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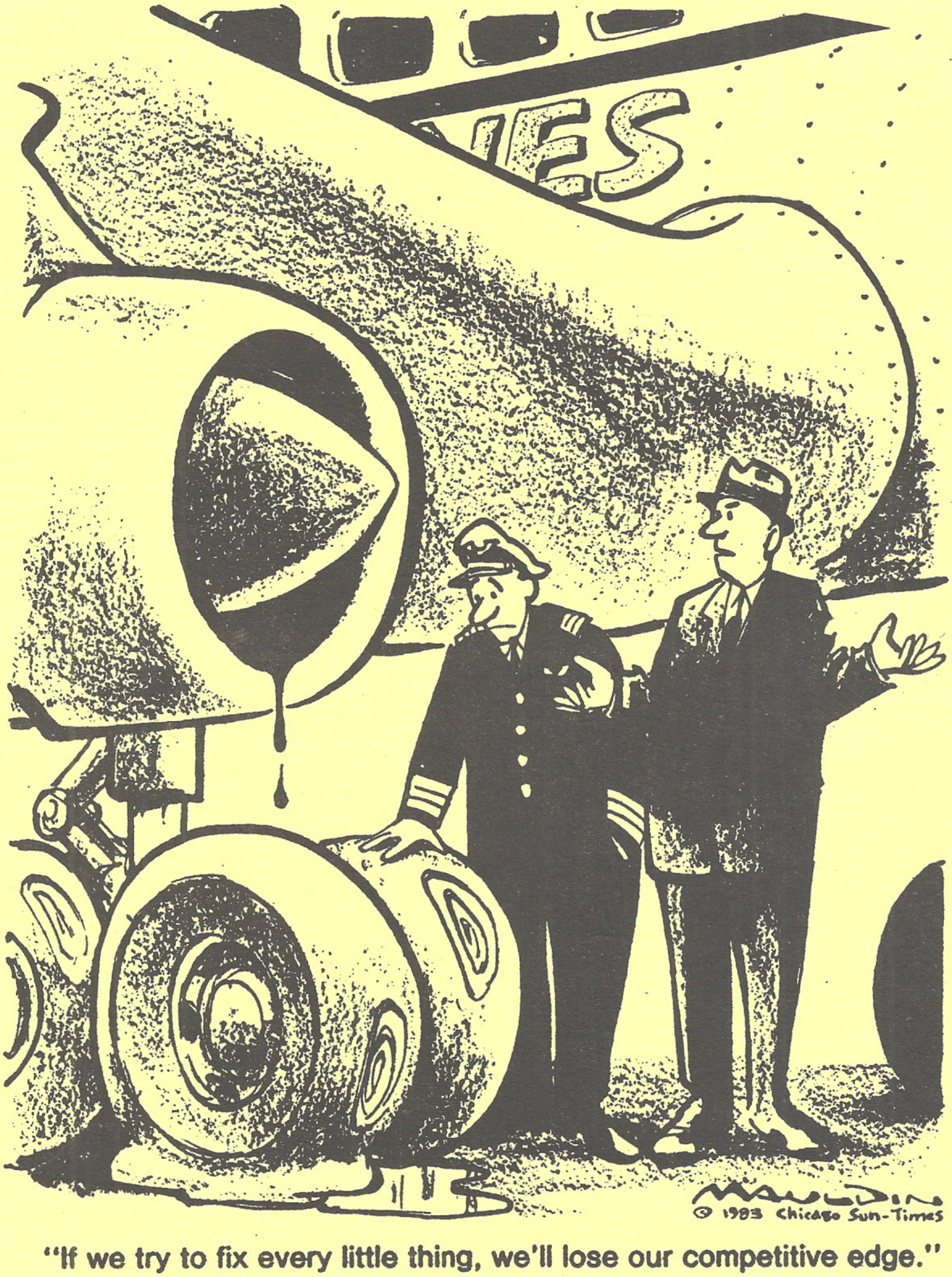

"If we try to fix every little thing, we'll lose our competitive edge."

Published monthly by Transport Central, 5701 Marina City, Chicago, Illinois 60610. 312/828-0991. Annual subscription: $20.

