can be carried out whether or not state and federal officials follow through on controversial plans to route high-speed passenger trains along the UP’s Third Street corridor in Springfield.

The railroad wants to boost the number of freight trains on the line to 22 per day from a half-dozen or so now.

Mark Davis, Union Pacific spokesman, said via email that his company planned the increase before Congress approved spending a portion of economic stimulus money on development of high-speed rail.

The UP's existing single track could accommodate both future freight growth and current passenger traffic, Davis said.

It's state government's plan to increase Amtrak traffic from 10 trains a day to 18 trains, not projected increases in freight traffic, that makes a second track necesssary, he said. A double-tracked corridor could accommodate as many as 75 trains a day; a single track can generally handle 30 trains a day.

With money available, costs rise

Richard Harnish, executive director of the Midwest High Speed Rail Association, sounds puzzled by questions about a $1.8 billion plan to improve passenger rail service in Illinois that includes $150 million for a high-speed rail link between St. Louis and Chicago

Where, he asks, did you get those figures?

From your Web site, a reporter answers.

"I need to remove that," Harnish said. "It's out of date."

And what made it obsolete?

"The original thinking was, this was the next step, with an effort funded only by the state," Harnish answers. "It wasn't the full build-out."

Now that the federal government is offering $8 billion in stimulus money for high-speed rail, with proposals for subsequent annual appropriations ranging from $1 billion to $4 billion a year, the price tag for the Chicago-St. Louis corridor alone has ballooned to more than $4 billion.

The money would pay for a parallel track along the route between St. Louis and the Chicago area, something that the pre-stimulus package didn't contemplate, although Harnish says high-speed rail advocates had talked about a new track quietly in the days before Barack Obama became president and made passenger rail a priority.

"We didn't think, as a state-only project, that that would be something that would have any legs," Harnish said.

Illinois isn't the only place where costs have risen as rail projects shift from plans to reality.

In Missouri, taxpayers are funding $8 million in siding improvements, with the state paying $5 million and the federal government picking up the balance. Just two years ago, the state estimated the cost at $4 million.

Rod Massman, administrator of railroads for the Missouri Department of Transportation, said that accurate cost estimates weren't important in the past.

"A lot of people would throw around figures because there was never much hope you would get projects," Massman said. "It didn't really matter because there wasn't money. Now that there's an actual program, people are able to make real estimates."