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Why Nonprofits Should Operate Commuter Trains

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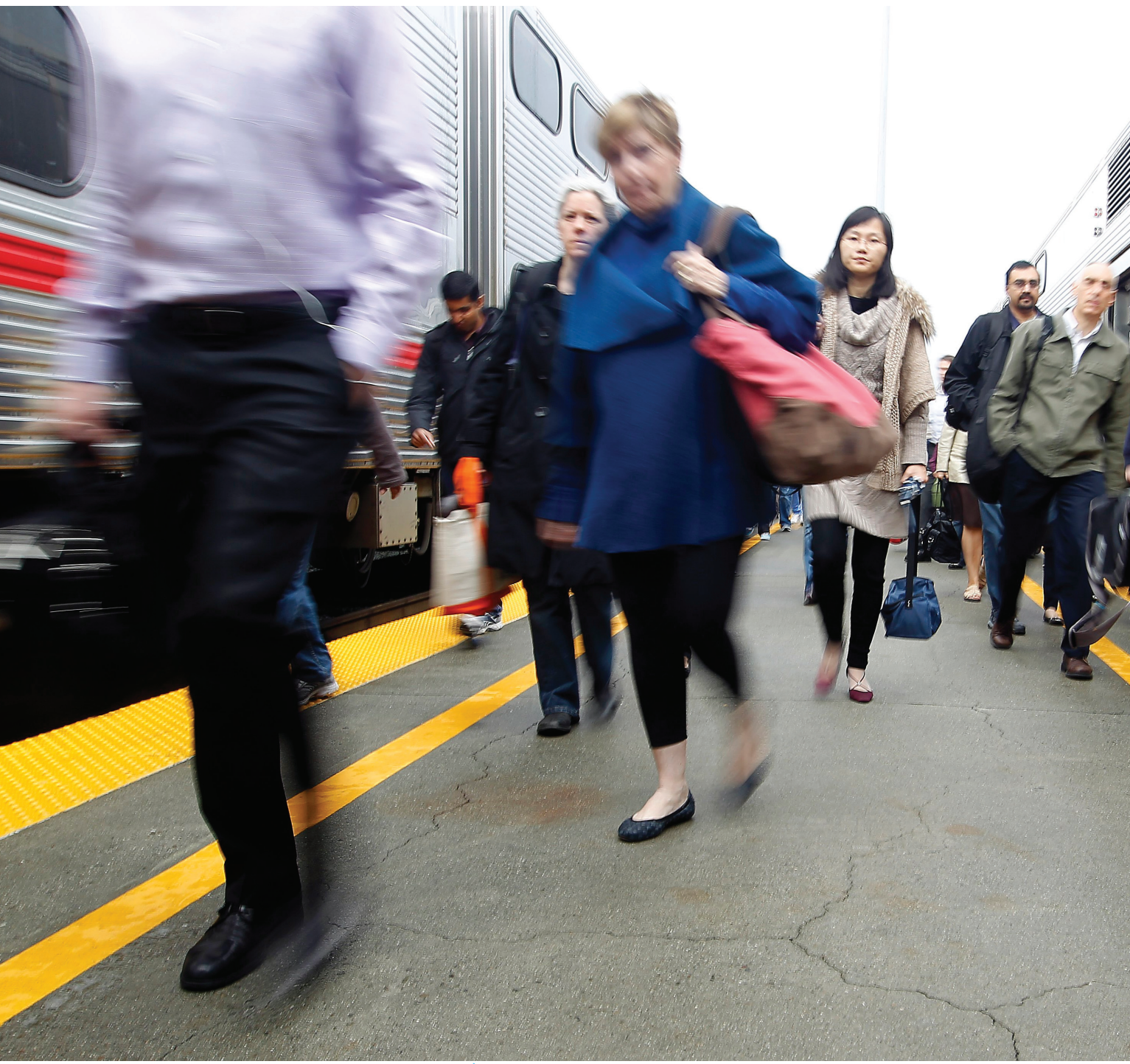