INTERFACE

COMMENTARY

Gas Taxes Are Taking Us for Another Subway Ride

(Cogent comment on public transport "economics" from the pages of the Wall Street Journal)

Few tax increases have become law as quickly as last year's nickel-a-gallon federal gasoline tax hike. Arguments for a rehabilitation effort to protect vast highway and infrastructure investments were that compelling. In the legislation, 20% of the new revenue was earmarked for public transit (though transit accommodates only 3.5% of all urban trips); many who approved of that allocation were mindful of the pitiable rolling stock in some larger cities.

The package also, however, gave the administration a way to reverse its early stand against "new starts", meaning subways in places like Los Angeles and Houston, and subway extensions elsewhere. That's the problem. These new starts are sure to be planning calamities as well as fiscal disasters.

The urbanized portion of Los Angeles County includes about 7,500,000 people and 3,600,000 jobs, spread roughly over 1,300 square miles. Half the jobs are dispersed over 125 square miles (the area of the entire city of Philadelphia or about five Manhattan Islands), the other half being ubiquitous over L.A.'s other 1,175 square miles. Houston has a gross population density of about 3,000 per square mile (about one-fourth Chicago's or one-eighth New York City's five boroughs). The dominant settlement pattern in other U.S. cities is also suburban and exurban.

Why, then, serious talk about subways for Los Angeles and Houston as well as subway extensions for some cities with older rail systems. Because the money is now there to be spent.

Low-to-medium-density settlement is the dominant pattern, but fixed rail transit can operate efficiently only in high-density settings. Also, there aren't any examples of new subways having any appreciable effect on street congestion and air quality. What, then, is going on?

Pork barrel is not new to U.S. politics and this is the 1983 edition. Local politicians and business people are spellbound by the money set aside for transit by the new tax. Los Angeles and Houston leaders openly suggest it is their cities' "turn". They are joined by well-meaning civic activists and environmentalists who simply presume that there are widespread gains from any new subway. All utterances are dutifully reported by gullible local media, which escalate the whole charade by repeating "projections" put together by high-priced consultants. The latter have never found a proposed subway that would fail to attract hordes of riders and/or which would cost too much (and not gotten fired). Eventually nearly everyone is convinced: It becomes almost self-evident that the emperor is fully dressed.

This is an old story and accounts for the momentum that carries many of these projects forward–putting a large and undisclosed claim on future expenditures and resources. This is the fiscal problem: the blank check foisted on financially strapped taxpayers and governments. Some simple calculations for the Los Angeles subway show why it is time to blow the whistle.

The plan calls for an 18.6 mile alignment, running west from downtown Los Angeles, along Wilshire Boulevard, cutting through Hollywood, and terminating at the San Fernando Valley's beginnings. At this writing, capital costs are advertised as $3.1 billion ($3.4 billion to $3.6 billion, says Arthur Teele, head of the federal Urban Mass Transit Administration). Ridership after 10 years is touted as 368,000 boarding per day (far less, says Mr. Teele, who *supports* the project). A yearly operating deficit of $45,000,000, or $2,400,000 per mile of route is projected. In addition, backers pile on all sorts of indirect benefits: clean air, less congestion, favorable land use development. Practically all of Los Angeles' civic and business leaders and most media commentators have bought the package. Virtually nothing in the way of alternative plans has been proposed.

Using proponents' numbers (and a 10% discount rate) gives us $3.10 as the cost of a one-way ride. Not cheap. Yet, converting their ridership estimates to a per-mile-of-route basis reveals that they believe that the L.A. subway would carry more people per mile per day than any U.S. subway, including New York's! Total riders are suggested to be twice as many as San Francisco's entire system and about as many as Philadelphia's complete subway. With a straight face, advocates expect half again as many riders as are now carried by Washington's Metro–though it now possesses 50% more track than embodied in the Los Angeles proposal.

If all this brings on some skepticism, we might also be leery of costs: all similar plans have underestimated costs. If San Francisco's cost overruns are an example, the Wilshire subway's cost per rider could shoot up to $10.50. What future sacrifices, then, are in store for us if Los Angeles somehow fails to match New York and Chicago in terms of per-mile ridership, and deficits accumulate? (Even New York, with the highest fare-box recovery of costs in the nation, suffers deficits well above $1,000,000 per mile of route, not even accounting for security costs and depreciation.) All this has prompted a well-known urban planner, Harry W. Richardson, to suggest that a modern-day Churchill will declaim that never will so many have spent so much to transport so few.

