AMTRAK INVESTMENT ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON
TRANSPORTATION AND HAZARDOUS MATERIALS

OF THE

COMMITTEE ON
ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

H.R. 4111

A BILL TO AUTHORIZE APPROPRIATIONS FOR THE NATIONAL RAILROAD PASSENGER CORPORATION, AND FOR OTHER PURPOSES

MARCH 23, 1994

Serial No. 103–135

Printed for the use of the Committee on Energy and Commerce

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AMTRAK INVESTMENT ACT

WEDNESDAY, MARCH 23, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON TRANSPORTATION
AND HAZARDOUS MATERIALS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:47 a.m., in room 2123, Rayburn House Office Building, Hon. Al Swift (chairman) presiding.

Mr. SWIFT. The subcommittee will come to order.

My apologies, first of all, to my colleagues, then to our witnesses, and then to the audience for the late start. As you know, the Democratic Caucus was dealing with the issue of who will be the acting chairman of the Appropriations Committee. They just started the paper balloting and I couldn't leave until that occurred.

The legislation that we are holding a hearing on today authorizes necessary capital funding to allow Amtrak to acquire new and modern equipment in order to upgrade service, and as well to modernize its maintenance facilities to ensure that current equipment will be maintained efficiently and will perform effectively.

Also included in the legislation are changes to the program that was created by Congress to help States institute new and additional rail passenger service. This program known as section 403(b) of the Rail Passenger Service Act is modified so that States agree to pay for a percentage of the long-term avoidable costs rather than the short-term losses as in current law.

Additionally, the legislation directs the Secretary of Transportation to undertake a comprehensive review of the 403(b) program and to determine at what point, if any, should a 403(b) service be absorbed into Amtrak's core service.

I have long held the view that section 403(b) makes sense from a public policy perspective in that it provides an incentive for States to explore rail passenger service as an alternative mode of transportation for its residents.

The cost-sharing required under section 403(b) forges an important partnership between the States and Amtrak. The State's contribution ensures that only viable rail service will be pursued and, in turn, Amtrak's contribution ensures that they play a role in the quality of the service.

The legislation also requires Amtrak to report to Congress on an annual basis on both anticipated and realized improvements in quality of service to rail users, facilities, and equipment improvements that demonstrate productivity gains, improvements in revenue, the cost ratios and as well as reductions in alternative transportation service through increased rail use and commensurate environmental improvements.

There are a number of other proposals in this legislation that the subcommittee will want to look at closely. There are those who might think that this, the whole issue of rail passenger service is just romance and nostalgia about whistles in the night. This is not about romance and nostalgia. This is not about dreams.

The fact of the matter is that rail passenger service is one of the most cost effective and environmentally friendly and energy efficient modes of transportation. It is for these reasons that many States have included rail service as an essential part of their transportation mix.

And quite frankly, the States with their serious budgetary problems are not in the habit of funding idle dreams. Yet the States are funding, and many States are funding expanded rail service.

It is unfortunate that the Federal Government over the most recent years has been in some senses the last to get the message. Two administrations ago there was never a single penny in 8 years in the budget for Amtrak. It got slightly better in the past administration. It is getting better, but it is still not where it should be.

This legislation is a much welcomed step in the right direction, and for that I applaud this administration. We need to make sure that Amtrak gets what it needs to make rail passenger service an important part of an integrated transportation strategy for this country.

I am happy to recognize the ranking Republican, the gentleman from Ohio, for an opening statement.

Mr. OXLEY. Thank you, Mr. Chairman. I want to commend you for this timely hearing on the pending reauthorization of Amtrak, our national railroad passenger carrier. Many parts of the country, including my own district in Ohio, are served by Amtrak trains, and a large number of these communities have no air service. Amtrak is an important element in a balanced transportation system.

Recognizing Amtrak's role is not sufficient, though. We have to look at the resources needed and available to support Amtrak. In these times of scarce resources we have to make every dollar count. This is especially true when Amtrak appears to be suffering the consequences of chronic asset depletion.

Among Amtrak's most essential resources are thousands of miles of track and related facilities that Amtrak does not own, the properties of America's great railroads. These are the lines where Amtrak operates virtually all of its service outside the Northeast Corridor.

The 25-year agreements under which Amtrak originally gained access to freight railroad facilities will be expiring soon. In general, these matters seem susceptible to normal bilateral business negotiation. Unfortunately, the one exception is the matter of tort liability. Our subcommittee is familiar with the problem of host railroad liability from our discussions of the pending high-speed rail bill. Unfortunately, the same problem affects ordinary Amtrak services as well.

In fact, as a direct result of the 1987 Conrail-Amtrak collision in Chase, Md., the railroad community can no longer rely upon the legal protection of the indemnity agreements that governed liability matters since Amtrak was created in 1971. I believe if we want Amtrak to make a smooth transition to new operating arrangements to replace its expiring trackage rights agreements the matter of liability must be settled. I hope that the subcommittee will address this important issue when we mark up the Amtrak reauthorization bill. Meanwhile, I look forward to a very constructive and useful hearing.

And, Mr. Chairman, I would like to welcome our friend Jolene Molitoris from Ohio, the administrator. We are happy to have her back again before the subcommittee.

And, Mr. Chairman, I would ask unanimous consent that the statement of the gentleman, Mr. Moorhead of California, be made a part of the record at this point, and I yield back the balance of my time.

Mr. SWIFT. Without objection, the statement of the gentleman from California will be made a part of the record.

And, in fact, the Chair will ask unanimous consent that statements from all members of the subcommittee be permitted to be entered into the record.

Without objection, so ordered.

I recognize the gentleman from Idaho for an opening statement.

Mr. CRAPO. Thank you, Mr. Chairman. I don't have a formally prepared statement because I agree with the points that have been raised already.

I do want to say that coming from out West we have an interest in whether some of the rural areas of Idaho are going to get the kind of service that can also benefit them. I have had a lot of constituents contact me asking about whether Amtrak service is going to be able to be expanded rather than shrink. And so that is an issue that I am kind of interested in; primarily, the question of a member that doesn't come from a national urban center, what is going to be coming forward in the rural areas of America?

Thank you.

Mr. SWIFT. I think the gentleman raises a point vital to the future of Amtrak, as a matter of fact. Coming from a rural area myself, it has been a matter of some concern.

While I am at it, I will ask unanimous consent to insert following the opening statements of any committee members a statement submitted to the committee by the Senator from the State of Maine, another rural State, expressing some similar concerns.

Without objection, so ordered.

[Testimony resumes on p. 18.]

[The text of H.R. 4111 and the statements of Senator George J. Mitchell, Lynn Schenk, and Carlos Moorhead follow:]

STATEMENT OF GEORGE J. MITCHELL, A U.S. SENATOR FROM THE STATE OF MAINE

Mr. Chairman, As a strong supporter of the National Railroad Passenger Corporation, I am pleased by the Clinton administration's recognition of the vital role that Amtrak plays in our national transportation system. I am particularly pleased by the administration's submission of the Amtrak Investment Act of 1994.

The arguments for enhancing and improving our rail network are compelling. Pollution and congestion which plague our Nation today are a reflection of the costs we have incurred by allowing the deterioration of what was once the world's best rail system.

Thirty years ago, transportation planners regarded passenger rail service as a relic of the 19th century, unable to compete either in capital costs or operating efficiencies in a modern highway and airway dominated world. But this decision—to sacrifice trains in order to develop our highways and our airways—has come at a cost.

Today, almost 70 percent of daily peak-hour travel on the national urban interstate system occurs in congested conditions. It's ironic. We have one of the most intricate highway systems in the world, engineered so as to speed travel, increase safety, reduce costs—yet because we haven't provided a well-rounded transportation infrastructure, the Nation's highway system is choked daily with traffic crawling along at 10 and 15 miles an hour in and around many of our major urban centers. It's been estimated that by the year 2005, traffic delays will cost the Nation $50 billion a year in lost wages, lost work output, wasted gasoline and wasted time.

That estimate doesn't even take into account the resulting pollution concentrated around our major cities. A shortsighted over-reliance on auto travel has produced cities whose air is often so unhealthy that children cannot play outdoors.

In past decades, energy consumption didn't warrant much attention because gasoline was cheap. That situation began to change in 1973 and it has been different ever since.

We currently rely on imported oil for more than 50 percent of what we consume. Our transportation needs alone require almost two-thirds of the oil used throughout the Nation each day. Of this amount, cars consume 45 percent.

So, as always, we have paid a price for our decisions. Certainly, highways have given us enormous personal liberty, but they have brought enormous congestion and pollution in their wake. Airlines have given us speed unknown to earlier generations, but at the price of distant airports, wasted travel time and high costs.

Today, it has become clear that passenger rail is a sensible, workable alternative and complement to existing systems in many parts of the country. The Amtrak Investment Act of 1994 represents a significant step in restoring balance to our transportation system.

The spread of passenger rail service should be encouraged. It is unfortunate that the Department of Transportation did not provide funds for Amtrak's share of new 403(b) State supported services in the fiscal year 1995 budget request. However, I was pleased to see included in the administration's bill the reauthorization of cost sharing for new 403(b) services. Of course in all cases, Amtrak's participation in section 403(b) service is subject to the availability of sufficient funds.

The initiation of new State-supported 403(b) services is consistent with the administration's increased emphasis on providing States the flexibility to move toward a more balanced and environmentally benign transportation system that will reduce congestion on highways and at airports. It is also consistent with the administration's cost sharing approach to high speed rail and other alternatives to single-occupancy vehicles.

States initiating 403(b) service do not anticipate the need for long-term operating support. Through careful study, they have determined their own potential risk of investment based on anticipated self-sufficiency or potential profitability of the services. In addition, encouraging the States to pick up a share of the costs of operating new service contributes to the goal of reducing Amtrak's dependence on Federal operating support.

We are prepared to initiate new State-supported 403(b) services in Washington, Oregon and Maine in the coming year. All the States involved have made significant financial commitments toward supporting these services and look forward to their initiation. It is critical that this provision be maintained as the Amtrak Investment Act of 1994 works its way through the House and Senate. It is even more critical that section 403(b) services be funded in the fiscal year 1995 Transportation Appropriations bill at the authorized level of $17 million.

In addition, I urge the committee to consider adding to the bill the authorization of the Central Artery Rail Link in Boston, Massachusetts. The Intermodal Surface Transportation Efficiency Act of 1991 included a provision authorizing a feasibility study on alternatives of connecting North and South Stations in Boston.

Since then a final report has been completed on the benefits, implementation strategy, design and construction methods, phases, and costs of constructing the Central Artery Rail Link, as well as the means of integrating the Central Artery/Third Harbor Tunnel project and the rail link component. Currently Amtrak is conducting preliminary engineering and design of the Rail Link.

Massachusetts has included $500 million in its long term capital budget for the project, and just a week ago the Legislature began action on passage of the bond bill which contains the first $60 million for the Link. The State commitment to the project is clear.

Discussions of whether and how to bridge this critical gap in the Northeastern rail corridor have been carried on for nearly a century. Today, an overdependence on travel by highway and air has brought us to the edge of our limits to use these modes efficiently. With increased attention being devoted to congestion mitigation, clean air, land use, mobility, efficiency and international competitiveness, environmentally sound transportation alternatives must be sought and developed. Construction of this rail link is critical to the long-term benefit of the New England environment and economy.

I look forward to working with this committee, the Federal Railroad Administration, the National Railroad Passenger Corporation and my colleagues in the Senate on the addition of this important provision to the Amtrak Investment of 1994 and the subsequent enactment of this bill into law.

Opening Statement of Hon. Lynn Schenk

Thank you, Mr. Chairman. I'd like to join the subcommittee chairman in welcoming our distinguished witnesses here today. Tom Downs is a long-time friend, and I'd like to congratulate you again on your appointment to this post. It's well deserved, and I look forward to working with you.

I'd also like to thank the subcommittee chairman for holding this important hearing today. It's time for us to refocus our attention on rail transportation, and in particular on Amtrak.

For the better part of last year, we worked very hard to pass the administration's high-speed rail initiative through committee. As you know, Mr. Chairman, I'm hopeful that we will reach some sort of positive resolution on that issue this year.

Whatever the outcome, we can be sure that Amtrak will play a pivotal role as we continue to move toward higher-speed rail transportation. With the help of nearly $3 billion in Federal funding, Amtrak has already had great success in implementing high-speed rail transportation on its Northeast Corridor, which links Boston with Washington.

Unfortunately, this success with the Northeast Corridor occurred at the same time that previous administrations were cutting back their support for Amtrak. This financial squeeze meant that certain rail corridors and certain parts of the country were left out.

For instance, at the same time the Northeast Corridor received nearly $3 billion, California rail corridors received less than $10 million in Federal capital investments.

My district is the end point of the Lossan corridor, which connects Los Angeles with San Diego. The Lossan corridor is the second busiest rail corridor in the Nation; it supports nine round trips every day; and its farebox returns over 100 percent of its operating costs. This progress has been driven by the State, without strong support from Amtrak.

Now things have changed—we have an administration that strongly supports increases in both capital and operating subsidies for Amtrak. I would submit that it's time for Amtrak to take advantage of this situation and invest in capital improvements across the Nation.

We must aggressively reach out to other areas of the country—the Pacific northwest, the Midwest and California—and develop strong public support for inter-city rail service. If we can show the American people the enormous benefits of inter-city rail, then I firmly believe that the people will support investment in services such as Amtrak.

I look forward to the testimony of our distinguished panel, and I yield back the balance of my time.

Statement of Hon. Carlos Moorhead

Thank you, Mr. Chairman. I want to compliment you and the subcommittee on taking prompt steps to reauthorize Amtrak's rail passenger programs. We in California have come to have a new appreciation of the role rail service can play in a balanced passenger transportation system. The terrible experience of the January 1994 earthquake has pushed more and more Californians into relying on commuter rail service. In addition, the need to meet tough new air quality standards will make rail passenger transportation even more attractive to many major urban centers, including those in southern California.

There is always the question of the price tag. Since Amtrak is supported by Federal tax dollars, we need to make sure that the resources given to Amtrak by the Congress are used in the most efficient and productive way possible. I look forward to an informative hearing. Thank you, Mr. Chairman.