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Commuter Trains

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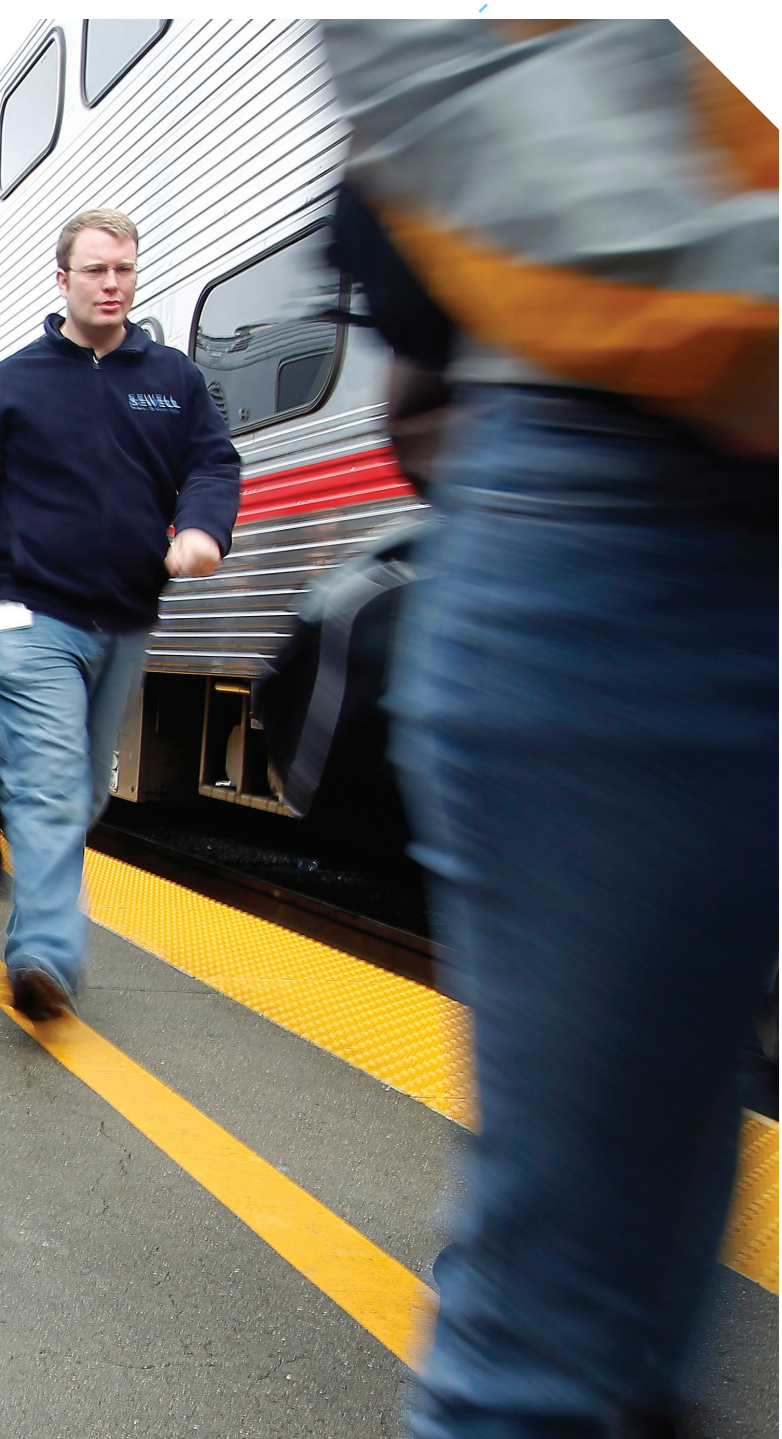
The nonprofit sector has taken on the management of a wide range of heretofore government services, including parks, schools, public housing, and health care. Some portions of mass transit should be next.



Caltrain commuters in the San Francisco area could be served well by a nonprofit transit system.

Over the last 50 years the US nonprofit and philanthropic sector has become heavily involved in funding and operating a wide variety of previously government-dominated public services, including education, housing, social services, and health care. One public service, however, remains the exclusive domain of the government: public transportation.

This is surprising given the extent to which creating successful public transit is vital to several areas of concern to the nonprofit and philanthropic sector. Public transit helps reduce greenhouse gas emissions, create sustainable communities, and encourage non-auto-dependent lifestyles. Transit also helps underprivileged people get access to jobs.

Philanthropic involvement in US transit has mainly been in the form of funding advocacy work. The Rockefeller Foundation, for example, promotes "equitable, sustainable transportation" largely through funding advocacy groups such as Transportation for America, Building America's Future, and the Regional Plan Association. Advocacy plays an important role in transit, but it has fundamental limits. If there are structural problems with the way public transit is organized, defined, or managed, advocacy will be largely ineffective. This is especially true if no single policy or change can solve a given problem. Although advocacy may be effective in gaining passage of a law or supporting a program's funding, it is less effective in ensuring ongoing good management.