What about the transportation-planning issues? If Los Angeles has a "transportation problem", it is its low average vehicle occupancy rate (1.1 vs. 1.3 for the nation). The planning problem is to circumvent or reverse the incentives and disincentives resulting in low AVOs. Moving just to the national average could get 3,000,000 auto trips off Los Angeles County's roads each day. Free and subsidized parking, and too few high-occupancy-vehicle express lanes have been cited as part of the problem. These could be overcome at a very low cost and they would have many times the impact that the expensive subway would have.

Yet, these sort of comparisons are just not made in the present planning environment. Though all levels of government appear to be financially strapped, it is still easier to raise taxes, spend large sums and commit the taxpaying public to yet another bottomless deficit project.

–Prof. Peter Gordon, USC

UPDATE

AIR

■ **The Perils of Putnam, Chapter 6:** When we last looked in on troubled Braniff, April was giving way to May, and talks were continuing with Hyatt relative to the hotelier's takeover of the airline and the eventual resumption of service on a limited scale. Negotiations were proceeding fitfully, complicated by the intramural squabble between various factions of Braniff creditors. Even though a deadline for the filing of a reorganization proposal was close at hand, it appeared as if the tortuous might continue endlessly . . .

We pick up the story with yet another surprising development, as revealed in the Wall Street Journal May 11:

The newspaper headlined that the Marriott Corporation, the Washington-based lodging, food-service and entertainment concern, had held an "exploratory" meeting with Braniff toward picking up the pieces of the Dallas-headquartered carrier itself. Since the talks with Hyatt were hung up on several sticky points, it was apparent that the carrier (which otherwise would see itself downgraded to a ground-service firm) was pulling out all the stops to return to the skies. Marriott is a leading caterer to the airline industry, and such an association would undoubtedly benefit both firms. Spokesmen for both Marriott and Braniff cautioned, however, that the discussions were very preliminary, and that quite probably nothing would come of them.

Thursday, May 12: Both the Chicago Tribune and the Journal now report that Marriott "has no intention of entering the airline business", as talks, instituted just two days before, break off. The two papers also report that Hyatt has apparently sweetened its offer for the embattled carrier, and that a board meeting to consider the ante-raising is scheduled for that afternoon. Hyatt is expected to contribute about $20,000,000 to help Braniff resume flying, and is prepared to guarantee certain loans to a new Braniff that could boost the hotelier's total contribution to well beyond the original $35,000,000.

Friday, May 13: One year to the day after it stopped flying, reports the Journal, Braniff has agreed in principle with Hyatt on a proposal that could get Braniff airborne as early as October. At the Thursday meeting, Braniff's board unanimously okayed a financing arrangement wherein Hyatt would ensure the "new" carrier as much as $70,000,000 in funding, including cash and loan guarantees. In return, Hyatt would get an 80% interest in the reorganized airline, and could use more than $300,000,000 in Braniff tax credits. Needless to say, the agreement faces some significant hurdles before it can become a reality. Some details of the pact do filter out of the meeting: Hyatt plans to use most of Braniff's remaining fleet of about 30 727-200s, and employ as many as 2,000 former Braniff staffers. A domestic operation with service to about 20 cities is planned, under the Braniff name, and using the multicolored fleet unique to the airline.

Monday, May 16: The Journal notes that Hyatt wants to give Braniff a "new image", as a full-fare, top-service airline, and would like to introduce a marketing program that would emphasize ties to Hyatt's hotels and restaurants. Proposals are flying thick and fast in the heady euphoria accompanying the acceptance of Hyatt's bid by the Braniff board, but the airline's secured creditors are still balking at the pact, insisting that only liquidation of Braniff would serve their financial interests. At the same time, some industry observers are reported as surprised by the plan to promote the revived airline as a full-fare