I

103D CONGRESS
2D SESSION

H. R. 4111

To authorize appropriations for the National Railroad Passenger Corporation, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 22, 1994

Mr. SWIFT (by request) introduced the following bill; which was referred to the Committee on Energy and Commerce

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A BILL

To authorize appropriations for the National Railroad Passenger Corporation, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Amtrak Investment Act of 1994".

SEC. 2. FINDINGS.

The Congress finds that—

(1) intercity rail passenger service is an essential component of the integrated national transportation system; however, to achieve its full potential

the National Railroad Passenger Corporation (Amtrak) must provide a quality transportation product in the form of clean, comfortable, and on time service;

(2) Amtrak's management and employees are dedicated to providing the high quality service that Amtrak's customers deserve; however, additional capital investment is needed to acquire the modern equipment and efficient facilities that are essential to satisfy the demand for superior intercity rail passenger service;

(3) significant levels of Federal capital investment will enable Amtrak to provide the world class service American rail passengers deserve, and will reduce operating costs in the long term;

(4) Amtrak's management should be held accountable to ensure that all capital investment by the Federal Government is effectively used to improve the quality of service and the long-term financial health of Amtrak;

(5) the Secretary of Transportation, as an ex officio member of Amtrak's board of directors, should use this position to evaluate Amtrak's costs and revenue elements to ensure that Amtrak provides excellent service to its customers and that Am-

trak uses its Federal investment wisely and efficiently; and

(6) States can play a significant role in providing cost efficient intercity rail passenger transportation and in addressing local transportation needs and air quality control.

SEC. 3. WORLD CLASS SERVICE.

Section 102(3) of the Rail Passenger Service Act (45 U.S.C. 501a(3)) is amended to read as follows:

"(3) Management of capital investment by the Corporation in such a way as to provide its customers with world class service.".

SEC. 4. RETURN ON INVESTMENT.

Section 308(b) of the Rail Passenger Service Act (45 U.S.C. 548(b)) is amended—

(1) by inserting "(1)" before "The Corporation shall transmit"; and

(2) by adding at the end the following new paragraph:

"(2) The Corporation shall also include in the report required under paragraph (1) projections of the anticipated benefits of the projects proposed for funding under this Act and a report on the benefits actually realized from all projects previously funded under this Act beginning with funds provided in fiscal year 1994. Such report shall include an identification of improvements in the quality of service offered by Amtrak, facility improvements that demonstrate a productivity gain, equipment improvements that lower operating costs, environmental benefits (including air quality and land use), enhancements to local transportation needs, enhancements to mobility of physically and economically disadvantaged persons, an improvement to the revenue to cost ratio, reduced dependence on Federal operating support, and reductions in the need for alternative transportation investments. To the extent practicable, the benefits addressed in each report shall also be expressed as return on invested capital.".

SEC. 5. STATE REQUESTED RAIL PASSENGER SERVICE.

(a) Section 403(b) of the Rail Passenger Service Act (45 U.S.C. 563(b)) is amended—

(1) in paragraph (1)(B) by amending clause (iii) to read as follows:

"(iii) a statement by such State, agency, or person that it agrees to pay in each year of operation of any such service at least—

"(I) 45 percent in the first year of such operation; and

"(II) 65 percent in each year of operation thereafter, of the long-term avoidable losses of operating such service and at least 50 percent of the associated capital costs.";

(2) by redesignating paragraphs (2) through (6) as paragraphs (3) through (7), respectively;

(3) by inserting after paragraph (1) the following new paragraph:

"(2) The Corporation is authorized to contribute in each year of operation of any service instituted or retained pursuant to this subsection no more than—

"(A) 55 percent in the first year of such operation; and

"(B) 35 percent in each year of operation thereafter,

of the long-term avoidable losses of operating such service.";

(4) in paragraph (4)(A), as so redesignated by paragraph (2) of this subsection, by striking "paragraph (1)(B)" and inserting in lieu thereof "paragraphs (1)(B) and (2)"; and

(5) in paragraph (4)(B), as so redesignated by paragraph (2) of this subsection, by adding at the end the following new sentence: "Any such renewal shall require the State, agency, or person to provide a statement that such State, agency, or person

agrees to pay in each year of operation, beginning with the first year of operation of service under such renewed agreement, at least 65 percent of the long-term avoidable losses of operating such service and at least 50 percent of the associated capital costs.".

(b) Within 2 years after the date of enactment of this Act, the Secretary of Transportation shall conduct a comprehensive review of the program of state-assisted rail passenger services operated by the National Railroad Passenger Corporation under section 403(b) of the Rail Passenger Service Act (45 U.S.C. 563(b)) and shall submit a report to the Congress detailing the Secretary's findings and conclusions, including any recommendations the Secretary may have for revising section 403(b). The Secretary's report shall address, among other things, whether and at what point services originated under section 403(b) should become a part of the basic system of intercity rail passenger services and shall identify any other avenues for initiating and implementing new rail passenger services.

SEC. 6. NORTHEAST CORRIDOR IMPROVEMENT PROJECT.

Section 704 of the Railroad Revitalization and Regulatory Reform Act of 1976 (45 U.S.C. 854) is amended—

(1) by amending subsection (a) to read as follows:

"(a) CAPITAL IMPROVEMENTS.—The National Railroad Passenger Corporation shall make capital improvements for the Northeast Corridor improvement project under this title as necessary to operate reliable, high-speed rail passenger service, to enhance capacity for intercity and commuter passenger service, and as otherwise may be necessary to ensure continued reliable high-speed service. Such Corporation shall also acquire train equipment to be used on the Northeast Corridor, mitigate environmental impacts related to the Northeast Corridor improvement project, and provide adequate parking at and improve Northeast Corridor rail stations."; and

(2) in subsection (b)—

(A) by striking "(1)" before "No funds appropriated"; and

(B) by striking paragraph (2).

SEC. 7. AUTHORIZATION OF APPROPRIATIONS.

Section 601 of the Rail Passenger Service Act (45 U.S.C. 601) is amended to read as follows:

"SEC. 601. AUTHORIZATION OF APPROPRIATIONS.

"(a) OPERATING EXPENSES.—

"(1) CORE SYSTEM.—There are authorized to be appropriated to the Secretary for the benefit of the Corporation for operating expenses—

"(A) $363,000,000 for fiscal year 1995; and

"(B) $353,000,000 for fiscal year 1996.

"(2) STATE REQUESTED SERVICE.—There are authorized to be appropriated to the Secretary for the benefit of the Corporation for meeting its obligations under section 403(b) of this Act—

"(A) $17,000,000 for fiscal year 1995; and

"(B) $17,000,000 for fiscal year 1996.

"(b) CAPITAL INVESTMENT.—

"(1) There are authorized to be appropriated to the Secretary for the benefit of the Corporation for capital investment expenditures—

"(A) $252,000,000 for fiscal year 1995, of which not more than $149,000,000 shall be available for rolling stock, not more than $53,000,000 shall be available for fixed facilities, not more than $41,000,000 shall be available to satisfy other capital investment statutory and regulatory requirements, and not more than $9,000,000 shall be available for other capital projects; and

"(B) $355,000,000 for fiscal year 1996, of which not more than $240,000,000 shall be available for rolling stock, not more than

$65,000,000 shall be available for fixed facilities, not more than $35,000,000 shall be available to satisfy other capital investment statutory and regulatory requirements, and not more than $15,000,000 shall be available for other capital projects.

"(c) INTERCITY RAIL PASSENGER STATION.—There are authorized to be appropriated to the Secretary for the benefit of the Corporation $90,000,000 for fiscal year 1995 to be used for engineering, design, and construction activities to enable the James A. Farley Post Office in New York, New York, to be used as a train station and commercial center and for necessary improvements and redevelopment of the existing Pennsylvania Station and associated service building in New York, New York.

"(d) NORTHEAST CORRIDOR IMPROVEMENT PROJECT.—There are authorized to be appropriated to the Secretary for the benefit of the Corporation for making capital expenditures under section 704(a) of the Railroad Revitalization and Regulatory Reform Act of 1976 (45 U.S.C. 854(a)) such sums as may be necessary.

"(e) MANDATORY PAYMENTS.—There are authorized to be appropriated to the Secretary $156,000,000 for fiscal year 1995 and $165,000,000 for fiscal year 1996 for the payment of—

"(1) tax liabilities under section 3221 of the Internal Revenue Code of 1986 due in such fiscal years in excess of amounts needed to fund benefits for individuals who retire from the Corporation and for their beneficiaries;

"(2) obligations of the Corporation under section 8(a) of the Railroad Unemployment Insurance Act (45 U.S.C. 358(a)) due in such fiscal years in excess of its obligations calculated on an experience-rated basis; and

"(3) obligations of the Corporation due under section 3321 of the Internal Revenue Code of 1986.

"(f) ADMINISTRATION OF APPROPRIATIONS.—Funds appropriated pursuant to this section shall be available to the Secretary during the fiscal year for which appropriated, except that appropriations for capital investments may be made in an appropriations Act for a fiscal year preceding the fiscal year in which the appropriation is to be available for obligation. Funds appropriated are authorized to remain available until expended. Appropriated funds shall be paid by the Secretary to the Corporation for expenditure in accordance with the Secretary's budget request as approved or modified by Congress at the time of appropriation. Payments by the Secretary to the Corporation of appropriated funds shall be made no more frequently than every 90 days, unless the Corporation, for good cause, requests more frequent payment before expiration of any 90-day period.".

Mr. SWIFT. With that, I am enormously pleased to welcome to the committee the Honorable Jolene Molitoris, the Administrator of the Federal Railway Administration.

Before you begin, I am going to ask unanimous consent that the prepared and formal statements with associated material of all of our witnesses today be included in the record, so that they may be able to proceed as they wish in summary.

Without objection, so ordered.

And with that, Jolene, welcome.

STATEMENT OF HON. JOLENE M. MOLITORIS, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION

Ms. MOLITORIS. Thank you so much, Mr. Chairman.

It is indeed my pleasure to be before you and members of your committee. And it is an historic occasion to be able to present this bill which represents the first administration authorization bill for Amtrak in a decade, since 1984. And I think it is clearly a demonstration of the kind of importance and commitment that President Clinton and Secretary Peña gives to rail passenger service.

And I want to personally thank you, Mr. Chairman, for your leadership and your commitment to passenger rail service. And during this decade that you have so correctly identified as most difficult for rail passenger service, it has been because of the leadership of you and your committee members that Amtrak has been able to survive.

It is because of the same leadership, Mr. Chairman, that on next Tuesday the Talgo will begin its operation of a demonstration for 6 months in the State of Washington. And it is the leadership of not only you but the people from your State who have decided to commit $40 million in this difficult fiscal year to support this demonstration project, and over the next 5 years commit over $200 million to the rehabilitation of the infrastructure.

And I think that this bill that we are discussing today talks about that kind of personal partnership between States and the Federal Government and Amtrak as a way to begin to increase the opportunities for citizens in urban and rural areas who are willing to contribute.

Let us talk now about the act, appropriately named the Amtrak Investment Act of 1994, the first administration bill since 1984. It provides the largest capital investment in a decade and it defines very specific kinds of working representations between States and the Federal Government to begin to increase the opportunities for Amtrak in this country. And most of all it puts customers first.

Mr. Chairman, we are really here to represent the 50 million riders of Amtrak throughout this country who like you believe that this opportunity for a transportation choice is very important for them.

As a first step, we want to reverse the long-term trend of disinvestment in Amtrak which has led to delayed trains and broken equipment and old facilities, because it's not the railroad that loses in the end, it is the customers.

And this chart shows how Federal capital assistance has fallen since 1982 and only recently started to increase. Over the last decade depreciation has exceeded capital investment by over $600 million. And I think it is appropriate to note, Mr. Chairman, that it is since you became chairman that this chart begins to go up in 1991, and it is from that time that Amtrak investments have steadily grown.

To continue the upward trend, the administration is proposing a significant capital investment. For 1995, $252 million, or a 29 percent increase over 1994. And in a budget year when the President had to make very difficult decisions and eliminate many programs to meet caps and deficit reduction goals, to give a 29 percent increase to Amtrak is very important with regard to his commitment.

In 1996, we are recommending a 41 percent increase over 1994, $355 million. This allows Amtrak to renew its fleet, rehabilitate facilities, and get immediate improvements for customers.

For 1995, these are the kinds of things we believe Amtrak can do with the $252 million. They can purchase new equipment. They can do a significant number of overhauls. And they can respond to the law with regard to the Americans with Disabilities Act upgrades and restrooms.

In addition to this, Amtrak will be receiving 140 new cars and 56 locomotives between now and 1996. So this should give a good boost to their capability in responding to their customers.

There are two important infrastructure projects that I would like to bring to your attention. First of all, the Northeast Corridor Improvement Project, almost $200 million to achieve some important movements forward to complete this project, to begin the electrification, the purchase of 26 high-speed train sets, and it is important to note there will be two non-electric locomotives that will be part of this purchase, and this is important for those areas of the country, as mentioned by Congressman Crapo, that may not have electrification in their immediate future plans but would like to have service on a corridor. In addition, Mr. Chairman, in the south end of the Corridor we will continue the infrastructure repair that has been ongoing.

The second infrastructure project responds to a tremendous customer demand at Penn Station in New York City. And, as the charts show, each day 450,000 customers go through Penn Station. In fact, 38 percent of Amtrak customers begin or end their trip at Penn Station, and the future growth projected is really phenomenal, Mr. Chairman.

In train movements by 2010, over a 40 percent increase is forecast, and in Amtrak customers, a 35 percent increase is expected. This infrastructure project is an opportunity to respond to this enormous demand. It also becomes a centerpiece. For this will be the very first high-speed rail project in the United States, and its success is important to the kinds of plans that you have in Washington.

The Penn-Farley Financing Partnership shows the way that this administration looks at involving other parts beyond the Federal Government. For example, the State of New York and the City of New York have committed $100 million. The Federal Government proposes to pay for a third, and Amtrak, especially focusing on the opportunity for private investment and a stream of financing through retail, proposes to pay for a little more than a third, $115 million.