If the philanthropic and nonprofit sector is going to achieve meaningful change in public transit, it needs to expand the scope of its efforts—from advocating change to actually running transit systems.

This isn't as revolutionary as it sounds. Nonprofits have expanded from research and advocacy to direct management of government services in areas such as health care, social services, parks, and public housing. In some cases, "nonprofitization" (in contrast to "privatization") replaced

government management but continued to receive public funding, for instance in public housing. In other cases it replaced declining government funding or services—think of parent-teacher associations that conduct fundraising or contract to continue classes that public schools have abandoned. In most successful cases, nonprofitization has involved a true public-private partnership. The public sector continues to contribute, but a nonprofit takes on significant management, fundraising, and advocacy activities, as is the case with many library and parks organizations around the country.

The most recent example of a more active role for the nonprofit sector in heretofore government services is public education. Nonprofits and philanthropy have been involved in research and advocacy about public education for decades. The charter school movement changed that. It was never intended to take over the complete operation of public school systems; the scale and costs are simply too great. But proving that big changes in performance could be achieved by new management methods required the nonprofit sector to get directly involved in the management of public schools. Although the charter school experiment has both fans and critics, there is no question that it has significantly affected the nation's thinking on public school policy.

Philanthropists and nonprofits should take a similar approach to public transit, moving beyond research and advocacy and into the actual management of transit systems. Doing so would escape the systematic constraints of public sector management and unlock additional funding sources. And making the change in only a few instances would create models and benchmarks that would help the rest of the transit sector to improve.

WHAT'S WRONG WITH PUBLIC TRANSIT MANAGEMENT

US public transit faces a paradox: it is increasingly popular but constantly in fiscal crisis. Between 1995 and 2009, transit usage grew 34 percent, compared to population growth of 15 percent. But growth in ridership hasn't insulated transit from the vagaries of government funding; in fact, transit's dependence on public subsidy grew during this period from 56 cents of every dollar of operating costs to 63 cents.[1] This dependence explains why, despite growing ridership, transit agencies suffer with each recession and each budget shortfall.

Although advocates usually point to funding and automobile-centric policies as transit's main problems, *its greatest single challenge is the way that transit is organized.* Although transit services exist in all shapes and sizes, their management and governance are fairly uniform and fully embedded in the public sector. Like public education, this makes innovation difficult, even when management is good.

US public transit is strikingly diverse. A $38 billion industry,[2] the nearly 750 US transit agencies range from small rural van services to the immense MTA New York City Transit system.[3] On an average weekday, the nation's transit systems carry 32.7 million riders,[4] distributed across a range of modes: bus (52.5 percent), heavy rail and subway (33.6 percent), light rail (4.5 percent), commuter rail (4.5 percent), and others (4.9 percent).[5] Although the average system covers about one-third of its operating costs from passenger fares, some systems earn as much as 70 percent of their expenses from the fare box—and some as little as 10 percent.[6]

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Transit's purpose also varies greatly from place to place. In many cases it is a way to reduce automobile traffic. In some cases it is a community amenity that can enhance property values, stimulate economic development, and shape land-use patterns. In some cities—mainly New York, Washington, D.C., and Chicago—transit functions as a public utility because the center cities are unworkable without transit. In other areas it is provided as a social service for the 9.1 percent of US households who do not own automobiles.[7]

What does not vary is that virtually all US transit operations are provided by government entities. In most cases, these are local transit agencies that operate at the municipal, county, or regional level, usually overseen by boards that are composed of public officials or appointed by them. Although the private sector is heavily involved—because many agencies outsource the actual operation of buses, trains, and vans to reduce operating costs—critical management functions remain with the public agency.

Significantly, management decisions of transit operators reflect the uniformity of public agency management far more than the diversity of their markets and missions. Fares are kept low because high fares are thought to be a disincentive for people who own cars and a hardship for those who do not. In most systems, fare structures are quite simple; only a few charge premium prices in the crowded rush hours. And service patterns change infrequently because current users' preferences are granted more weight than potential users'.

But this fare structure flies in the face of the fact that different services have different objectives. Focusing on transit as a social service prioritizes low fares, even at the price of slower service and a lower-quality experience. Competing with the automobile, however, requires speed and quality, because people who choose to ride instead of drive when they already own a car are by definition able and willing to pay for good-quality transportation. Using transit as an economic development tool might require providing levels of service that existing demand cannot justify, but sustaining service levels requires a system whose operating losses stay within the public's willingness and ability to subsidize it. Clearly, a transit operation that tries to serve all objectives will wind up serving none well.

