



Outsourcing could improve Metra's financial woes

August 19, 2016

Metra recently announced that, because of changes in the availability of the \$2.4 billion needed to finance its modernization plan, the commuter rail system serving Cook, DuPage, Will, Lake, Kane and McHenry counties would have to adjust its original plan.

Two years ago, Metra announced its plan to purchase 367 new railcars at \$3.3 million per car – or approximately \$1.2 billion.

The rail agency already has entered into a \$91 million plan to rebuild and acquire new locomotives.

At the time, Metra Executive Director and CEO Don Orseno said in a press release that Metra's railcars and locomotives were, "the oldest of any of our peer railroads and the Metra board has made it a priority to invest in our fleet."

However, more than \$300 million in funding from the state previously earmarked for Metra's project has been placed on hold because of the state's ongoing budget problems.

As a result, Metra has had to find other ways to supplant the funding for 346 cars and 52 new locomotives that it still wishes to acquire.

But with rates rising considerably over the past few years and fuel prices lower than they have been in years, many taxpayers are not only wondering if Metra is doing all it can to contain costs and use the savings for improvements, but what the rail system can do to become less dependent on government subsidies.

"The most important thing Metra could do to save money is to contract out its service to private operators such as First Transit or Veolia," said Randal O'Toole, senior fellow at the Cato Institute. "Transit agencies that do this save up to 40 or even 50 percent of the money they spend operating transit themselves."

O'Toole said Denver offers a good example, as it contracts out half of its bus services.

“The half that [is] contracted out [costs] 50 to 55 percent per bus mile as the half that the agency operates itself,” he said. “The main opposition to contracting, and the reason Denver doesn’t contract all its buses, is unions that know they get a better deal from government than from private operators – even though many of the private operations, including Denver’s private buses, are unionized.”

O’Toole explained that England privatized its rail and bus system in the 1990s, which has improved the system’s efficiency and reduced its dependence on government subsidies.

“While the country still owns and maintains the rails, the private operators are for the most part profitable, and receive little or no subsidy from the government,” he said. “There are lots of trains and buses everywhere. Though this partly reflects high fuel taxes, there’s no reason why Metra commuter services could not come a lot closer to making money than they do.”

Metra has initiated an agreement with Virginia Railway Express (VRE), a peer railroad that held a remaining option to purchase 21 of the same types of railcars Metra uses from Japanese manufacturer Nippon Sharyo for approximately \$2.5 million per car.

Virginia Railway no longer needed the full order, and was open to selling the option to Metra. This would stand to save approximately \$800,000 per car, or \$17 million total, based on original estimates.

Delivery of the first set of VRE railcars is expected in early 2018.