A Model for Private Operations of Passenger Trains

Iowa Pacific — Ed Ellis
Private Operation of Passenger Trains

- Iowa Pacific Business Model
- Passenger Rail Capabilities
- What makes Iowa Pacific different?
- A Private Operations Model for Passenger
- What’s Next?
Iowa Pacific Business Model

“We should be called the Kennel Club because we only buy the dogs.”

Acquisition drivers
- Poor financial performance of target (“we’re the ‘workout’ guys”)
- Motivated seller (“a dollar down and a dollar a week”)
- Long-term revenue and EBITDA growth prospects (we are patient investors)
- Diversification of customer, commodity, geography

Business Development tactics
- Invest in infrastructure of railroad and customer
- Improve and add services
- Provide or arrange for equipment
- “Stay in front of the customer” – a strong sales presence

Essence of “Shortline” or “Feeder” Railroad
- Focused on the local “first-mile, last mile” marketplace
- Get the job done well at lower cost, lower investment
Iowa Pacific’s Business Model is Demonstrably Successful

- **Arizona Eastern Railway**
  - Acquired for $2.75 million in 2004
  - Invested $20 million in improvements
  - Customer invested alongside IP
  - Sold recently for $90.1 million
  - Proceeds being reinvested in other properties

- **Texas-New Mexico and West Texas & Lubbock**
  - Acquired in 2002, annual carloads 5,000
  - Invested $30 million in upgrades
  - Current annual carloads 17,000
  - New customers bringing an additional 20,000 carloads on line in 2012

- Similar development underway on 4 other railroads
But Passenger Trains Can’t Make Money… Or Can They?

The “freight” railroads, and subsequently Amtrak, have lost money running passenger trains for decades.

But over 300 U. S. tourist railroads survive without operating subsidies, and some are highly profitable:
- White Pass and Yukon
- Grand Canyon Railroad
- Rocky Mountaineer

What is the difference?

Iowa Pacific has methodically studied and developed the successful tourist model in order to apply it to passenger train services.
The “Shortline” Version of Intercity Rail Passenger Service

- Shortlines were started where train and traffic density were low
  - Class I railroads understood in the 1970’s that many miles of branchline couldn’t support the high cost of operations
  - Local stakeholders understood that the Class I national marketing programs did not address the needs of their local rail users
  - Class I’s voluntarily spun off thousands of route miles to shortlines

- Low-density “feeder” passenger routes fit the same description
  - A high-density, corridor-oriented national railroad is not well-equipped to establish low-cost operations with a few trains a day
  - Local stakeholders find that national marketing programs do not fill seats on the local trains
  - Next step in expanding rail service must be driven by locally-focused, lower-cost operators
IPH’s New Passenger Operation – Saratoga and North Creek Railway

- Publicly owned line from Saratoga Springs to North Creek, NY
- Operates on CP into Saratoga Springs Union Station
- Cross-platform transfer to Amtrak
- Full Part 238 passenger carrier
IPH’s New Passenger Operation – Saratoga and North Creek Railway

- RFP October 2010
- Startup July 2011
- Over 30,000 boardings to date
- Full dining service onboard
- New IP track capex
- Community marketing engagement
- Profitable “above the rail” – no subsidy
Iowa Pacific Passenger Capabilities

Four US passenger operations
- 3 tourist, 1 full part
  238 passenger RR

Complete operations
- Train service
- Equipment maintenance
- Track maintenance
- Dispatching
- Fully FRA compliant
Iowa Pacific Passenger Capabilities
More than just “Operations”

- On Board Service
- Reservations
- Marketing and Sales
- Insurance
- Rolling Stock
- Facility Investment
- Ticket Revenue Risk
- Quick-Start
Unique Elements of the Iowa Pacific Shortline Passenger Model

- Marketing and community engagement
  - Special Events
  - Targeted Marketing
  - Local Focus

- Attractive Rolling Stock
  - Full-length dome cars
  - Dining and club cars
  - “Return to Zero Age”

- Full integration of Operations, Marketing, Rolling Stock
Dealing With Thorny Issues

- Safety
- Track Access/217
- Insurance/Liability
- PTC
- Subsidy
Private Operations Model - Safety

- Safety is essential for all operators
- FRA effectively regulates safety
- British model for safety certification of operators should be adopted
Private Operations Model – Access/217

- Fully-allocated cost
- Capacity-neutral
- State vs private

Access via 217

- Only available upon full safety qualification
Private Operations Model – Insurance/Liability

Need standardized liability language and insurance requirements

Self-insured retention is an issue
Private Operations Model - PTC

- Feeder rail services are likely to expand on non-PTC routes
- Best to implement now/soon, so benefits can be vetted before PTC is required
- Funding mechanisms
Private Operations Model - Subsidy

- With the exception of S&NC, all intercity passenger trains in the US receive an operating subsidy.

- Engagement with local stakeholders to develop markets is essential to minimizing operating support needed for “feeder” lines.

- PRIIA 209 will drive states to private operators.
What’s Next?

- Iowa Pacific is moving toward a profit on a fully-allocated basis on S&NC
- Iowa Pacific has immediate capacity for additional feeder operations
- Iowa Pacific can provide integrated passenger rail at a lower cost to taxpayers
- Iowa Pacific can implement feeder passenger rail service
  - at existing or modestly faster train speeds
  - without waiting for HSR dollars,
  - before PTC kicks in