Now, going to our customer service program, can we go to the next chart?

One very important element of this authorization bill is an increase in focus on customer service, because money alone will not make Amtrak a success. I think you will be hearing from the new president of Amtrak, Tom Downs, about his focus and the focus of the board. As you know, Secretary Peña is an ex officio member of the board, and he, the deputy secretary, and myself are working closely with Amtrak to really focus on customer service as a way of increasing customer satisfaction, ridership, and revenues.

Part of your introductory statement looked at the way that this authorization proposes to adjust the 403(b) provisions. It establishes a more consistent State share. By going from short-term to long-term avoidable cost, it raises the opportunity for new States to make a commitment and be able to work with Amtrak for new 403(b) service.

In addition, Mr. Chairman, we have committed to a complete and comprehensive review of the whole 403(b) program. In 2 years, at the time of the next authorization, we can look at 403(b), how it fits into the national transportation system, and what other adjustments for increasing opportunities to States we might recommend at that time.

In summary, Mr. Chairman, the title of the bill really says it all. It is the Amtrak Investment Act of 1994. It is an investment in the future financial stability of this critical transportation resource. It is an investment in future State services, but, most importantly, it is an investment in the 50 million customers that Amtrak serves each year.

I look forward to working with you, Mr. Chairman and the members of your committee, and I am prepared to answer any questions you might have.

[Testimony resumes on p. 33.]

[The prepared statement of Ms. Molitoris follows:]

Testimony of Jolene M. Molitoris
Administrator
Federal Railroad Administration
Before the Committee on Energy and Commerce
Subcommittee on Transportation and Hazardous Materials
U.S. House of Representatives
on the Amtrak Investment Act of 1994

March 23, 1994

Mr. Chairman and distinguished members of the Subcommittee, it is a pleasure for me to appear before you on behalf of the President and Secretary Peña, who are committed to investing in transportation and to building a world-class national passenger railroad. I am here today to testify that this commitment extends well beyond the rails, engines and steel that make Amtrak a railroad. Our commitment begins with the customer.

Each day, across America, 60,000 customers board one of the 230 Amtrak trains that operate over a 25,000 mile system traveling through hundreds of cities, towns, and communities of our Nation. Each year, more than 22 million customers rely on Amtrak to travel for business, take vacations, visit family and friends, or just to see America. Another 30 million commuters depend on Amtrak to get them safely and reliably to work each day.

All of these customers have a right to expect and receive superior service in exchange for their transportation dollar, and the expectations are all the more important because the Federal Government supports Amtrak financially.

Unfortunately, Amtrak's customers do not always receive the quality of service they deserve. Thousands of hard-working, dedicated Amtrak employees want to provide quality service, but they do not always have the proper equipment or tools to do the job.

Over the past few years, as the level of Federal capital investment in Amtrak has failed to keep pace with its needs and revenues have been less than projected, upkeep and maintenance have been deferred and the service has suffered. Regrettably, I must report to you that over the past decade the depreciation of Amtrak's plant and equipment has exceeded capital investment by almost $600 million. No railroad or any other enterprise can survive for long under such an insidious fiscal course. In the end, it is not the railroad that merely loses customers. It is the customers who lose.

Mr. Chairman, your good efforts and the support of your Committee and the Congress in fighting for adequate resources for Amtrak in the difficult budgetary climate of recent years has enabled our national passenger railroad to survive. With the support of your committee, the Congress, and yourself, President Clinton and Secretary Peña intend to put Amtrak on the road to recovery and reverse the dangerous trend of insufficient investment. The Amtrak Investment Act of 1994 makes Amtrak and its customers a priority. This 2-year authorizing legislation supports our FY 1995 budget request for Amtrak and provides a basis for our FY 1996 requirements. We intend to begin to turn around Amtrak's decline through a coordinated three-part program that:

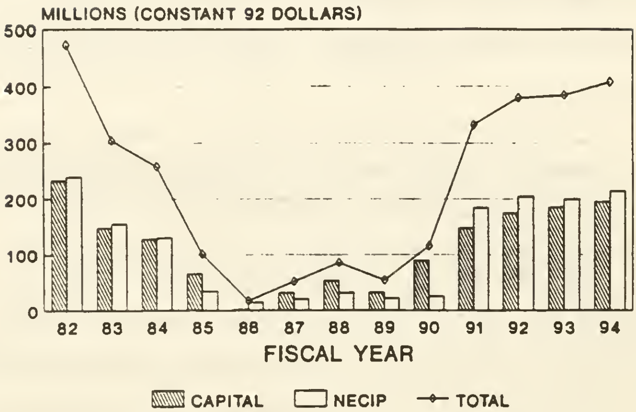
- o invests significantly in Amtrak's capital plant;
- o ensures a close working relationship between Amtrak and this Department to guarantee that capital is prudently and wisely invested; and
- o emphasizes quality customer service through new employee and management initiatives.

I would now like to outline in more detail our vision through this legislation for a new Amtrak -- a National Railroad Passenger Corporation for the 21st century of which we can all be proud.

Investment in Amtrak's Capital Plant

For too long, Amtrak has suffered from a shortage of investment capital which inexorably has eroded the Corporation's ability to provide quality service. The chart at the top of the next page shows graphically how Federal funding for capital investment declined during the mid-1980's and how this trend has only recently begun to change with increased investments, thanks to the efforts of this Committee and other supporters of Amtrak in the Congress.

CAPITAL ASSISTANCE TRENDS



Total Capital Includes NECIP, Jobs Bill and Farley Building.

As this chart shows vividly, capital funding in constant 1992 dollars fell 90 percent from nearly $500 million in 1982 to an annual average of just $50 million in the years 1986-1989. Yet, Amtrak equipment and facilities are depreciating at almost $200 million per year, leaving a combined shortfall of almost $600 million over the past decade. I am saddened to report the corrosive effects of this deficit which every Amtrak customer sees -- delayed trains, broken equipment, aging facilities, and other signs of decay.

To turn this situation around, the Administration for FY 1995, has proposed $252 million or a 29 percent increase in the capital authorization for Amtrak. For FY 1996, we are proposing an authorization level that is a 41 percent increase to $355 million. This is $160 million more than the FY 1994 enacted level. These funds will enable Amtrak to take significant steps to improve its facilities and equipment.

To guide Amtrak's spending, we have divided the proposed authorizations into four separate categories: rolling stock, fixed facilities, other capital projects, and funds to meet statutory and regulatory requirements. These investment funds represent the basic raw material for the rebuilding of Amtrak.

Additional capital resources will allow Amtrak to follow through on an ambitious fleet renewal program, to continue to renew its fixed facilities throughout the system, and to make investments that improve productivity in such areas as maintenance facilities, where it can substantially increase its overhaul capacity with its existing work force.

Although Amtrak is requesting higher capital authorization levels for FY 1995 and FY 1996, our proposed $252 million will enable the railroad to take a substantial step toward replacing and updating old equipment and improving customer facilities. Specifically, this funding level will permit Amtrak to purchase $54 million of new equipment, including new Viewliners, diesel-electric locomotives, and a number of AEM-7 type electric locomotives. We project that Amtrak will be able to overhaul about 120 Superliner cars and 60 locomotives, comply with the Americans with Disabilities Act, and upgrade restrooms as required by law.

The Administration's Amtrak authorizing legislation also includes funding for two specific infrastructure projects, the Penn/Farley Project and the Northeast Corridor Improvement Program (NECIP). The new Pennsylvania Station Redevelopment Project will produce a first-class intermodal facility that will accommodate expected increases in Amtrak and commuter ridership. The project will transform the James A. Farley Post Office in Manhattan into a train station and commercial center for use by Amtrak and significantly upgrade Penn Station for continued use by commuter and mass transit operations. This public/private partnership will benefit the entire Northeast by serving as the centerpiece of our Northeast Corridor improvements for both high-speed intercity passengers and commuters in the New York metropolitan region. The Administration proposes an authorization for FY 1995 of $90 million for Penn/Farley, which will leverage additional state, local, Amtrak, and private contributions of $215 million.

For NECIP, the Administration proposes "such sums as may be necessary to support the Administration's appropriation request for FY 1995 and projected requirements for FY 1996. Pending successful completion of FRA's environmental impact study, the

FY 1995 budget request will allow us diligently to pursue the start-up of electrification construction on the northern end of the corridor (mitigating identified environmental impacts), contribute to the purchase of 26 high-speed train sets and improve interlockings, bridges, stations, and maintenance facilities. South of New York, the budget provides for infrastructure rehabilitation in the Corridor, which has developed into a vital national resource.

Furthermore, the authorization permits activities necessary to provide high-speed service throughout the Corridor, to enhance capacity for intercity and commuter passenger service, to recapitalize existing facilities, to mitigate environmental impacts and to improve parking at stations. The Master Plan for high-speed rail service between Boston and New York, which we will deliver to you shortly, gives guidance on the projects and costs necessary to provide three-hour service.

In support of this significant capital investment, the Administration proposes operating assistance of $380 million for FY 1995, including a separate $17 million authorization for State-requested 403(b) service. For FY 1996, we propose operating assistance of $370 million (including $17 million for State-requested service), a decrease of $10 million from the proposed FY 1995 level.

Our FY 1995 budget proposal of $788 million was developed last fall based on our projection of Amtrak's financial picture over the next two years. We believe that the resources proposed for Amtrak as part of this authorization legislation represent a vital first step in turning this railroad around.

Ensure Close Working Relationships Between Amtrak and the Department

To be sure that we receive a solid return from these investments, the legislation requires Amtrak to broaden its annual report to Congress. Specifically, Amtrak would be required to submit, with its annual request for appropriations, projected benefits of proposed projects and a report of the benefits realized from all projects funded from the previous year. The report would address, among other issues, quality of service improvements, facility improvements that demonstrate a productivity gain, equipment improvements that lower operating costs, environmental benefits (including air quality and land use), enhancements to local transportation needs, enhancements to mobility of physically and economically disadvantaged persons, an improvement to the revenue-to-cost ratio, reduced dependence on Federal operating support, and reductions in the need for alternative transportation investments. To the extent practicable, the benefits addressed in each report are to be expressed as return on invested capital.

I have discussed the reporting requirements with Amtrak President Downs, who believes that it will provide the Administration and the Congress with a much improved basis not only for considering appropriations, but also for determining the future extensions of Amtrak authorizations. We agree and find the requirements to be consistent with President Clinton's new executive order on infrastructure investment, which requires capital investments, including Amtrak projects, to be selected on the basis of a full analysis and disclosure of benefits and costs.

In addition to providing a more comprehensive picture of Amtrak's activities, improvements in management must go hand-in-hand with increased capital investment. A great deal of the responsibility for establishing accountability will rest on Amtrak's management and the stewardship provided by its Board of Directors. We in the Department have a role in nominating members of the Board, participating in Board meetings, administering financial assistance, and recommending legislation and budgets for the consideration of Congress, but the major responsibility for turning the Corporation around rests with Amtrak itself.

While I am confident that President Downs and the Board will create an environment of customer satisfaction and make Amtrak a more efficient organization, the Secretary and I intend to play an active role on the Board to ensure Amtrak's accountability and financial integrity.

Emphasize Quality Customer Service Through New Employee Management Initiatives

Our third goal is to emphasize quality customer service through employee and management efforts.

We fully understand that providing additional federal funding will not by itself improve Amtrak's customer service. But we also believe that the policies of recent administrations greatly contributed to the level of service that customers receive today.

Amtrak's dedicated employees want to provide outstanding service. However, they have suffered from a corporate culture based on survival. They have been forced to work in antiquated maintenance facilities and often have been unable to provide the level of service today's travelers demand.

Through our capital investments we will provide the employees with the tools they need to do their jobs. But to do a truly quality job, the employees need a customer service program. We are pleased that President Downs is committed to establishing such a program.

Amtrak's Continuous Quality Improvement program was a good first step. However, we encourage Amtrak to broaden its customer focus by reaching out to all of its customers -- current and future passengers, and state and local governments just to name a few. Such a program should also encourage employees to contribute their knowledge and expertise. As one of the first steps, we would expect Amtrak, in partnership with its customers, to identify levels of acceptable service along with a report card system on which to measure future progress.

Ultimately, this program will not only measure Amtrak's performance, but it would also indicate whether or not the Nation's taxpayers are receiving a good return on their investments.

Another important part of the customer service program will be the development of future services to attract additional customers. I am encouraged by the unprecedented demand in rail passenger and commuter services during the last five years. It is an affirmation of the important role that rail plays in our economy and day-to-day life. More and more people see rail as the preferred way to travel. Admirably, state governments, such as Washington, are taking the lead in appropriating funds to create new or improved services, some of which are even candidates for high-speed rail service.

The Administration, in cooperation with Amtrak and state governments, intends to facilitate the development of new or expanded services. We want to do all that we can to promote and develop these opportunities with Amtrak leading the way.

Our proposed legislation would change the basis of cost-sharing of 403(b) trains between Amtrak and states from short-term avoidable loss to long-term avoidable loss, providing a more accurate representation of the true impact of each operation on Amtrak's operating subsidy. This modification will enable Amtrak to achieve greater consistency in its cost-sharing relationships with the individual states and would apply to all new services initiated after the date of enactment of the legislation as well as existing services once they are renewed after that date. The net result would be to permit more services to be operated for the same amount of Federal subsidy.

The legislation also would require the Secretary to undertake a comprehensive review of the 403(b) program and submit a report to Congress within two years of enactment of the law. The Secretary will focus on if and when a service originated under 403(b) should become part of Amtrak's basic system of routes. He will also identify any other avenues for initiating and implementing new rail passenger service.

In conclusion, Mr. Chairman, all of our objectives converge on the theme of investments -- investments to improve service to Amtrak's passengers, investments to put Amtrak on a firm financial ground, and investments to facilitate new services. I look forward to working together with this Subcommittee in developing a world-class passenger railroad in which we can all be proud.

Mr. SWIFT. Thank you very, very much.