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carrier; most had assumed that Hyatt would go the budget route. Hyatt has also drawn up specific contingency plans directed against Braniff's long-time archrival American. Even though the hotel chain has plans for an October 1 startup, Braniff's secured creditors remain the principal stumbling block against the achievement of that goal. Though Hyatt plans to infuse as much as $70,000,000 into the reorganized airline, including about $20,000,000 in cash and the remainder in loan guarantees (for which it would receive an 80% interest in the airline, and inherit more than $300,000,000 in Braniff tax credits), the secured creditors are still balking at the terms of the lease plan Hyatt proposes for the carrier's 30 remaining 727 jets. The hotelier proposes to pay a minimum of $75,000 per month for each plane, raising that figure to $105,000 if the profitability of the airline dictates. The creditors, on the other hand, would prefer to sell the aircraft on the open market, believing each plane to fetch as much as $7,000,000.

Wednesday, May 18: The plot thickens once again. The Journal reports that the AMR Corporation, parent of American Airlines, is considering making a bid for Braniff's remaining 30 727s. Such a purchase would obviously torpedo Hyatt's plans to get the carrier airborne once again. The purchase would assist American in forming a discount airline division, but the plan is vigorously denied by AMR officials. However, AMR's mere interest in such a purchase is said to have hurt Hyatt's chances for a "new" Braniff to take to the skies, because it reinforces the belief of the secured creditors that the airline is indeed worth more dead then alive. (The creditors also are said to have a low opinion of Hyatt's chances; there is further speculation that the AMR bid may have been fostered by parties partial to American – or by the airline itself, which long has regarded its crosstown rival an "upstart" – in an effort to scuttle the Hyatt bid once and for all.

Thursday, May 19: The Journal reports that the secured creditors have met and have rejected Hyatt's takeover bid – but have requested the hotel chain to sweeten the pot and come back to the table. Across town, at the AMR annual meeting, American's parent admits it had, indeed, made a tender for the Braniff fleet as a means of expanding AA's operations, but noted it was considering the purchase of other available aircraft as well.

Monday, May 23: Hyatt sweetens the pot, the Journal notes. The hotel chain's CEO Jay Pritzker ups the lease rate ante by 20% in an effort to convince the recalcitrant creditors to buy his plan. Officially, the secured creditors take the matter under advisement, but some of the group believe they are within reach of an agreement. Hyatt has offered to raise the minimum lease rate per month per plane to $90,000, in an effort to offset the value each of the jets would have if the carrier were completely liquidated and the aircraft sold on the open market; one of the creditors called the move "a sizeable step in the right direction". Pritzker, for his part, however, was reported as saying that this was his final offer, and that he still had no intention of using any of the vast resources of the hotel chain to secure any investments made in Braniff, although an agreement might be reached having the same effect without actually binding Hyatt contractually.

Wednesday, May 25: The Journal reports that the secured creditors and Hyatt came close to an agreement, but have yet failed to come up with terms acceptable to both parties; meetings are continuing. Observers believe a settlement is close, however, because Jay Pritzker plans to come to Dallas to personnally head the Hyatt team. Pritzker was reported to be willing to structure a Hyatt-Braniff agreement so that the secured creditors would regain control of the fleet should the revived airline go under once again.

Thursday, May 26: The Chicago Sun-Times, reporting on the progress of the Hyatt-

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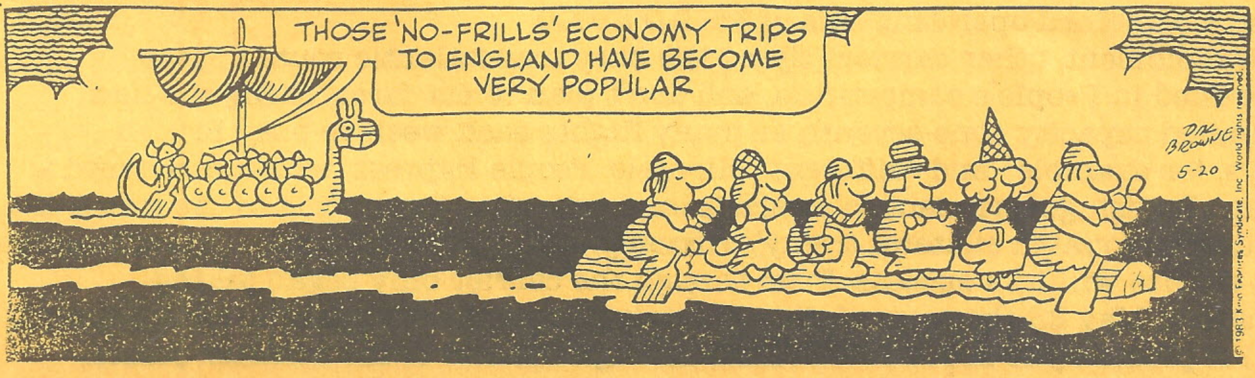
Braniff negotiations, reports that one obstacle to an agreement was removed the day before when the Federal Aviation Agency said it would lift restrictions on landing slots at Dallas-Fort Worth Regional Airport as of September 1 – one month before the planned restart of Braniff operations.