By and large, however, this is the situation that political control creates. Changing a route, raising fares, and prioritizing investments become highly charged political processes in which the agency's objectives and constraints are ignored. Extreme scrutiny makes it difficult to implement businesslike decisions, such as investing in market research, internal systems, or advertising, lest "bloated overhead" become a basis for tabloid attacks. Because decisions are not made for cost effectiveness and efficiency, operating costs are higher than they need to be and service effectiveness is often lower.[8]

The growing popularity of transit across the country masks the fact that better-tailored services might perform *even better*—and might be more insulated from the vagaries of public funding.

COMMUTER RAIL IS THE BEST CANDIDATE FOR CHANGE

Nowhere is this problem clearer than in commuter rail, the transit sector that most obviously operates in a competitive environment. Both common sense and existing scholarship indicate that nonprofitizing commuter rail would serve the interests of both the public and the riders.

The most important fact is that commuter rail is generally implemented not to create access but to provide an alternative to driving. Outside of New York City, most commuter rail patrons do, in fact, leave a car at home when they board the train. (See "Commuter Rail Riders" on right.) This indicates two things. First, commuter rail is not a social service, because its patrons would still be able to get where they're going if it ceased to exist. Second, commuter rail agencies must compete with the private automobile in order to be successful. Because few people would be meaningfully deprived if they could not ride the train, scholars would classify commuter rail as a service focused on "efficiency" rather than on "equity"; that is, the public should be indifferent to who uses it as long as it is used. Researchers have found that public services with efficiency objectives are good candidates for non-governmental management—both because they are less troubled with issues of justice and also because their success is easier to reduce to quantitative metrics.[9]

Similarly, a critical fact about commuter rail is that its riders tend to be wealthy—much wealthier than their neighbors. Along with the fact that commuter rail tends to be much more expensive to operate per rider, this means that commuter rail passengers are often the wealthiest transit users but the ones who receive the greatest per-person transit subsidy.[10] Thus, although commuter rail has a public benefit by removing cars from the road, it is what scholars call a mixed service, because it benefits "specific participants [while] simultaneously generating substantial benefits for society at large."[11] Such functions should logically achieve a much higher proportion of earned revenues than transit services with a greater social-service purpose (such as local buses), and nonprofits have been shown to capture revenue far more creatively than public agencies can.[12]

Unlike bus systems, which tend to cover a more dispersed area, most commuter rail lines have only a few lines, and thus provide very good service to a very specific area, but aren't valuable to people who live or work far from the rail stations. Dennis Young has found that nonprofits can outperform government in meeting heterogeneous preferences because government is "constrained by considerations of equity and bureaucratic procedure." [13]

An example of how public-sector management can complicate the development of competitive commuter rail is Caltrain, which operates in the densely populated San Francisco-San Jose corridor. Caltrain's riders are wealthy—43 percent of peak riders self-report an income of more than $100,000 per year, and 12 percent of all riders report incomes of more than $200,000—reflecting the fact that the region's wealthiest towns are clustered along the rail line.[14] (See "Comparing Caltrain and the San Francisco Opera" on p. 46.)

Despite having so many wealthy riders, Caltrain finds itself in constant fiscal difficulties and facing objections even when it introduces highly competitive service changes. In 2004, for example, Caltrain introduced its Baby Bullet express service, which significantly boosted ridership, lowered vehicle traffic, and reduced the agency's operating losses. But express service meant reducing service at the less-used stations on the line, and towns facing service reductions used Caltrain's public-sector status to attempt to block these changes.

Most discussions of resolving Caltrain's long-term fiscal challenges have focused on massive capital investments that would change the line's underlying economics or a new sales tax to fund its operating losses, even though the evidence suggests that the region's commuters are willing to pay for good service. Similarly, despite threats of draconian service cuts in 2011 due to the fiscal condition of one of Caltrain's principal funders, further service or pricing changes such as more express trains, market-segmentation tools such as peak pricing, and revenue-generating ideas such as first-class service were not fully considered. Caltrain explained that it was not certain it had the legal authority to implement such changes and that "we do worry that our customers will find some of these changes unacceptable." [15] A management structure more insulated from public control would be better able to attempt innovations confident that the main test of acceptability was simply whether the riders continued to ride. This is precisely what nonprofitization might offer.