It has been pointed out to me that I mentioned that we inserted in the record a statement from the Senator from Maine. There are actually two, and I didn't indicate which. This is Senator Mitchell, who had been scheduled to testify this morning, but unfortunately due to a scheduling conflict as the Majority Leader of the Senate, he wasn't able to do so. That is the reason we have inserted his statement in the record.

I really appreciate the commitment that you have expressed on behalf of the administration in making necessary investments in Amtrak, and I understand your concern that there has got to be a greater "hands on" attitude by the administration to go along with this investment strategy.

Could you describe a little bit more for us how you go about achieving a closer working relationship between DOT and Amtrak?

Ms. MOLITORIS. Certainly, Mr. Chairman. First of all, the team at the FRA is making a significant shift in the whole way that we think about the FRA's partnership with Amtrak. Clearly, over the past decade the encouragement of policy directed a less close relationship. It might be worthy of note that both the Deputy Secretary, Mortimer Downey, and I attend all the Amtrak committee and board meetings. We work closely with Mr. Downs in the interim. In fact, this very legislation for the first time was developed with Mr. Downs at the table.

Our numbers do differ. However, the substance of this bill and the way it is moving and its vision for the future is one that we agreed on together. We feel that kind of partnership is truly important if we are going to succeed, considering the enormous challenges that we have ahead of us.

Mr. SWIFT. I greatly appreciate that, and I think it is important, lest we think this is some kind of a partisan issue, to note that your predecessor, Gil Carmichael, began a process of greater emphasis on FRA for Amtrak and, in a sense, laid some good groundwork on which your new policy now is building. I think it is important to know that this trend has been there for a while, because I think we must understand that we're all going to need to work together if this is going to be done properly.

In the annual report section of the legislation, section 4, the obligation of Amtrak, as I understand it, is to describe and quantify productivity gains that are achieved through facility improvements and improvements in the handicap access, revenue-to-cost ratios, and reduced Federal support, and all of those, I think, are relatively easy to quantify.

There are some other important things that need to be measured that aren't as easy to quantify, and I am wondering if you could describe how you would try to give some sense of the progress made in things such as quality of service or environmental benefits or reductions in the need for alternative transportation investments, and so forth and so on.

Ms. MOLITORIS. The real intent of this paragraph, Mr. Chairman, is to clearly state that this administration does not intend to measure the success of Amtrak by cost recovery ratio alone. That has been the focus for a long time, and clearly, given the needs that Amtrak has now, it is not enough. We work closely with Mr.

Downs, and the board works closely with Mr. Downs, and I think you are going to see—we would be able to include or expect to see from Amtrak in that report the results of customer surveys.

I was out in California on the San Diegan—I know that it is of interest to Congresswoman Schenk—and I was most interested at the shift in focus on the customer. I saw the on-board services personnel as well as management personnel that were there talking to customers. I think that there are some quantifiable opportunities.

I think even at the FRA, Mr. Chairman, we will be so happy to receive letters of commendation about Amtrak, because at this time that is not the type of letter that we are getting. We believe that the success of this Nation's national rail service will be and must be measured in customer satisfaction, and with those kinds of measures I believe that we are going to be able to see real growth and success.

With regard to environmental effects, there are some measures that we can quantify, and there are other elements of that paragraph that will be less easy to quantify but no less important in really giving you a full, comprehensive picture of the health, operation, and future of this railroad.

Mr. SWIFT. I want to bring up a topic that I think needs to be handled with some care, because I don't think it helps those of us who support rail to try and make bogeymen out of highway people and airport people and what-have-you, and that is not the intent. But subsidy has always been a big criticism of Amtrak as though no other transportation form had ever heard of such things. In fact, airports and highways also have very significant subsidies in dollar amounts. They dwarf anything that Amtrak would look at, and if we're going to have a balanced transportation system in which each mode is used in the way it is most effective, we have got to establish a more level playing field on this whole issue of what subsidies are there and to what degree are they justified.

With that in mind, I am wondering if you have thought about this at all? Has DOT or your Agency or Amtrak thought about doing some kind of a holistic cost-benefit analysis for passenger transportation of all modes, taking into consideration the costs that are paid by the public in all of the modes, certainly including Amtrak, but also in the highway system, also in air transportation, and so forth?

Is this something that you think might be appropriate in the annual report that we are talking about or in some other form?

Ms. MOLITORIS. Well, I think first of all, the intent to look at the real cost of all forms of transportation is critical as we look to try and strategically invest our limited resources. The Secretary, when he introduced the National Highway System, which by the way was done at the Union Station, talked about this as being the first step to developing a national transportation system. He spoke of the importance of transportation decisions being made on the need and the impact rather than only on the most readily available sources of funds.

I think as we at the Department and the FRA work toward developing a national transportation system, we are focused through the Bureau of Transportation Statistics, which has just come into being, to get real full costing about our transportation investments, because this is what MPO's need at a local level to be able to understand the impacts of their investments.

And, finally, a specific example, Mr. Chairman: The FRA knows that rail has not been a significant player at the MPO level. So, with the support of the Secretary we are going out with a series of 2-day seminars to work with local entities, the MPO level, to talk to them about what rail can do, how it might impact their decisionmaking, and how FRA could help them, so that this gets to be part of the whole ISTEA process in a much more realistic and impactful way.

Mr. SWIFT. And I think really the Department of Transportation, who really cares about the proper use of all forms of transportation, is in a better position, perhaps, than this subcommittee to enable us to do an apples and apples and apples kinds of comparison.

It always annoys me when a member gets off an airplane, walks through a subsidized airport, and rides in a subsidized highway to come up here and give a speech against Amtrak subsidies, and I think we just need to get information out, and I think a lot of that inconsistency would go away.

Just a couple more questions. This proposal makes changes to the 403(b) program which Congress established to assist the States that wanted to start new and additional passenger service. Would you describe the rationale for the changes?

Ms. MOLITORIS. Yes, Mr. Chairman. First of all, at this time there is not a consistent State share as noted on the poster. This policy will make the State share consistent across the Nation.

In addition, it changes the share from being figured on short to long-term avoidable cost, and given Amtrak's fiscal situation and our focus on its fiscal and financial stability, we think that this will free up a certain amount of money, perhaps between $5 and $10 million next year, to help with the establishment of new service which Amtrak has not been able to do because of its financial situation. It gives States the opportunity to step up to the plate, as they have in Washington, to say this is important to us; we want to invest; we want a partnership.

Mr. SWIFT. Why particularly is there change from short term to long-term avoidable costs in the proposal?

Ms. MOLITORIS. I think you would go right back to what is the real cost of transportation, and I think the short-term avoidable cost formula that Amtrak is carrying does not reflect the full cost to Amtrak; and I am sure Mr. Downs will discuss, you know, the importance of looking at the full cost burden that is being carried, we need to do the same with 403(b).

So these long-term costs, the use of Amtrak equipment, and the funding impact, and the need for overhauls is really all a part of the cost of the service.

Mr. SWIFT. There are a couple of concerns that I have, and I have expressed them to the Secretary and to others, and I would like to express them today.

I don't have any problem in working with the administration to revise 403(b). I know the administration has some problems with it. I know DOT and I know OMB has some problems with it, and that is OK, I think we can work through it.

What I think needs to be remembered is that Congress did have something in mind when it established 403(b). One, was to indicate to the States that a partnership was possible, and I think you have to have some means of keeping a profile on that. Two, and I think this is terribly important as it gets back to this whole subsidy issue, is that you are not going to start a new service and have it pay for itself operationally from the beginning. New service is an investment, and it is going to have a subsidy at the outset.

I think a goal for all service to be operationally break-even is an excellent goal, and Amtrak has got a pretty good record over the years of moving vigorously in that direction. But it is not going to happen with new service, and, if you put Amtrak in a position where it does get pounded on for having operating subsidies, in a position where you are asking it to take on new services which will increase their operating subsidies, you are asking them to set themselves up a great big target on their chest to be shot at for people who are concerned about the subsidies.

So a breakout in some fashion of operating subsidies that are attributable to new service, some way that that can be easily broken out so you can get an honest picture of what ongoing operating subsidies are, would be extremely helpful to this committee and I think would be helpful in getting a more rational debate on the issue.

So if there is some way that we can achieve the goals the administration seeks in reforming 403(b) but can keep those two things in mind and also achieve those goals, I think the committee is going to be able to work with you and achieve something. But I think that second goal is an easy one to forget. But I face it on the Floor every time we do an authorization, and it is very hard for me to forget.

One last question: this bill provides a separate authorization of $17 million per year for section 403(b). Would you submit in writing—not now, but could you submit in writing for the record what services, both existing and potential, that the Agency envisions that authorization covering?

Ms. MOLITORIS. I will, Mr. Chairman.

Mr. SWIFT. I thank you very, very much.

I recognize the gentleman from Ohio.

Mr. OXLEY. Thank you, Mr. Chairman.

From the written statements by the witnesses today, it is obvious that there seems to be a consensus that Amtrak is desperately short of capital resources and has been living off existing assets for some time.

Against that background, doesn't the administration have some reservations about committing as much money next year—that is, $90 million—to the New York station, the Farley Building and Shopping Center in New York, basically the same amount of money that it is recommended for the operating increases for the rest of the country, excluding the Northeast Corridor?

Ms. MOLITORIS. Well, Mr. Oxley, I think that the Farley investment is one that is seen as really a focal point of the Northeast Corridor investment, and given the numbers—I think we could put those back up, given the forecast of passenger increases, it seems incumbent upon Amtrak to have a setting where people would be able to move about safely and unencumbered, and I think if you talk to any number of those 450,000 daily customers, they would tell you how overcrowded the facilities are at this time.

So I think it is appropriate in terms of the kind of goals and visions and plan that we see for the Northeast Corridor.

It is also interesting to note, Mr. Oxley, that if you review—if you are talking about, where the investment should be made, that this corridor represents in round numbers about 50 percent of Amtrak's ridership and about one-third of its route revenues. So those kinds of major investments seem appropriate from a business point of view.

Mr. OXLEY. Has FRA or Amtrak done any marketing studies? Have the riders been actually interviewed, and have you done those kinds of studies?

Ms. MOLITORIS. There have been ridership studies, and I believe—I would have to submit for the record the actual model that was used, and I would be happy to do that, but I think significant understanding of the growth and the actual use right today, even trying to deal with the existing ridership and movement through those facilities, is one of the driving forces to the development of an increased opportunity for passengers.

Mr. OXLEY. The essence of the written GAO testimony seems to be that Amtrak cannot continue its current route system unless it gets greater Federal funding and capital resources.

Has FRA explored the possibility of an orderly contracting of Amtrak's route system, taking into account the labor protection costs associated with such a move?

Ms. MOLITORIS. The Board, Mr. Oxley, is working closely with President Downs on the whole issue of Amtrak now and in the future, and I think that the kind of management initiatives that Mr. Downs is working with us on with regard to savings, with regard to focus on specific business lines, with regard to really making this a 21st century, well-run, oiled machine and a world-class rail transportation system, that plan will involve adjustments. Whether or not the final plan presented to the Board involves any changes in the route system, we don't know yet, because this is an examination.

I think Mr. Downs has only been in office either 95 or 96 days, so I would hope that we would give him a little more time to really look at a very large system and an incredible transportation resource for this country.

Mr. OXLEY. Well, he is coming on next, and we will have an opportunity to review that.

Final question: One subsection of the administration's reauthorization bill, subsection 601(f), is entitled "Administration of appropriations that are not discussed in the administration's section by section."

From reading over this provision, it seems to greatly increase the power of DOT to manage Amtrak's disbursements during the course of the fiscal year. What is the current procedure that is followed, and why do you think it needs to be changed?

Ms. MOLITORIS. Well, I think, Mr. Oxley, that what we are looking at, with the Northeast Corridor improvement program with the beginning of the electrification project, with the Farley development, and with the whole movement to finish the New York-to-Boston piece, is one of the major transportation infrastructure projects in this country, and since FRA is the trustee of this money, it is through us that the money goes to Amtrak.

The Secretary feels a real commitment to increase this partnership to make sure that we have followed our fiduciary responsibilities in protecting the investment of the taxpayer.

Mr. OXLEY. I thank the Chair.

Mr. SWIFT. Recognizing people in the order of their appearance, I recognize the gentleman from Idaho.

Mr. CRAPO. Thank you, Mr. Chairman.

I would like to add my support to the chairman's inquiry with regard to the comparative subsidies that are provided for different forms of transportation. That was one of the questions I was going to ask, and I appreciate the chairman going into it so carefully. I would like to see those kinds of comparisons.

I would also like to inquire a little bit about the trend in the ratio of expenses to revenue with regard to Amtrak's operations. From what I have been able to ascertain from the material I have received, it appears that that is back in around the early 1980's when there was about a 50 percent ratio between revenues and expenses, with expenses exceeding revenues by about 50 percent. I note in some of the information I have received that that ratio of revenues to cost has improved to about 80 percent. But then the GAO information indicates that that may not include all of the costs.

I guess my question is, do we know what the true ratio is and what the true trend is? And would it be possible to get some charts or graphs which show that as well?

Ms. MOLITORIS. Mr. Crapo, this concern is one greatly shared by the Board of Amtrak. In fact, just yesterday—and today there is an Amtrak Board meeting which I will be going to when I leave here—this subject was discussed with Mr. Downs in depth.

The fact is that the increase that you saw was real measured in certain terms. But I think it is clear from the GAO report, from Mr. Downs' testimony, and we believe that it does not reflect all the costs, and that is why we are concerned and why we have changed in this authorization the way the success of this operation is measured, because if you measure success by this cost recovery ratio in isolation you do not reflect the true health and well-being and success of the railroad.

I believe that we will see over the next 6 months an effort by the Board and Mr. Downs to begin to really reflect more comprehensively those numbers, and as soon as they are available we would be happy to bring them for the record to this committee.

Mr. CRAPO. Thank you. I would appreciate that, and, in the context of how you measure the true ratios, I would appreciate anything which you and/or the Board or any other groups put together.

I tend to think, in terms of bottom lines as far as dollars, that it is going to cost the Federal Treasury in terms of the decisions that I have to make here, and so I would appreciate any charts, graphs, or analyses that could be put together to show what the trend is there in terms of actual cost to the Federal Government.