Tuesday, May 31: Noting that time is running out, the Journal reports that Braniff's secured creditors and Hyatt officials plan to try again this week to reach an agreement on resuming the airline's operations, albeit on a much smaller scale than when the carrier went under in May 1982. Time is of the essence because the bankrupt carrier has until June 11 to propose its own reorganization plan under Chapter 11 of the federal bankruptcy code. If all sides cannot agree on some sort of proposal, the gates will be thrown wide open for any creditor of the airline to offer his own plan for consideration by the court; so much red tape would then be entailed that any valid pact might well be delayed indefinitely.

In effect, then, the Hyatt plan is the only proposal that would save hapless Braniff from liquidation. Both sides still see a strong possibility of reaching agreement, and the personal intervention of Jay Pritzker (who for reasons of his own desperately wants to put this deal together) seems to bode reasonably well for such a pact. Other jokers might still be in the deck, however, and the jury may very well still be out until the wee hours of June 20. [To be continued.]

HAGAR THE HORRIBLE



■ **Off To London – Cheap:** Remember Freddie Laker? He's the English chap whose Laker Airways added a page to transatlantic airline history by pioneering low-cost flights; the

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"SkyTrain" (as he called it) got derailed on the shoals of bankruptcy last year (after the "majors" chopped their fares to compete with the by-then "Sir Freddie"). During the 3½ years Laker was in the air, however, the $236.48 round-trip fare brought hundreds of travelers to Britain who might not otherwise have been able to make the trip, given the high tariffs otherwise prevalent on IATA carriers.

The "good idea" that was Sir Freddie's, however, appears to have been too hardy to die a premature death last year, for another "upstart" carrier, this time from the U.S., has picked up the gauntlet reluctantly dropped by the ebullient Laker some fifteen months ago. People Express, a maverick among the many maverick carriers born of deregulation, began regular Newark-London (Gatwick) air service May 26 – at $149 each way. [By way of comparison, the current non-discounted tariffs for a similar one-way trip on other carriers range from People's own "premium" (first-class) charge of $439, through IATA-member business class ($956), first-class ($1929) and Concorde-class ($2049).]

People Express uses a single Boeing 747-200 (ex-Braniff)configured for 386 seats in coach and 44 in first-class for the five-times-weekly Newark-Gatwick trips (the British field is south of London, with a direct, regular rail connection to Victoria Station). Needless to say, there is no such thing as a free lunch aboard the flight; coach passengers can buy a box lunch consisting of macaroni salad, sandwich, apple and brownie for $6. First-class riders pay up to $25 for their food, with the highest price covering a cold buffet of salmon, shrimp, pate and the like. Drinks go for from 50¢ (Coke, etc.) to $2 (the harder stuff). Oh yes, and there's a $3 charge per bag checked (small carry-on luggage rides free).

People Express has a long (among spawnees of deregulation) history of providing no-frills services at rock-bottom cost. It began flying in April 1981 with just three planes serving four cities (Newark, Columbus, Buffalo and Norfolk). Now, in addition to the London run, People has 22 aircraft flying to 19 U.S. cities ranging from Portland (ME) to West Palm Beach. Its policy of keeping costs low (it is a non-union carrier, most employees are trained on multiple jobs, and even its president loads baggage now and then) has resulted in solid economic success, despite its extremely low fare structure. In the first quarter of 1983, for example, People Express earned a profit of $2,100,000, while the country's eleven largest carriers suffered a combined operating loss of $619,000,000.