Commuter Rail Riders

Rail system	Median household income of all area residents[1]	Median household income of commuter rail riders[2]	Percent of rail riders who had a car available for this trip[2]
Caltrain (Bay Area)	$83,301	$89,005	62%
MBTA (Boston)	$67,108	$100,000+	75%
New Mexico Rail Runner	$48,847	$57,057	58-100%[3]
Tri-Rail (Florida)	$49,967	$52,856	75%
Virginia Railway Express	$98,170	$126,609	81%

SOURCES: 1: Census (2010). 2. Onboard surveys conducted by transit agency (2010-11). Median incomes estimated from ranged data by calculation. 3. Onboard survey did not ask the question; 58% drive alone to the station and park, which represents a minimum; according to the census, 100% of transit riders report owning a car.

THE NONPROFIT SECTOR CAN MANAGE TRANSIT

The US nonprofit sector is fully capable of managing public transit systems. In fact, transit nonprofitization would not be entirely new in North America. Amtrak's structure is a nonprofit corporation, although in practice it functions more as a federal authority. The transportation management association (TMA) is a nonprofit structure that has generally been used by neighboring businesses to

provide van shuttles and other transportation management functions. Small nonprofits have provided transit services for disabled and elderly people in towns without formal paratransit systems. And in Detroit, the Kresge Foundation has been the main driver of a proposed new streetcar line, committing $35 million to construction. But these have been generally isolated efforts; aside from TMAs, none has led to replication or industry-wide discussion.

Because the US transit industry does not have a current example of nonprofit operation, the first question is whether the nonprofit sector could actually manage a transit system successfully. Transit involves large, complex, round-the-clock, safety-critical operations. Further, transit competes with both private alternatives (mainly private autos) and government-funded services (such as other transit options). Transit operations also rely on public infrastructure. In addition, transit receives both revenues (fare box and ancillary) and government funding, and it sustains operations with significant ongoing losses. A look at the nonprofit sector suggests that current US nonprofits exhibit all of these characteristics.

The US nonprofit sector is a large, varied field, ranging from local volunteer efforts with tiny budgets to the Mayo Clinic, a world-leading health care institution with revenues of $7.9 billion in 2009. Several well-known nonprofits have budgets that are as large as all but the very largest US transit agencies. (See "Comparing Transit Agencies With Other Nonprofits" on p. 45.) And the presence of large hospital networks among nonprofits demonstrates that nonprofits can manage complex, asset-intensive operations with life-and-death consequences.

In several important fields, nonprofits operate essentially in competition with both for-profit and government competitors. Public broadcasting competes directly with for-profits for viewers and listeners. Stanford University competes with the government in the form of the University of California at Berkeley, and both, in some manner, compete with for-profit colleges like the University of Phoenix. In health care, nonprofit, government, and for-profit hospitals operate in competition. There is no reason to think that a nonprofit transit entity would be somehow unable to survive in a world dominated by public transit agencies, private employer shuttles, and the private automobile.

The finances of many nonprofits are also similar to transit agencies. Many large operating nonprofits charge fees for services that are difficult to provide and create significant social benefits that cannot be captured in the price of the service. Many nonprofits have a significant gap between revenues and costs, one that will not go away simply by raising prices.

As government agencies, most transit agencies cover all of their operating losses with public subsidies. Nonprofits also receive significant government funding from a variety of sources: grant programs designed for their sector (such as research funds that only large universities qualify for), government fee-for-service arrangements (such as Medicare), and direct grants (such as those often made to cultural institutions). In many cases, these are performance-based grants, where a metric is determined and the organizations qualify on the basis of the services they provide or the outcome they produce.

The practice of government providing infrastructure for nonprofit entities is similarly well established; although New York City's cultural institutions are all operated by independent nonprofits, many of the largest ones (including the Metropolitan Museum of Art, the American Museum of Natural History, and the Bronx Zoo) operate in structures and on grounds owned by the City of New York. Nothing suggests that a nonprofit transit agency would be unable to retain the financial benefits of public support that transit agencies currently enjoy.

NONPROFITIZING COMMUTER RAIL OFFERS BENEFITS

What would commuter rail operations and their riders gain from nonprofitization? Three potential benefits stand out: clearer focus on the mission of transit; greater freedom from political interference; and access to new sources of revenue.

Clearer Focus on the Mission of Transit | In theory it is possible for any organization to have a clearly defined goal, but turning a service over to an outside entity would require a much greater focus on a clear, measurable, and concise goal. This would allow the government entity responsible for oversight to evaluate the nonprofit's performance. Further, as has occurred in other industries of nonprofit service delivery, clearly defined targets would allow the government to reclaim service provision if these outcome targets were not met.