I also noted that there was an estimate at one point in time that there would be a break-even point around the year 2000. I don't know that that is still an estimate. But is it estimated that at some point in time the Amtrak operations will reach a break-even point?

Ms. MOLITORIS. Mr. Crapo, our focus right now is on the financial stability of Amtrak, and I think that given the kinds of initiatives we are talking about at the Board, that over the next few years with the kind of investment that this act and future appropriations will be requested by the President, that we will see an increase in this financial stability, and then part of that vision that we expect to hear from Mr. Downs is this vision of the future and what will that point be of so-called break-even.

But I want to stress that I think that the chairman's concept of really getting the full transportation costing for all modes really gives us a better framework when we have that to address these issues and to be able to compare the kinds of investments we are making around the country.

Mr. CRAPO. I would appreciate that. And I am in the rather common circumstance of having to float between two subcommittee meetings that are going on at the same point in time, so I may not be present when some of the other witnesses, or Mr. Downs in particular, testify. But I would encourage you and the others as you provide that vision, from my perspective, to help me as a part of that vision to understand if and when we ever will reach a break-even point and what kind of projections we might expect to see there or whether there will be a continuous and perpetual subsidy needed. And I am not saying that that, you know, results in my decision going one way or the other; it is just that I want to see that kind of information.

Ms. MOLITORIS. I think a strategic business plan is something that will be good for all of us, sir.

Mr. CRAPO. Thank you.

Ms. SCHENK [presiding]. Thank you.

Hello, again. I have to usurp the chair to get my turn to ask questions. The last time I think we visited, I also had the privilege of chairing that particular subcommittee hearing.

I associate myself with a lot of what the chairman has said, and Mr. Oxley. They have asked some of the more pointed questions.

As a freshman, one of the top priorities on my agenda coming here and joining with freshmen both on the Republican as well as the Democratic side, of course, is to bring down the deficit. To me, it is rather amazing though that so many of my new colleagues want to take sort of a sledgehammer to the budget rather than a paring knife, and with that sledgehammer attitude it seems like consistently and constantly the subsidies to Amtrak come up for review, and indeed there are those who want to cut it out entirely.

In fact, you will recall the last session, we even had a Floor fight on the Amtrak bus throughway in Southern California which we were just barely able to save. I believe this is going to be a real continuing threat to Amtrak.

I, for one, believe that this is probably the best investment that we can make in terms of subsidies for the Nation as a whole. I mean, if you look at wool, mohair, honey, bullets for youth gun clubs, this, I think, speaks for itself in terms of the benefit to the entire Nation.

The point is, though, that you have to convince 218 members of this, and Amtrak-FRA-DOT in the past—and I thankfully say that there is a new generation—but in the past has done very little to build the political permission that is needed for members to support this kind of subsidy, and I think that the question that Mr. Crapo was asking goes to this same idea.

So what is it that the Department, that your Department—and then I will be asking Mr. Downs this same question—is doing in the strategy, in the strategic plan, to build this political permission in the Congress, and indeed across the country, for the subsidies that I, for one, believe will be needed going forward?

Ms. MOLITORIS. Thank you, Congresswoman Schenk. In fact, I really think of them as transportation investments, because these investments do not just get a train on the track, they move people safely, and in fact they have an enormous economic benefit, I think as you know very well from California, on the States and the cities that you are involved.

I am very happy to tell you—I don't know if I have a copy of it here, unfortunately—that the Department's strategic plan has seven goals, and under the very first goal, is the revitalization of Amtrak. That is a stated, number one goal for the Department of Transportation, and I will provide you with that strategic plan so you can see it. I am sorry I don't have it to show you. But I think it indicates how high on the priority list the Secretary and the President put Amtrak and the national transportation system and rail passenger and freight overall.

Ms. SCHENK. Are there implementing steps to reach that goal, however? I mean goals are nice, but this is a pretty rough crowd over here, and you need some very realistic steps to convince—it seems like everybody is from Missouri, you know; you have really got to show them. And, you know, I have not heard a lot about what specifically is going to be done to show that this—and thank you for using the word "investment," because I too think that it is an investment—that this is a worthwhile investment. And maybe sort of the next step to that is you look at every industrialized country on the face of this Earth that has an outstanding rail system, they all have investments by the government.

What attempts are there to help educate the Nation about the investment using those comparisons that are so successful, whether it is Japan or France or Germany or what-have-you?

Ms. MOLITORIS. We have taken a number of steps, Congresswoman Schenk. For example, I believe that this Amtrak Investment Act of 1994 is a very significant step, because it talks about: (a) an administration that for the first time in 10 years has presented you with a bill; (b) provides a 29 percent increase in capital investment in a year of a very, very difficult budget; and (c) focuses on capital investment because we understand that this company has been disinvesting for over 10 years. No business can be successful or healthy without the proper amount of capital investment.

In addition, just to reference my comments to Mr. Crapo, the commitment of the Federal Railroad Administration is to not only its vigilant regulatory responsibilities but also to its advocacy of this transportation system as essential to the national goals that we all are trying to achieve, and our reaching out to States to help them, because they have not seen rail as a key player, most of them—I would say California is much more visionary than many—but have not seen it or have the tools to include it in the ISTEA kind of planning, and ISTEA does give the responsibility for decisions to the metropolitan planning organizations.

So we are going out across the country and investing a lot of personal professional resources from FRA to work directly with local communities and States. We are also focused on an action plan that will be presented by the Secretary soon on highway-rail-grade crossing safety. This is a critical issue for high-speed rail, and we know that it is not a rail problem, it is a transportation safety problem. And the Secretary has asked, and for the first time put together a team of FHWA, FRA, FTA and NHTSA to come up with a comprehensive action plan which you will be hearing about soon.

So there is a broad variety of initiatives, and certainly not least of which is the high-speed rail development initiative which this President offered to the Congress last year and which we continue to work with Congress to develop and pass.

Ms. SCHENK. I hope you know what all that alphabet means.

One last question, Ms. Molitoris. Last year when we were together, we were brought together by the very tragic accident of the Sunset Limited, and we focused our attention on that. But at that time I said that when we next meet that I would ask of you the issue of the accidents that occur along the San Diegan corridor. We have more than one a month, unfortunately, where pedestrians, children, bicyclists are hit by a train, and this is, obviously, a tragedy in and of itself but it throws the schedule off; it is something that affects ridership.

What in this almost year since we last met has been done, or what is contemplated to be done to address that situation along the San Diego-Los Angeles corridor?

Ms. MOLITORIS. Congresswoman Schenk, I personally rode that corridor, and I have to tell you—I rode with the engineer, and my heart was in my throat a lot of the time. In fact, as I was climbing up the stairs to the locomotive, he said to me, "Do you have your safety glasses?" and I said, "Of course." And when I got up there he said, "I didn't want to be so anxious about it, but just 3 days ago a trespasser threw a rock through my window at 75 miles an hour, and it shattered," and without the glasses he would have been—perhaps lost his sight.

One of the difficulties, of course, is the crossing themselves. But on this particular corridor the rail line is open to any citizen who wants to cross to the ocean, and the whole issue of trespassers, perhaps you know that last year the number of deaths in the United States from trespassers on railway property almost equaled the number of deaths at highway-rail grade crossings.

This is an enormously difficult problem because it does not respond to traditional methods. It involves social clubs that I think being a rail hobo is a yuppie thing to do, and has an 800 number that is advertised on television by major networks.

We, fortunately, have Ms. Barbara Richardson, who is our new director of public affairs. Barbara is a transportation professional, and one of the highest priorities of the Secretary's highway-railway grade crossing action plans will be the ability to increase the investment in behavior modification, not only the drivers that come to the crossings, but also of the pedestrians.

Congresswoman, I was in the cab and saw four young women crossing, didn't look very far ahead to me. One had a baby in her hand. We must reach, and we want to work with Cal-Trans and with you to really reach the people of the area on this corridor and increase the awareness of the danger they face. They play chicken with the train. It is an enormously frightening experience. It certainly made me soberly aware of the kind of challenge we have there.

Ms. SCHENK. Well, I appreciate your taking the time to do it. But we really need to get some action, and rather quickly, before more lives are lost. So, again, thank you.

I see the chairman has returned, and I will yield the chair back to him.

Ms. MOLITORIS. Thank you, Congresswoman.

Mr. SWIFT. Jolene, thank you for your appearance here today. It is very important, I think, to get your perspective, and it is so welcome to have the administration weigh in. Thank you very much.

Ms. MOLITORIS. Thank you very much, Mr. Chairman.

Mr. SWIFT. We now welcome to the witness table the president and chairman of the board of the National Rail Passenger Corporation, Thomas Downs.

This is your first time, and I trust it will not be your last. You are most welcome. We are very, very pleased with your ascension to the head of Amtrak, and we are looking forward to working with you. You may proceed as you wish.

STATEMENT OF THOMAS M. DOWNS, PRESIDENT, NATIONAL RAILROAD PASSENGER CORP.

Mr. DOWNS. Thank you, Mr. Chairman. I certainly hope it is not my last.

It is a pleasure to appear before this committee, particularly given the chairman's constant support of Amtrak and value of rail passenger service. It is also a pleasure to appear before an old friend, Congresswoman.

Ms. SCHENK. Long-time friend.

Mr. DOWNS. I am sorry—long-time friend, who I had the pleasure of meeting in her office in San Diego after I rode on the San Diegan, and who is also a tremendous supporter of high-speed rail service in that corridor and has been a spark plug of rail service between San Diego and Los Angeles.

My goal at Amtrak is, I hope, a simple and understandable one. It is to improve the quality of the service for the customer through reinvesting in the capital side of Amtrak. We have, in essence, decapitalized the railroad over a period of time, and on top of that we have just come through a difficult year—I guess that is an understatement; it has been a year from hell. We have had bad weather, a weak economy, accidents, airfare wars, and on-time performance problems, and, as you can see from that chart, our budget projections on the left-hand side for ridership, we had been consistently exceeding our ridership budget. In other words, we were carrying more people than our budget envisioned. After weather, wrecks, equipment aging, our ridership dropped substantially below budget for a period of time, started to recover, and we had another series of bad luck with an accident.

As a result of a number of factors, our incentive payments to the railroads are down. As had been mentioned earlier, 85—no, 95 percent of our trackage is on someone else's railroad. We travel on the Southern Pacific, Union Pacific, Santa Fe. We pay them for on-time performance. We budget that. You can see what has happened. The railroads are not delivering us on time. Our on-time performance has declined to one of its lowest levels in a decade, because of single tracking, because of weather, spring floods our on-time performance is down.

In addition, as the Congresswoman had mentioned about the disastrous wreck that we had and several others, one in Florida where a contractor parked a 170-ton transformer in the path of one of our trains, and again in Indiana when a truck driver drove a load of steel around the gates and in front of a train, we had a series of accidents. It has depressed ridership.

If the airline industry has an accident, the entire airline industry goes through a period of time of 6 to 9 months where ridership is down. We have had that same kind of experience. We had it after the Chase, Md., accident. We are going through it right now, and we hope to recover this spring from that. But it has been damaging to us. And, irony of ironies, not a single one of these accidents had anything to do with any single action that any employee of Amtrak took; they were things that happened to the railroad; they were not the railroad participating in any other way in the cause of the accident.

In addition, the winter from hell, the winter that I hope finally is over, froze our facilities, froze our equipment. We had 147 cars in Beech Grove, our overhaul facility, for freeze damage in the Midwest. But more importantly, because of the lack of capital over the years, that is how we maintained rail car equipment. That is Sunnyside Yards in New York. That is a guy trying to get ice out of the tracks. The entire yard, which marshals a number of long distance trains in the East Coast, is an open facility. The temperatures in the facility at one point were about 10 below zero, and that is where we maintain and operate equipment. That is not called a shop, that is called a yard, because it is out in the backyard.

In addition to having ancient facilities, our fleet, from a lack of capital, that is the age of the fleet. One is—the lower one is locomotives, the other is passenger car. You can see what is happening with the age of the fleet. Our equipment is getting older, and everything that gets older gets to break down more often. Parts are not available, except to be handmade in a number of cases. And I have used the analogy before.

We have about, say, 450 Heritage cars. Somebody asked me why they are Heritage. Well, they were somebody else's, and we inherited them. The age of those cars averages now about 45 years. It is like starting a taxicab fleet in a city today and somebody saying, "Here are 450 1950 Checker cabs. Nobody makes parts for them anymore. The repair facility that you are going to use was built in 1903, and it is two States away. But go out and run a first-class operation. Don't get any subsidy for it. Provide first-class customer service." And that is what is happening to this railroad through decapitalization.

There is some good news, and I don't want to just paint this picture in one color. But the business is changing, and I hope there is some investment that will have some return for the Nation.

The Northeast Corridor project, as the administrator recognized, is progressing afoot, and I hope that we will have high-speed train service by the turn of this century in operation between Boston and Washington. The high-speed train set procurement is scheduled for this fall, and I hope that we will be able to make that target.

We have new equipment coming on line. We have Superliners and Viewliners that will allow us to provide a better quality service, and our commuter service is the fastest growing part of our revenues. We are now the contract operator of choice for rail commuter services in the United States, and I am very pleased to say that San Diego North County Commuter awarded the contract this week to Amtrak to operate the commuter service in San Diego for the next 5 years, and we are very, very pleased about that. It was a tough fight, and I think they made the right choice—I know they made the right choice.

There is an opportunity as well under ISTEA for States to make commitments to stations, station renovation and station rehabilitation, and some trackage issues, and I hope that we can continue to market that opportunity with the States.

Most importantly—and I have mentioned this in a conversation with the chairman, and I use his comment all the time now—there is a growing national support for rail passenger service. It is not just in California. It is not just in New York. It is not just in Chicago or Miami. It is in places that have traditionally not made rail investments. North Carolina, for instance, is making a decision to operate a second line. I would never have picked North Carolina as being one of the more aggressive States about rail passenger service, and their service is incredibly successful. It means that people, as you pointed out, Mr. Chairman, are making hardheaded economic decisions.