For the moment, other carriers flying the busy transatlantic route appear uninterested in People's competition, and don't plan to cut fares, citing the new kid's limited capacity (one-seventh as many flights each week as busy British Airways, for example) and "different" clientele. People Express, which convinced a reluctant British government to award it landing rights (according to the terms of a previously negotiated bilateral treaty) virtually at the eleventh-hour, is convinced its budget service will be a success. Even though the carrier only began taking reservations May 23 (because of the uncertainty over the Thatcher administration's action) it presently is about 70% booked through the end of the summer season September 13. Advance reservations are in the 30,000 to 35,000 range, leading observers to reckon that the "ghost" of Sir Freddie is a very lively one indeed.

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■ **Airline Action:** Singapore Airlines has ordered four Boeing 757s, and six 747-300s, as well as six A-310 Airbus jets (in one of the largest total purchases ever recorded –well over a billion dollars) . . . America West, a new Phoenix-based carrier, ordered two of the new 737-300s (due to enter service in November 1984) . . . Southwest Airlines of Okinawa has ordered one 737-200 . . . Northwest is buying three 747-200s for its long-range fleet . . . SAS is leasing two of its 747s to Nigeria Airways, beginning in June; the aircraft will be used on Lagos-New York/London runs.

□ Pan Am, ever the maverick now in setting fare policies, has established an unrestricted $199 New York-California and $229 Washington-California tariff . . . TWA has dropped its fares on St. Louis-Newark/Washington/Baltimore?Kansas City runs to meet the competition of business-oriented Air One, yet another new carrier. Air One itself, with a $182 first-class rate between St. Louis and Newark, offers 50 percent off the next trip if a traveler completes a survey about the carriers' services . . .US Air is offering an introductory $149 one-way rate between its new mid-South hubs in Charlotte, Greenville, Spartanburg and all cities it serves in California, Arizona and Colorado . . . New carrier Transamerican Airlines (Oakland), has a bargain $49 one-way rate between Dallas-Fort Worth and St. Louis; normal economy fare is $180 . . . Muse Air is offering unrestricted $99 fares on all flights between Los Angeles and Houston or Midland-Odessa . . . A CAB examiner has recommended that United and Western be given Los Angeles/San Francisco-Calgary rights; Republic currently holds that authority but is relinquishing it . . . American has begun pool service with Alaska Airlines on a route linking Washington, Chicago and Seattle with Anchorage . . . Continental has begun daily nonstop service between Salt Lake City and Boise.

□ The Federal Trade Commission has recommended that commercial airlines be permitted to buy and sell landing slots at major airports until the system goes back to full capacity next year; the FAA presently awards such slots on a lottery basis . . . China has decided to ground all air travelers except high-level officials in the wake of several recent hijackings . . . Helicopter service from the new Schaumburg Marriott Hotel northwest of Chicago to the three area airports is being provided by the hotel, at a cost ranging from $35 (to O'Hare) to $45 (Midway and Meigs) . . . That mysterious "create your own airline" coupon in area newspapers recently was run at the behest of Midway, the 3½-year-old no-frills carrier seeking to change its image to that of an airline catering to the business traveler; in effect Midway is, indeed, "creating a new airline" by installing roomier seating on several of its planes (dubbed "MetroLink"), reliverying the craft and improving its ground facilities; for the upgrade, passengers will be asked to ante up a higher fare – still less than regular coach . . . Chicago's O'Hare International Airport is still the world's busiest, having handled 37,700,000 passengers in 1982; Atlanta's Hartsfield is second, followed by LAX, JFK, Heathrow and Dallas-Fort Worth. JFK captured the crown as the busiest cargo and mail-handling field.

URBAN

■ **Metro Memo:** Some details on San Francisco's Historic Trolley Festival, as advertised on TC's back cover this issue:

WHAT: Ten vintage streetcars from England, Portugal, Australia and all over America (Milwaukee, Portland, St. Louis and San Francisco) operating in regular service in San Francisco as a substitute visitor attraction/rail experience for the city's cable cars, now undergoing reconstruction.