It is important that the new entity's mission be concise and measurable. For most commuter rail operations—whose main goal is to help take cars off the road—this would probably be something like maximizing passenger-miles traveled given the resources available.

The mission of the new entity would also need to be parallel to the mission of the nonprofit taking over the service. This is an important reason that nonprofitization can be superior to privatization: the goal of a for-profit company is to maximize profit, whereas a nonprofit's goals are focused on achieving its mission within the constraints of available funds. Privatizations can go awry because the optimal profit level is not necessarily the same as the optimal public benefit. Further, public investment in facilities used by private enterprise raises significant issues that require cumbersome regulatory regimes to organize, including disputes over legitimate rates of profit and whether public investments are really benefitting the public. (Several commuter rail lines around the United States have operations contracted out to a for-profit operating contractor, but the outsourcing of operations is fundamentally different from the privatization of the overall service, which would include decisions on schedules, service design, and fares.)

Greater Freedom from Political Influence | If the nonprofit is armed with a clear mission, an important benefit of nonprofitization would be a greater degree of insulation from political and public pressure on management decisions. Public and political pressure intervene in the operation of transit agencies in a wide variety of ways: Fare policy, labor disputes, levels of service to different areas, executive pay, and even schedules become political and media issues that prevent businesslike decisions. For public agencies, fully funded by taxpayer dollars, this is unavoidable and arguably legitimate. But it is not clear that it is good for the efficient production of transit passenger-miles.

Nonprofit status, along with a contractual goal, would give management the freedom to make changes that might arouse public objection (and pressure from elected officials) but are consistent

Comparing Transit Agencies With Other Nonprofits

Organization	Type	Total revenues ($m)	Government funding ($m)	Private donations and endowment revenues ($m)	Earned and other revenue ($m)	Operating expenses ($m)	Earned income/ expenses
Mayo Clinic	Hospital	7,970	241	266	7,460	7,430	100%
MTA New York City Transit	Transit agency	7,006	3,670	0	3,336	7,006	48%
University of Pittsburgh Medical Center	Hospital	6,630	56	50	6,520	6,430	101%
YMCA	Nonprofit	5,840	616	775	4,450	5,610	79%
Stanford University	University	3,842	852	1,070	1,920	3,651	53%
Harvard University	University	3,827	689	1,722	1,416	3,756	38%
American Red Cross	Nonprofit	2,950	58	661	2,230	3,420	65%
NJ Transit (all modes)	Transit agency	1,952	984	0	968	1,952	50%
WMATA (District of Columbia)	Transit agency	1,482	859	0	807	1,482	54%
Boys and Girls Clubs of America	Nonprofit	1,470	501	625	344	1,420	24%
MBTA (Boston; all modes)	Transit agency	1,404	880	0	524	1,404	37%
Los Angeles County MTA	Transit agency	1,364	1,021	0	388	1,364	28%
Habitat for Humanity Intl.	Nonprofit	1,350	120	566	660	1,310	50%
Chicago Transit Authority	Transit agency	1,288	780	0	566	1,288	44%
Texas Children's Hospital	Hospital	1,280	11	102	1,160	839	138%
Long Island Rail Road	Commuter railroad	1,160	651	0	546	1,160	47%
SEPTA (Philadelphia; all modes)	Transit agency	1,082	673	0	443	1,082	41%
Volunteers of America	Nonprofit	917	0	96	821	908	90%
Metro-North Railroad (NY and Conn.)	Commuter railroad	901	399	0	542	901	60%
American Cancer Society	Nonprofit	897	19	898	(20)	1,020	n/a
NJ Transit (commuter rail only)	Commuter railroad	842	425	0	533	842	63%
Metra (Chicago)	Commuter railroad	577	351	0	260	577	45%
MBTA (Boston; commuter rail only)	Commuter railroad	277	139	0	159	277	57%
SEPTA (Philadelphia; commuter rail only)	Commuter railroad	220	97	0	133	220	61%
Art Institute of Chicago	Nonprofit	180	8	77	94	222	42%
Metrolink (Southern Calif.)	Commuter railroad	162	91	0	89	162	55%
Museum of Modern Art (NY)	Nonprofit	105	0	59	45	220	20%

Sources: Transit agencies: National Transit Database 2009. Universities: University websites and factbooks. Other nonprofits: *Forbes Magazine* database of 100 largest US charities, www.forbes.com/lists/2010/14/charity-10_rank.html (accessed July 20, 2011).

with the operation's goal. In the example of Caltrain, innovative approaches—such as charging for bicycles, offering a first-class section, or converting to more express trains—would clearly be legal. The question of rider acceptance would be based only on whether overall ridership declined. In the face of rider objections, contractual targets would help management explain its decisions to the public and ensure that the organization was optimizing the goal that mattered most.