You said to me, "This is not about a nostalgia investment in rail service for the Pacific Northwest, this is a hardheaded business investment decision," and I use that line all the time now because you are right. What is happening out in the country is the recognition that business development and economic development, tourism, trade, all depend on a viable multi-modal connection in places like the Northwest where you can have highways and rail and ferry service, shipping, all come together in the same terminal that allows better access to the entire Northwest including British Columbia. That is a national infrastructure investment that makes sense and that is happening.

We are not marketing that enough from an Amtrak standpoint, I don't believe. We are not saying that often enough. This is not about nostalgia. This is just business, and it is good business. It is good for the country for a variety of reasons.

I particularly appreciate your support around the 402 issues and the 403(b) issues. This investment that I hope we can make is part of the future of Amtrak with the States. We initially asked for funding as a separate account with short-term costs. It probably makes more sense to fund our State relationships at a long-term cost.

When we had the meeting with the 14 States who are interested in this program, they came to a consensus that consistency in dealing with these issues with the States is important; it is probably more important than the short-term/long-term funding issue; and while some States like California will be impacted because of the application of long-term cost to current contracts, we are willing to see that happen in order to get consistency around how we approach these issues between old States and new States, and not drive a wedge between our supporters.

What has happened to Amtrak in the past about this program is, you all would indicate an interest in a service expansion partnership with a State, or a State would come to us and say, "We are interested in a service," and we would have to say, "OK, we don't have it as a part of our budget; we will have to take it out of an existing part of our subsidy budget."

So it meant always trying to slice things thinner and thinner, and we made some compromises internally about levels of service. We were robbing Peter to pay Paul in a number of cases about service issues. It put us in the unenviable position of saying, "Yes, we want to be a partner with you to a State like California. You provide all of the capital. You provide all of the operating and you eat all of our overhead cost, and we will be glad to be there with you. We are from Amtrak and we are here to help you."

We need to bring real resources to the table to States like California that are aggressively pursuing rail passenger investments. We need to be there as a capital partner, not as somebody who is rattling a tin cup at them and saying, "We are real poor. We are real good at running a rail passenger network, but we are real poor. You have to cough it all up."

We made some mistakes in California like having Cal-Trans have to cough up 100 percent of the car cost for Cal-Train. That was not a good decision. If I had it to do over again, I would have come back even to the Congress and asked for the ability to fund separately that kind of commitment.

California is making significant commitments. Washington State wants to make and is in the process of making significant capital investments, North Carolina, and a number of other States, and they want us as a partner. It is called constituency building. It is called alliances. It is called marketing rail passenger service. We have to be there with real resources. What the Congresswoman was talking about, about the future in this body, is that kind of alliance building.

I am struck by the interest in rail in this body, and I am reminded of the former Speaker's rule that all politics is local. If you don't see one of these trains in your neighborhood or in your district, it is not an—this railroad is never going to be an issue. If it is not good service in your district and if it is not reasonably priced and quality and on-time service, more members are going to be troubled by the service than they are supportive of it.

I want to fix the customer side of it. I want to be a partner with the States, and I want to provide the kind of service that you will not have resistance about the next time you ask for a penny of funding for Amtrak capital, that you won't have the reaction about, "For what and why do we even have that thing?"

I think it is possible for us jointly to sell Amtrak and rail passenger service as the solution for economic development, congestion, and clean air and part of the Nation's intermodal network.

We have a small suggestion about creating a fund within this authorization bill that would conceivably be a repository for the diesel or fuel tax that we currently pay to the U.S. Treasury. You give us an operating grant; then we take about $8 million of it and give it to the Treasury. We think we could kind of hold it in an account and in a capital account that would allow that to grow.

If we do put long-term charges into the 403(b) relationship, those capital and overhead charges could come back to that fund to ensure that there is equipment long term to replace the State partnership funds and so that we can have a kind of stable funding base.

I am respectful of the fact that the administration had not asked for that, but I think it is an essential part of having a framework that begins to rationalize the basis for Amtrak's existence. It is a commitment that I think we can begin to make even though it may seem a very small step. But a dedicated fund account provides the mechanism for having longer-term discussions as an equal partner with other modes about long-term funding.

Mr. Chairman, I particularly want to, on behalf of all of the people at Amtrak, thank you personally for all of your efforts over your career to preserve and support the national passenger railroad system. It is America's railroad, and I think that we want to carry that flag with pride about the quality and level of service on Amtrak. We think that we can provide world-class service.

One last point about subsidy. A number of you have raised the subsidy issue and about why it is in the Nation's best interest. If we have an operating grant of $438 million and say, hypothetically, I asked them to figure out how much taxes Amtrak employees pay, and it comes out to $484 million a year, the railroad in effect pays its taxes. Its employees pay their taxes, and that comes back as a return to the national government that wouldn't be there if this railroad did not exist, because nobody else out there is going to jump in and provide these services. Nobody else—no commercial railroad is ready or has everybody ready in the last two decades to run the passenger railroad network. So we think we pay our way. We just have to improve the quality of the service and be a better partner for all of you.

Thank you, Mr. Chairman.

[Testimony resumes on p. 75.]

[The prepared statement of Mr. Downs follows:]

STATEMENT OF THOMAS M. DOWNS, PRESIDENT AND CHAIRMAN OF THE BOARD, NATIONAL RAILROAD PASSENGER CORPORATION

My name is Thomas M. Downs. I am President and Chairman of the Board of the National Railroad Passenger Corporation, better known as Amtrak. I am extremely pleased to appear today to discuss reauthorization of federal financial assistance for Amtrak and for the Northeast Corridor Improvement Project. I also would like to discuss a number of important legislative proposals that could improve Amtrak's ability to operate its system, as well as lay out for the Subcommittee my vision for Amtrak in the coming years and the steps that I believe must be taken to achieve that vision.

This is my first appearance before the Subcommittee as Amtrak's new President. As I have watched Amtrak over the years, I have always recognized the significant role that this Subcommittee has played in preserving a national rail passenger system and in enabling Amtrak to survive and grow in an increasingly difficult federal budget environment. In my three short months as Amtrak's President, however, I have come to appreciate far more profoundly the full scope of this special relationship. I want to pledge to the Subcommittee today to do everything within my power to continue and even strengthen this relationship and to ensure the most honest, open and credible communications possible. By authorizing and appropriating funds for Amtrak, Congress has expressed its confidence that Amtrak will provide the nation with the highest quality, most cost-effective rail passenger service possible. As President of Amtrak, my top priority will be to ensure that this confidence is fully justified. Amtrak is America's railroad, and as such, the American people should expect nothing less from us.

Amtrak already has provided the Subcommittee with its 1993 Annual Report, which describes Amtrak's financial performance and other achievements last year, and the FY 1995 Legislative Report, which discusses a number of statutory changes that would reduce our cost of doing business, help enable Amtrak to provide better service, and address other critical issues. I very much hope that the Subcommittee will include some of these proposals in the reauthorization bill this year.

Achieving Amtrak's Enormous Potential

Mr. Chairman, interest in expanded rail passenger service -- from new state-supported service between Portland, Seattle, and Vancouver to growing commuter rail opportunities to future high speed rail corridors -- has never been greater. As a result, Amtrak can and should have an extremely bright future. Adequately capitalized, and with a zealous adherence to meeting the needs of its customers, I envision an Amtrak with the potential to play an enormous role in the nation's future transportation system. This includes:

- High-speed Rail: Amtrak is the natural leader for the nation's high-speed rail system. It provides the only existing high-speed rail service and is the only company in the nation actively building both high-speed rail infrastructure and equipment. Amtrak has the experience and the incentive to direct the development of high-speed rail on other rail corridors. Moreover, existing statutory provisions of the Rail Passenger Service Act regarding access to and payment for use of rail lines, as well as an equipment maintenance infrastructure and an established agreement-covered work force, may well make Amtrak the only cost-effective approach for implementing high-speed rail elsewhere in the country.

- Contract Commuter Rail Operations: Amtrak has become the nation's leader in the provision of commuter rail service under contract with local or regional authorities. Operations in California (Los Angeles and San Francisco), Massachusetts, Connecticut, Maryland and Virginia not only demonstrate our growing experience in the provision of local commuter service, but contribute positively to Amtrak's bottom line and hence reduce Amtrak's need for federal operating support. Indeed, in FY 1995, Amtrak will carry over 30 million commuter passengers and will earn over 12 percent of its revenue from these sources. Amtrak has the opportunity to play a major role in the expansion of commuter rail service in a growing number of urban areas nation wide.

- Intercity Service: The national focus on high-speed rail development has tended to obscure much of what Amtrak does: operate long-distance and corridor trains that provide an essential public transportation alternative. Indeed, two-thirds of Amtrak's revenues are derived from non-Northeast Corridor operations. Long-distance trains are costly to operate -- they require considerable equipment and staffing -- but they provide vital transportation links to regions of the country and to rural areas that literally have no other form of public transportation.

  Many cost-effective opportunities still exist for new long-distance and corridor trains, particularly where financially supported by states under Section 403(b) of the Rail Passenger Service Act. Service between Boston and Portland, Maine, and between Seattle and Vancouver, as well as additional service on California routes -- the San Diegan, San Joaquin, and the Capitol -- and in Wisconsin and North Carolina, could be operating within the next two years if Amtrak is able to provide its share of costs. Other potential opportunities exist as well.

To achieve this vision, two fundamental changes must take place. First, there must be a far more realistic balance between the level of service Congress directs Amtrak to provide and the amount of capital invested in Amtrak to provide that service. Second, there must be a change in both Amtrak's corporate culture and in the way Congress evaluates Amtrak's performance to ensure that the customer -- service quality -- is the overriding focus of our corporate mission.

A Current Report Card: Sacrificing Quality To Survive

Amtrak provides some of the best rail passenger service in the world. Many of our long-distance routes rival any worldwide for scenic beauty and for the comfort of the accommodations. Amtrak is providing a critical transportation service for millions of passengers in many corridors -- between Washington and Boston, in the Chicago hub and in southern and northern California -- and these trains continue to grow in ridership as other travel alternatives become increasingly congested. Auto Train is a genuinely unique and extremely popular service that provides an attractive alternative for interstate highway travellers.

In its two decades, Amtrak has entirely reversed the decline of rail passenger service in this country and demonstrated over and over again the enormous role that rail service can play in the national transportation system. Nonetheless, never-ending pressure on reducing operating costs, and capital investment at a fraction of depreciation, has put Amtrak's very ability to operate at risk.

Operating budget: Too often in the past -- and this past year was no exception -- the needs of Amtrak's customers and the quality of Amtrak's service have been sacrificed to address "short-term" financial difficulties and to protect the revenue-to-cost ratio. For example, in FY 1991, when it became clear that revenues would fall short of budget, Amtrak was forced to reduce its managerial work force by ten percent and institute a management pay freeze, as well as impose an across-the-board budget reduction. Continued weakness in the national economy and in the travel sector led to additional on-board and station staffing reductions, elimination and reduction in some train services, deferral of critically important equipment maintenance and overhauls (resulting in furloughs), and decreased advertising -- all service-defeating moves. Unfortunately, this situation is not yet improving.

Moreover, in an effort to live within the operating budget, Amtrak has had to capitalize some of its maintenance work; e.g., by shifting some equipment overhaul costs ($67 million in FY 1994) from the operating to the capital budget. This practice is akin to eating your seed corn -- using scarce capital dollars to maintain, rather than replace, worn out assets -- and undermines our ability to invest in our future.

Unfortunately, while these steps have enabled the railroad to survive and even grow, the "short-term" financial difficulties never seem to disappear; rather, they become the baseline for the next year's tight budget. We have never been able to obtain the additional revenues necessary to fully address Amtrak's depreciating plant and equipment or operating budget shortfalls.

The constant struggle to reduce operating costs has resulted in a general deterioration in the quality of Amtrak service. For a growing number of passengers, the Amtrak experience is not as positive as it should be. Often the trains, equipment and on-board crews perform superbly. However, there are times when the trains are late, not as well maintained as they should be, or staffed by an on-board employee who feels overworked and may come across as rude or cross.

My fear is that this is the precise formula that 30 years ago led to the rapid decline and near demise of rail passenger service in this country. If Amtrak follows this path for the remainder of this decade, it may be reasonable to question whether a national rail passenger system can survive into the next century. In today's competitive transportation environment, undermining the quality of service in order to improve the bottom line is counterproductive and ultimately destructive.

Capital Investment: Amtrak finds itself at a critical crossroad: we can be as much -- or as little -- as the nation wants from us. Amtrak cannot, however, be both. Amtrak's equipment and facilities are depreciating at the rate of $200 million per year; since 1985, capital investment has averaged about $140 million. Thus, over the last decade, depreciation has exceeded investment by almost $600 million. Amtrak lacks a sufficient number of locomotives to provide reliable, on-time service. The Heritage Fleet cars are so old that Amtrak often must manufacture replacement parts itself or cannibalize other cars for spare parts. The Beech Grove equipment maintenance facility was built over 85 years ago and despite significant modernization efforts, can hardly be called state-of-the-art.

Importantly, because we have not been able to order a sufficient number of new Viewliner sleeping cars to replace Heritage sleepers that release human wastes directly to the right-of-way, Amtrak may not have enough new sleepers to discontinue the use of Heritage sleeper cars on numerous eastern long-distance trains by October 1996.

Mr. Chairman, your Subcommittee has worked extremely hard to authorize additional capital to Amtrak to acquire new passenger equipment and to address our highest priority capital needs. Your efforts have helped make possible the acquisition of new equipment, some plant modernization, and Amtrak's ability to overhaul its locomotives and passenger cars. Forty-four of the 54 new locomotives ordered in 1991 have been delivered and the first of the 195 Superliners ordered in 1991 and 1993 are now arriving. This new equipment will have a significant positive impact. We applaud these efforts and recognize the difficult choices you had to make to provide this capital investment.

Nonetheless, Amtrak is still essentially "band-aiding" the railroad -- using scarce capital resources to address years of deferred maintenance and to fund the capital programs without which we could not operate a $2.5 billion passenger railroad. This has left little with which to directly fund the acquisition of new equipment and forced Amtrak to privately finance much of its recent equipment acquisitions. Unfortunately, recent locomotive and Viewliner purchases represent only the beginning of a long-term equipment acquisition program required to replace the aging locomotive fleet and all remaining Heritage cars. As the Subcommittee is aware, financing equipment eases short-term capital funding needs, but ultimately must be repaid from Amtrak's operating and capital budgets.