WHERE: Along most of Market Street, the only remaining main street in the U.S. with streetcar tracks. Passes by the Powell Street cable car turntable and within two blocks of such resident and visitor attractions as Embarcadero Center, Union Square, Civic Center, Mission Dolores and Castro Village, as the F/MARKET route, from Transbay Terminal via Fremont, Market, Duboce, Church, 17th to Castro. PCC operation from Transbay Terminal to wye at Market-11th.

WHEN: June 24-September 26, 1983. Saturdays, Sundays and Holidays 11 a.m.-7 p.m. Mondays, Thursdays and Fridays, 9 a.m.-5 p.m. No service on Tuesdays and Wednesdays.

WHY: The absence of cable cars has had a negative impact on visitor spending in San Francisco, both in long-distance tourism and in day trips from the Greater Bay Area. The Trolley Festival, with publicity efforts tightly and cost-effectively focused on rail buffs around the country, and on the general public in the Greater Bay Area, is designed to attract additional visitors to San Francisco.

HOW: Operated by the Municipal Railway of San Francisco as a joint project of the City and County of San Francisco and the San Francisco Chamber of Commerce.

CARS: SF Muni 1, 130, 178, 1040; Porto (Portugal) 122, 189; Blackpool 226; Portland (OR) 503; Melbourne 648; Milwaukee 978; St. Louis 1704 (restored from Muni 1128)

□ NJ Transit plans to raise fares 30 percent on its New York City commuter bus runs July 1 . . . San Diego's new mayor, Roger Hedgecock has a car-free downtown among his plans for the future (which include completing the 17-mile El Cajon extension of the successful San Diego Trolley . . . The first tracklaying on Portland's new light-rail system is underway in Gresham . . . DC Metro's Yellow Line extension opened recently, and the Blue line leg from National Airport to Huntington station in Fairfax County should begin operations next year . . . To the north, Baltimore's rapid transit opening has been delayed from July until at least January because of a shortage of acceptable cars . . . Four Steyr City Buses are now in service in Lebanon (PA) . . . BRE-Leyland will soon test its railbus on the former Youngstown & Southern interurban electric line (dieselized since passenger service quit in 1948) in that Ohio municipality soon, preparatory to a full-scale operation . . . The first GM Classic "New-New Look" buses rolled off the assembly in St. Eustache, Quebec late in May, set for delivery to Montreal's CTCUM . . . Neoplan is to build 415 buses for Los Angeles' SCRTD, all in time for the 1984 Olympics next April . . . TANK (the Transit Authority of Northern Kentucky, opposite Cincinnati), has placed 10 Gillig transits in service . . . Milwaukee is rehabilitating a third of its almost-600 bus fleet, and Washington has just begun placing the first of 210 rehabbed units in service . . . The Chicago Transit Authority has proposed sweeping changes in its fare structure for implementation in September, including the lowering of the base rate to 50¢ (75¢ on the rapid and express buses), and the complete abolition of all transfers.

"I'm going to Florida to fight any attempt to fire these mechanics . . . get me the first available seat on Amtrak!"

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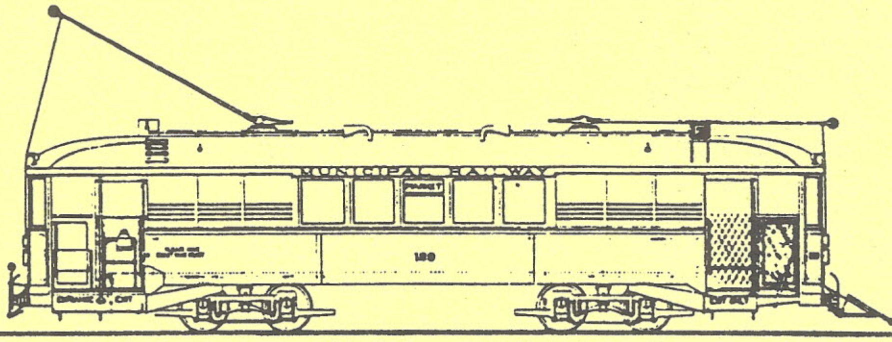

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