Focusing on a concise metric also puts greater pressure on management to be good managers, which, in turn, often requires further insulation from the public. Attracting top talent to the field, paying salaries that are competitive with the private sector, rewarding good performance, encouraging employee innovation, and keeping the levels of management staff that are needed are all difficult issues for public agencies, because salaries and levels of overhead are easily politicized issues. Too little management can create significant problems, by requiring managers to focus so narrowly on maintaining daily operations that they lack the staff to undertake comprehensive market research, update services, and adopt new technology as quickly as private-sector players. Although nonprofit status is no guarantee of good management, discussions of management levels, hiring, and compensation do tend to remain within the board rather than in local newspapers and legislatures. Research has shown that nonprofit entities have greater flexibility with professional employees than public agencies do.[16]

Similarly, the boards of public transit agencies are generally composed of either political officials or political appointees, whereas the boards of large nonprofits are generally composed of large donors who have a vested interest in effective management. In both the nonprofit and private sectors, the only way to oversee well-compensated but highly effective management is through an active board with an appropriate understanding of effective board/management interaction, which many public agencies lack.[17] Although many nonprofits that depend on government funding include some public officials on their boards, they are not in the majority and board membership is not driven by political leaders.

Access to New Sources of Revenue | Another advantage of turning

over public transit to nonprofits is that it opens up new sources of revenue. In 2010, total US donations to non-religious nonprofits and nonprofit causes totaled $191 billion.[18] In many cases—such as opera devotees, college alumni, and former hospital patients—the donors have already paid fees for the direct benefit they received, but because the cause is defined as a philanthropic one, they are still willing to donate money. People will even donate to services that are offered free. Public broadcasting, for example, raises millions of dollars annually from viewers and listeners who have the option to enjoy the service for free but choose to donate.

The important question is whether foundation, corporate, or individual donors would fund transit services. Currently, the answer is almost certainly no; a body of literature has explored the fact that private donations drop to zero as government funding for an institution expands. No matter how sympathetic the cause, donors do not willingly give money to government.[19]

But this finding also suggests that philanthropists might be enticed to donate if the nature of public transit changed. Over the last 30 years, significant government services—public education, parks maintenance, low-income housing, and others—have tapped substantial amounts of private philanthropic funding after nonprofits entered the field. The critical step is in redefining a service not as a government function but as a public asset or a charitable mission. The charter school movement, for example, has received significant amounts of philanthropy precisely because it is defined as a nonprofit function rather than a government one.

The motives for donors to give to transit vary, but there are precedents. Donors frequently cite a desire to "give back," especially to local institutions, and transit's characteristic as a local function would make this motive particularly attractive. The advertising potential of transit is clear, but granting naming rights—a standard approach to encourage donations to hospitals and universities—has never been attempted in the United States. The concept of rail cars or stations named after donors, however, would be imaginable if transit becomes perceived as a valuable and charitable social good in need of philanthropic support. A transit operation with a clear goal and metrics might be able to quantify the benefit support would bring: "Your $10 donation would eliminate 200 vehicle-miles from our roads this year."

Private donations will not replace public sector investment, especially in infrastructure; the cost and scope of transit infrastructure (especially rail transit) dwarfs the potential for philanthropic funding. The fact that large amounts of government funding will continue to be necessary, however, does not preclude the emergence of philanthropic funding. Consider education: The United States spent $987 billion in public funds on education in 2010, but education also received $41.7 billion in private donations—a figure larger than the total annual budget of the entire US transit industry.[20]

HOW IT MIGHT GET DONE

As with many significant changes in public administration, the nonprofitization of a commuter rail line is most likely to arise in response to a severe budget crisis that threatens radical service cuts. A crisis

Comparing Caltrain and the San Francisco Opera

It's an easy assumption that transit agencies and civic organizations operate at a completely different scale and serve very different constituencies. In fact, they're not as different as one might think. Comparing two organizations that might seem very different—Caltrain and the San Francisco Opera—reveals underlying similarities. Both have similar-sized operating budgets and both use a publicly financed infrastructure. Judging by ticket sales alone, the SF Opera loses more money than Caltrain, but it generates in donations ($45.55 million) roughly the same amount of money that Caltrain receives in government operating grants ($41.56 million in 2010).