Mr. Chairman, while Amtrak has to expend resources for temporary fixes, railroads in other countries operate on the basis of well-planned, long-term investment programs. In order to provide some perspective I would like to take a moment to describe some current activities and future plans of rail passenger service in Europe.

First, it is important to understand that the economic recession that has adversely affected Amtrak's revenues has also increased operating losses on other national systems. Despite these economic conditions rail systems in Europe are pushing ahead with major investments to expand their systems.

France, while faced with an expected $1.36 billion loss for 1993 (compared to a $500 million loss in 1992) plans a total of nearly $25 billion in rail investments in the 1990's (this figure does not include funds being spent on metro and light rail lines in Paris and the provincial cities). Examples of investments included in this total are:

- o $5.3 billion in mainline infrastructure investments on TGV lines
- o $1.1 billion in other infrastructure investments
- o $6.8 billion in investments for rolling stock.

In 1992 the German InterCity Express (ICE) fleet covered 9.7 million train miles as compared to 3.7 million in 1991. Currently, 60 ICE trainsets operate on the system. Germany plans to invest over $70 billion on its mainlines in the 1990's. Examples of investments included in this total are:

- o $28.8 billion in mainline infrastructure upgrades
- o $18.5 billion in other mainline upgrades
- o $8.2 billion in equipment
- o $14.7 billion in other infrastructure upgrades

Other prominent investments demonstrate the role passenger rail is expected to play in Europe's future. One such investment is the $11 billion English Channel tunnel (Chunnel) connecting England and France. Another is the $100 billion plan that various European countries are working on to connect their high-speed operations into a 19,000 mile network.

Specific funding levels aside, the message is clear; rail passenger service must have adequate capital resources if it is to operate effectively and efficiently in meeting the needs of its customers.

The discussion of Amtrak's scarce capital resources can lead to only one conclusion: federal capital and operating assistance over the past decade, while significant, has not been sufficient to support the quantity or quality of service the American people expect from Amtrak. This is undermining revenues and prohibiting us from initiating new intercity service or, absent additional operating support, even to participate in major new state 403(b) services or high-speed programs.

Amtrak has always operated on the hope that a dedicated capital funding source -- a rail passenger trust fund -- would be established to provide the investment in equipment and plant necessary to meet the growing demand for existing and high-speed service. Unfortunately, in the absence of such a dedicated funding source, addressing Amtrak's capital needs will remain extremely difficult.

Chairman Al Swift has done more to advance national interest in such a dedicated funding source than any other member of Congress and we are extremely appreciative of his efforts. Mr. Chairman, because of your support and interest you will be pleased to know that according to the results of a survey conducted by Bruskin/Goldring a significant majority of the American public -- 64 percent of train and non-train travellers -- would support the concept of setting aside one penny of the gas tax to fund Amtrak.

Because of the difficulty in involving a multitude of congressional committees with such a proposal, this year, Amtrak has recommended a much more modest approach that could nonetheless help enhance our ability to privately finance equipment acquisitions and improve long-term capital planning. We currently must use some $9.5 million per year of our operating grant to pay federal fuel taxes and other federal user fees. These taxes are <u>not</u> deposited into the Highway Trust Fund, but rather are simply given back to the Treasury. Amtrak has proposed that this Subcommittee establish a capital account through the authorization bill in a way that would allow these funds to be deposited and used for equipment acquisition. Ultimately, other funds -- such as damages recovered from accidents or depreciation costs paid by states for 403(b) service or direct capital appropriations -- could be allocated to this account.

The availability of an annual, dependable source of funds to help pay for new equipment would lessen the risk perceived by private financial markets and thereby enhance Amtrak's ability to finance the equipment. The uncertainty over how much will actually be appropriated for equipment each year prevents Amtrak from utilizing the type of contract authority that exists in other Federal Trust Fund Accounts. The certainty that a specific level of funding will be available allows for better financial planning and leveraging these funds more efficiently in the out years. In fact this concept would revolutionize -- and, indeed, for the first time facilitate -- genuine long-term capital planning for us. We strongly believe this could be an important element in stabilizing our equipment acquisition program by providing some assurance of continuity. We would like very much to work with the Subcommittee to include a provision of this nature in the Amtrak authorization bill.

Changing Amtrak's Corporate Culture

Capital investment alone will not drive Amtrak's future. I firmly believe that Amtrak's future role in the national transportation system will depend fundamentally on its success at meeting the expectations and needs of its customers -- the passengers that ride the trains and the federal, state and local agencies and officials with whom we work to operate and improve the railroad. As Amtrak's new President, I intend to make our ability to focus on the needs and expectations of the customer to improve the quality of service the fundamental yardstick by which I will measure performance.

Despite some of the most hard-working, dedicated and experienced employees I have ever had the privilege of working with, years of bare-bone budgeting have resulted in a corporate culture at Amtrak that stresses, above all, survival. Decisions relating to equipment maintenance, staffing, and quality of service have been made with the goal of staying financially afloat until the next year. The impact on customers, while very much on Amtrak's mind, often has taken second place to preservation of the very system itself.

Clearly, however, if you lose the customer, then there is little reason to worry about the bottom line -- because ultimately there will not be one. Indeed, meeting the needs and expectations of the customer is <u>the</u> formula for business success, regardless of whether you operate a hardware store or a national railroad. Beginning in 1991, Amtrak President W. Graham Claytor and his staff began the arduous but critical task of changing the corporation's culture to one focused on meeting the needs of the customer. The corporation has made an irreversible commitment to an effort of Continuous Quality Improvement that requires the involvement of all employees of the railroad and applies to all corporate activities.

I have been extremely impressed with the level of commitment to this program by Amtrak senior management and the extent to which employees throughout the corporation desire and are willingly to undertake change. I recently spent two days at a special Amtrak leadership conference with Amtrak's top 135 managers. I can report that these employees are enormously committed to changing the corporation's focus and recognize that this change is essential if Amtrak is to survive. Corporate culture does not change easily, particularly in an industry as established and traditional as railroading. However, based on what I have seen already, I am very confident that Amtrak can make this change and, in so doing, permanently alter the nature of intercity transportation in this country.

FY 1995 Authorization Request

The national economic recession had a more far-reaching impact on Amtrak than we had projected. Amtrak was required to seek a supplemental appropriation of funds in FY 1993 to help offset shortfall in corporate revenues. The supplemental funding was on top of very significant cuts in service quality, advertising and equipment maintenance that cannot be permitted to remain in place without seriously eroding Amtrak's ability to market its product. Indeed, Amtrak is at the point of losing passengers just as the nation is beginning the long process of returning to economic health. Continued air fare wars (and the apparent willingness of the airlines to lose enormous amounts of money -- some $12 billion over the last four years), poor weather, and epic floods and earthquakes combined to undermine Amtrak's ability to achieve even modest revenue gains.

In addition, Amtrak continues to feel the impact of three disasters late last year: the tragic Sunset Limited accident near Mobile, Alabama, and two at-grade crossing accidents with commercial vehicles. While none of these accidents were in any way the fault of Amtrak, public reaction (as demonstrated through ticket sales) has been negative and is only now improving.

While Amtrak is still covering a record 80 percent of costs with revenues, our progress at reducing Amtrak's need for federal operating support has at least temporarily stopped. Indeed, I do not believe it will be possible to further reduce our operating losses at a time when the airlines are so willing to hemorrhage their bottom line through fare wars. Finally Amtrak's ability to compete for travelers in some markets is being somewhat impacted by issues that have gone unresolved with federal agencies (Customs and Immigration and Naturalization Service at border crossings, and General Services Administration in the government travel market). Amtrak is working with those agencies and the Administration to address these concerns.

Operating Grant Request: Amtrak is requesting an authorization of $430 million in federal operating support for FY 1995. This funding level is based on revenues of $1.5 billion and funded expenses of $1.9 billion. The increase is required to cover:

- inflation, which will be significantly higher for Amtrak than the general economy due to previously agreed-upon labor wage increases and energy costs;
- the recall of 105 equipment maintenance employees at our Beech Grove, Indiana, overhaul facility, which is necessary to resume the normal equipment overhaul program curtailed last year;
- restoration of on-board train staffing levels reduced last year;
- resumption of Amtrak's normal advertising program, whose buying power has declined by nearly twenty five percent since FY 1991;
- shifting back to the operating budget some of the cost of equipment overhauls that recently have been funded from the capital budget.

Restoration of these cuts is an essential first step towards protecting our revenue and ridership base, particularly with the improving economy, and enhancing the quality of the service

Amtrak is providing. Shifting overhaul costs back to the operating budget will enable Amtrak to maximize the investment of its capital funding.

I must emphasize to the Subcommittee that funding at the Administration's proposed FY 1995 level of $380 million would not be sufficient to restore the level of quality necessary to generate increased revenues. For example:

- The number of passengers registering negative comments about the condition of passenger equipment and the responsiveness of on-board employees rose significantly last year following the reduction of on-board staffing and equipment maintenance.

- The reliability of Amtrak's equipment fleet continues to be a problem, particularly with the reduction last year in overhauls of cars that already are over 40 years old. We have tried to keep locomotive maintenance on its normal cycle, but even this has been difficult. Equipment failures and on-time performance all worsened last year.

- Amtrak's inability to increase its advertising budget (and the need to actually reduce it last year) has contributed significantly to a decrease in average trip length (fewer long-distance passengers), lower yield, loss of market share in key corridors, and an inability by Amtrak to benefit from responses to fare changes by competitors. In 1988, 38.1 percent of surveyed travelers were aware of Amtrak and the rail passenger service alternative. This has dropped 15 percent as advertising has decreased. First-time Amtrak travelers have declined even more -- some 35 percent since 1988.

I fear that if these developments are permitted to continue through FY 1995, the quality of Amtrak's service will continue to decline. This will result in reduced revenues and an adverse change in the perception of Amtrak by the American people. I encourage the Subcommittee to consider authorizing Amtrak's operating grant at the requested level.

State Supported Service Grant: Section 403(b) of the Rail Passenger Service Act allows states to share in the costs of operating rail passenger service. Rail passenger service requested by a state provides another transportation mode for its residents and visitors and also enhances the local transportation infrastructure, helps reduce traffic congestion, assists in meeting air quality standards and stimulates economic development.

The current statute calls for 403(b) costs to be shared between Amtrak and the states on at least a short-term avoidable loss basis. Amtrak's FY 1995 grant request of a separate authorization of $8 million for the 403(b) program was determined for the most part on this basis. For state services, these costs equate to Amtrak's current year incremental loss and do not include long-term costs such as equipment repair and major overhauls that may be incurred over the life of the service. As a result, Amtrak's request assumes that the long-term costs would continue to be absorbed by Amtrak's base grant. If the statute is rewritten along the lines of the Administration's proposal requiring that long-term costs are used as the base, then the federal contribution would be approximately $17 million. We are in the process of determining the impact of using the long-term formula proposed in the Administration's request and will provide the Subcommittee with results of the analysis as soon as it is complete. For existing 403(b) states, the impact of the

Administration's proposal in FY 1995 would be $3.1 million above current costs. In subsequent years, it will cost the participating states an additional $10.6 million annually.

Amtrak has worked closely with the Federal Railroad Administration and many of the states that have an interest in 403(b) service. In fact, Amtrak hosted a meeting recently with the states to discuss their 403(b) concerns as well as the Administration's proposal for state-supported service. As a result of that meeting, I believe the various parties have moved closer to a common ground on 403(b), and we are hopeful that the Congress will address some of these changes. It is clear to me that the states strongly support a stand alone program that will keep Amtrak as a financial partner with them. The Administration has shown some flexibility towards the states and Amtrak, and I am confident that we can get a consensus among the interested parties. The 403(b) partnership is a highly successful way to leverage limited funding for rail passenger service in a way that minimizes the cost to both the federal government and the states.

<u>Capital Grant</u>: Amtrak is seeking an authorization of $337 million in federal capital support. This represents a substantial increase from the level appropriated for FY 1994 but is essential to fund the capital programs necessary to operate the existing system, to acquire additional passenger equipment, and to meet federal legal requirements (relating to waste disposal, food handling, the environment, and accessibility).

Included in the capital grant request is a one-time contribution of $37 million that would be used to repair or replace wreck-damaged equipment -- cars and locomotives damaged in the recent Alabama accident and in at-grade crossing accidents over the last year. Amtrak expects to ultimately recover damages for this equipment in pending litigation, but repairing the equipment now would ease equipment shortages and permit us to generate important revenues while awaiting completion of the litigation.

Administration Request: Amtrak is extremely appreciative for the high level of funding included in the President's Budget for Amtrak. This represents a dramatic turn-around from the budgets of the last decade, and we have worked closely with the Department of Transportation and the Office of Management and Budget to coordinate our funding requests. I would note that the level of federal operating support included in the Budget -- $380 million -- reflects the approximate estimates provided by Amtrak to the Administration last fall. Since that time, however, Amtrak has further reduced its revenue estimate, based on continued weakness in the travel sector, as well as reevaluated other cost issues.

I am very sensitive to the fact that the first budget I am submitting to Congress seeks a substantial increase in federal support for Amtrak. Unfortunately, I do not see how Amtrak can meet its mandate to provide a quality national rail passenger service without the increases we have proposed. I want to emphasize that Amtrak will continue to focus on reducing its dependence on federal operating support. We are strongly committed to this goal, and I believe we can get there through providing a quality service that will generate increased revenues that will outpace increased costs. I have every expectation that our operating needs will begin a decline with completion of the New York-Boston improvements and as new Superliners and Viewliners come on line. In the short term, however, we risk serious and far-reaching damage to Amtrak's revenue and ridership base if quality of service issues are not immediately addressed.