Most important, the two serve a similarly sized constituency. The SF Opera serves a core constituency of 9,000 people who donate nearly $38 million a year on top of the tickets they presumably buy; Caltrain's core constituency is roughly 25,000 regular commuters, who make up 72 percent of all riders and usually purchase the most heavily discounted monthly and annual passes. Although Caltrain carries more than 12 million people per year—far more than the SF Opera's reach of roughly 350,000 viewers—each regular rider rides between 300 and 500 times per year, but the average opera attendee attends only a few performances each year.[22] It could be argued that the core Caltrain rider has a greater affinity for the train than the core opera attendee does for the opera. Counter-intuitively, the core Caltrain rider is more affluent and more educated than the core opera attendee, providing a potential financial base for the transit system.

	SF OPERA	CALTRAIN
Core users	9,000 donors	25,000 regular commuters
Has a college degree	66 percent	77 percent
Household income of $75,000 or more	50 percent	58 percent
Household income of $150,000 or more	25 percent	24 percent
Female	59 percent	40 percent
Average age	48.8	37.2
Funds from individual donors	$37.97 million	$0
Funds from corporate donors	$7.58 million	$0
Funds from government sources	$0.77 million	$41.56 million
Management	Nonprofit organization	Outsourced to public transit agency
Operations	Performed in-house by nonprofit	Outsourced to for-profit company
Infrastructure	Opera house owned and maintained by City of San Francisco	Railroad owned and maintained by public agency

Sources: 2010 Caltrain Rider Omnibus Study, Summary Report; www.sfopera.org (2009-10 data); operaamerica.org; 2008 National Endowment for the Arts "Arts Participation Survey" (average age figures derived by author from figure 3-9, page 20).

is probably required, because incremental improvement is unlikely to produce radical change; riders and other transit supporters are not likely to countenance a significant loss of control unless they are convinced that the alternative is terrible. Although the specific path will inevitably be case-specific, the general contours of how it might happen, and what would make it successful, can be derived from experience in other fields.

- *The initiative for change would likely come from a local philanthropist.* Elected officials are unlikely to propose radical change, and current transit management would not have the credibility to do so. Corporations with any potential profit motive—such as rail equipment suppliers—would inevitably be seen as having ulterior motives. What is needed is for a philanthropist or a foundation with a reputation for success and community spirit to initiate the idea. The idea would likely be accompanied by a sizable donation to the new nonprofit to give the proposal credibility.
- *A new entity would need to be formed with a board not dominated by elected officials and with leadership not drawn from the current transit operation.* An attempt simply to convert the current operation into a nonprofit, with no change in policy or leadership, will fail, because potential donors will not consider it a new organization. The new organization would need to draw on the existing management, but a clear sense of a new direction would be necessary in the form of new leadership.
- *The powers turned over to the new entity would need to be well understood.* In successful cases—such as New York City's Central Park Conservancy—the relevant public agency (the city's Parks Department) has remained as the contracting party, but the areas in which the new entity has the rights to make decisions were clearly spelled out. It is critically important that the entity currently overseeing the operation understand that it is turning over certain powers to the nonprofit. Recent issues arising from the parent groups' replacing funds cut back by public schools have become controversial precisely because no one understood the implications of their success.[21]
- *The legal structure of a transfer would most likely involve a lease of the existing equipment and facilities for a defined period.* Unlike a for-profit franchise, a nonprofit would probably be willing and able to accept a term of, say, five years, instead of the 25- to 50-year franchises that for-profit entities require in order to be sure of gaining an acceptable return on their investment. A transfer could be described explicitly as an experiment, along the lines of "let us run it for five years; we'll then offer to give it back to you, and if you don't like what we've done, undo it all."
- *The goals for the new organization must be based on a realistic business plan.* Unrealistic public hopes, or fears, about the new nonprofit will undermine its support. Ideally, the philanthropist leading the effort would fund an independent strategic review to create a near-term set of management and policy changes that would be grounded in reality. Proponents would need to be careful not to promise unrealistic improvements: for example, the nonprofit sector is not going to be able to unlock billions of dollars for new infrastructure.

CONCLUSION

Turning a commuter rail operation into a nonprofit is both feasible and potentially desirable. Doing so has the potential to reap great benefits, both for that transit system and, by demonstration, for the rest of the transit industry as well. The next time a commuter rail line faces a funding crisis, before the philanthropic community funds another research project to make the case for more public funding, it should consider the maxim that if you want something done well, sometimes you just have to do it yourself. ■

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Notes

1 *Public Transportation Fact Book, 2011*, American Public Transit Association. Available at www.apta.com

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