Northeast Corridor Improvement Project: This Subcommittee has played an enormous and essential role in progressing the upgrade of the Northeast Corridor Improvement Project (NECIP), including the improvements between New York and Boston to reduce travel time to under three hours. Amtrak is grateful to the Subcommittee for its support. The Northeast Corridor is the nation's only operational high-speed rail corridor and serves the needs of over 100 million commuter rail and nearly 11 million intercity passengers. It is a national asset of immense importance to transportation and air quality in the Northeast.

Congress has appropriated nearly half of the funding required to implement Amtrak's program of infrastructure improvements and high-speed trainset acquisition that are necessary to implement three-hour service between New York and Boston. Significant track and signal work already has been completed and design work for many of the future improvements --

including electrification, bridge work and facilities -- is well underway. Amtrak expects to start construction of the electrification system this fall, assuming timely completion by the Federal Railroad Administration of the Final Environmental Impact Statement (FEIS) and issuance of applicable state permits. This would permit all-electric service between Boston and Washington beginning in 1998.

Amtrak is requesting an authorization of $270 million for NECIP for FY 1995. This includes $185 million to fund infrastructure work between New York and Boston and to apply toward the acquisition of the high-speed trainsets. It also includes $85 million for critical projects south of New York, including upgrading of the electric traction system and New York tunnel life safety improvements.

Amtrak is extremely excited about the on-going New York-Boston project, which will provide significant regional transportation, environmental and economic benefits. Importantly, the project is also serving as the national pilot for the incremental upgrade of other existing rail corridors to reduce travel time. The technologies that Amtrak is developing for this project -- from state-of-the-art electrification and signal systems to high-speed crossovers to high-speed trainsets -- will be directly applicable to other high-speed rail corridor projects and will set the standard in this country, and perhaps others, for many years to come.

Amtrak also expects to award a contract for the acquisition of 26 high-speed trainsets this summer. Amtrak has pre-qualified six consortia/joint ventures that have demonstrated an ability to complete this complex procurement and is working with them and outside experts to finalize the trainset specifications. Amtrak is seeking to maximize the American content in the trainsets, which are subject to Buy-America requirements. The procurement, which is expected to cost approximately $450-$500 million, will establish an American high-speed rail trainset manufacturing capability with significant economic development benefits and could lead to a substantial domestic and foreign market in high-speed trainsets. Two advance versions of the trainsets are expected in early 1997 for testing. The remaining 24 trainsets will then go into production, with the final trainset arriving in 1999. Amtrak intends to phase in faster and more frequent service as the trainsets begin arriving in 1997.

Given the state-of-the-art technologies and systems that will be incorporated into the new trainsets, Amtrak believes that a new overhaul facility built specifically for the trainsets will be required. We do not believe that we can effectively or cost-efficiently overhaul equipment of this complexity in our existing facilities. Amtrak will be looking to the manufacturer of the trainsets to help develop a blueprint for the new overhaul facility. Amtrak then hopes to work with the states along the Northeast Corridor to identify a site and non-Amtrak resources to build the facility, which would generate over 100 jobs. It is possible that Amtrak may pursue a turnkey, power-by-the-hour approach for equipment maintenance. In this case, the overhaul facility could be built and owned by the supplier of the equipment and manned by Amtrak employees.

Finally, although no funding is included in Amtrak's grant request to develop the J.A. Farley Post Office in New York into Amtrak's new passenger station, efforts are underway to pursue federal, state and private funding to move this project forward. Recently, the Administration included $90 million in its FY 1995 Budget for the project. Conversion of the Farley building into a magnificent railroad station would be the cornerstone of Amtrak's two decade effort to revitalize the nation's rail passenger system and would provide enormous benefit not only to Amtrak, but to the other users -- New Jersey Transit and the Long Island Rail Road -- of Penn Station as well. There is no question that the proposal outlined in the President's budget on the James A. Farley Building would be a significant improvement over the current condition and add to the revenues we expect to generate from improved service on the Northeast Corridor. In fact, the costs identified for this project are only marginally greater than the capital needs we have identified for improvements to the existing station which could have a slower spend out. My only concern about this project is that I am aware of the difficult budget constraints facing this Subcommittee and I cannot afford to pay for the Farley building project out of capital that otherwise would be available for Amtrak equipment, facilities, right-of-way and other important capital projects.

Legislative Issues

Amtrak's FY 1995 Legislative Report describes a number of legislative proposals that would benefit Amtrak. I already have discussed in this testimony the use of payments by Amtrak to the federal government to help fund equipment acquisitions. It is important to emphasize two other issues as well.

Permitting for NECIP Improvements: Amtrak risks potential litigations and likely delays in initiating construction of the New Haven-Boston electrification system in the absence of a statutory clarification that improvements undertaken as part of the Northeast Corridor Improvement Project are subject only to those permits and other authorizations otherwise required of federal agencies. Under the Railroad Revitalization and Regulatory Reform Act of 1976 (4-R Act), the Secretary of Transportation was charged with implementation of the NECIP program of improvements. As such, only federal permits (and state permits required under federal law) were required to undertake work; state and local permits and approvals are not required for federal projects. In 1985, the responsibility for implementing NECIP was transferred to Amtrak. While this transfer was not intended to subject the project to local permitting requirements, some localities and project opponents are arguing that Amtrak must obtain permits from the 43 separate municipalities through which the Northeast Corridor rail line runs between New Haven and Boston.

Amtrak has proposed a statutory clarification that would resolve this issue and avoid likely litigation and delays. Identical language was passed by the Senate last year in the FY 1994 transportation appropriations bill, but deleted in conference due to concerns from this Subcommittee that such a provision should more appropriately be part of an authorizing bill. Enactment of this provision is critical and I urge the Subcommittee to include it in its reauthorizing legislation.

Operations Over Other Rail Lines: Until 1971, railroads were required, as common carriers, to continue providing passenger service until relieved of the obligation by the Interstate Commerce Commission (ICC). Thus, even though many passenger routes were losing money, the railroads could not discontinue service without an ICC finding that discontinuance of service was not inconsistent with the public interest. This changed with the establishment of Amtrak, which took over this common carrier obligation from those railroads that wished to terminate their passenger service and were willing to make certain financial contributions to Amtrak.

However, Congress recognized that Amtrak would be attempting the potentially difficult task of providing rail passenger service over a national rail system largely owned and operated by other railroads that no longer had a financial stake in providing passenger service at all. To ensure the preservation of rail passenger service over tracks owned by railroads, Congress enacted section 402(a) of the Rail Passenger Service Act. This critical provision statutorily established Amtrak's right to operate over any rail line in the nation in return for the payment of the incremental cost -- the extra or out-of-pocket cost, including additional maintenance, employees to dispatch trains, and station services -- of providing that service. The overriding principle behind section 402(a) is to make a railroad whole for operation of passenger service over its tracks and to encourage the railroad to give a high priority to passenger trains through incentive awards for superior on-time performance. Thus, while a railroad over which Amtrak operates has the ability to make a significant profit from Amtrak if it provides superior on-time performance.

Section 402(a) has had a dramatic impact on Amtrak's ability to provide quality rail passenger service over a national system largely owned by other railroads. On the basis of section 402(a), Amtrak was able to negotiate agreements with the railroads regarding charges, incentives, liability and various other terms. These agreements expire in 1996.

The standard established by section 402(a) has had three important results:

- o far better on-time performance for Amtrak's trains than would have been possible without incentives;
- o substantial payments to the railroads over which Amtrak is operating. During FY 1993, for example, Amtrak paid some $80 million to other railroads, which included $22 million in on-time performance incentives;

- reasonable limits on the cost of providing rail passenger service. Since the federal government pays a portion of Amtrak's operating expenses, the incremental cost standard prevents railroads from profiting at the taxpayers' expense except to the extent of incentives for high quality service. This is only fair, since the establishment of Amtrak relieved the railroads from the obligation they otherwise would have to provide passenger rail service.

With these agreements set to expire in just two years, some of these freight railroads already are making recommendations for changes to section 402(a) that would require Amtrak to pay significantly more than currently required and remove incentives that enable Amtrak to provide reliable, on-time service. These changes would have a disastrous impact not only on existing Amtrak service, but make too costly the expansion of high-speed rail from the Northeast Corridor to other potential high-speed rail corridors across the country.

Congress made clear through enactment of section 402(a) that additional payments to the railroads should only be on the basis of improved on-time performance. As the nation looks increasingly to rail passenger service as a means of addressing transportation and air quality concerns, continuation of this policy is more important than ever.

Conclusion

Amtrak and the nation face some critical decisions regarding the future course of rail passenger service in this country. For Amtrak, we have begun an essential and necessary change in corporate culture to make the needs of our customers paramount.

I firmly believe that we cannot succeed as a business without this change. Moreover, a customer focus can help provide us the tools we need to significantly expand revenues and ridership in the coming years. At the same time, however, the nation must decide whether it will support the capital investment required to meet the existing and future needs of high-quality passenger service or whether the Amtrak system must be modified in order to live within the funding levels that Congress reasonably believes it can provide.

As Amtrak's new President, I look forward to a partnership with the Congress as we attempt to address these critical challenges and chart Amtrak's future.

Mr. SWIFT. Thank you very much, Mr. Downs.

In your testimony you say that Amtrak's equipment and facilities are depreciating at a rate of $200 million a year and capital investments averaged about $140 million per year. Does the legislation that is before us today meet your needs in that regard?

Mr. DOWNS. On the capital side it is becoming—we are closing the gap. In 1986 when our capital budget was $2 million or the year after when it was about $15 million for the entire national passenger railroad system, we were on the verge of disaster and collapse, and now we are paying the price of that.

I would like to see a capital authorization that would do two things. One is fully capitalize the railroad, and I think we could begin to answer the question about economic self-sufficiency long term if we had the capital plant in place.

The capital authorization of $337 million which includes wreck damage and which we have got to replace and we don't have a way of doing it that comes closer. That is a comfortable target.

There are some operating grant assumptions in there, though, that are more difficult and I would be more comfortable with a $430 million operating grant authorization than the way the operating grant language is currently structured.

I know that the administration is reacting to what Amtrak told the administration it needed for an operating grant as part of this budget process, but that was a long time into last year. It was a long time ago before wrecks, winter, the continued decline of passenger service, the continued decline in the status of the equipment.

We need the headroom, we need the authorization room to continue that process of putting back into the operating budget, the capital side. Equipment overhauls, for instance, were taken out of operating and put into capital budget. It is eating up our capital. We need to put that back in operating to be able to spend the money on equipment replacement rather than consistently and continually overhauling equipment.

I use the analogy on occasion that if we keep doing this about capitalizing current operating cost, we will wind up—if an airline was doing that, you would be out at National Airport running on the best maintained DC-3's available. We are running DC-3-type equipment, and we are spending huge amounts of capital money to overhaul it. We have to keep it running until we get new equipment.

But we are eating our seed corn by spending huge amounts of capital for overhaul. That should go back into operating, and I would love to see that back in the operating authorization.

Mr. SWIFT. You mentioned in your testimony as well a problem with potential litigation in constructing the electrification system of the New Haven-Boston corridor. What is a necessary fix to that problem?

Mr. DOWNS. Having come out of a background in local government, I understand the need for self—for autonomy and home rule. But in the Northeast Corridor we deal with 43 municipalities and counties.

In 1976, in the Authorization Act, when the NECIP/NERIP program was put into place, it was clear the Secretary's authority was to comply with all Federal environmental and permitting requirements, and as a Federal agency was exempt from local permitting, you know, zoning, land use, preservation, et cetera, all of those, when this project was transferred to Amtrak it was unclear that the Federal rules about environment and permitting applied to Amtrak.

Without some clarification, this could lead to a series of lawsuits by a municipality, particularly on the Connecticut coast, about whether or not we have complied with town or township land use, zoning, historic preservation, citations.

We are not asking for exemption from NEPA, from the Corps of Engineers process, the Coastal Zone Management Act, or any other Federal requirements around the environment that requires substantial local impact and input into the process, but we are saying that we need some clarification on the issues of the ability of the 43 municipalities to hold this project.

Mr. SWIFT. Thank you.

The gentlelady from California has got an appointment with the Mexican ambassador. I am very impressed.

Mr. DOWNS. Well, now I know where I stand.

Mr. SWIFT. I am going to yield the rest of my time to her, and I will follow up with questions at the end.

I yield to the gentlelady from California.

Ms. SCHENK. I deeply appreciate that courtesy, Mr. Chairman, and, President Downs, you rank right at the very top.

What I am going to do is, with the chairman's permission, I am going to submit my question so that we can get some answers in writing, and I know that you and I will have lots of discussions in the future. I really just want to say how delighted, thrilled and excited I am by your appointment. We are long-time friends, and I know of your extraordinary abilities and background in this area. I think this is one of the finest appointments that the President of the United States has made. I think it is a real hallmark for rail passenger service in this country.

My staffer tells me it is inappropriate to applaud, but I wanted to applaud your opening statement because you resonate so much of my views on what it takes to bring passenger ridership up to the levels that is there.

I am a firm believer that once again the American public is ahead of the politicians and ahead of the Government and that if we build it, if it runs on time and safely, they will ride, they want to ride, and so I do look forward to working with you, and I apologize again that I am going to have to run.

Mr. DOWNS. Could I make one commitment to you, Congresswoman? The issue on the safety on the San Diegan corridor—I shared a similar kind of experience riding in the cab with the engineer on the San Diegan, and we missed by like 2 seconds a child on a bicycle going around the gates, and we were doing about 75.

So I know the experience, and, as a result, we have what we call Operation Life Safety or Safety Train where we bring, in effect, a train out that emphasizes rail grade crossing safety, particularly with children. There have been some terrible accidents in that corridor, as you have pointed out.

My commitment to you is that within a reasonable time—and I don't know exactly what that is—but within I hope months, we will arrange for that kind of safety train, Operation Life Safer, education about those grade crossings, particularly with children, do what we can with the media. But we will be out there as partners to try and help solve that problem for you.

Ms. SCHENK. Well, thank you very much. And again, Mr. Chairman, thank you for the courtesy, and I yield back the balance of my time.

Mr. SWIFT. I am happy to do that.

I actually have only one more question. I will ask it, and then we will have to ask you to stay because Congressman Oxley has some questions. But that is just simply to repeat a request for submitting some information that I also asked of Ms. Molitoris, and that is if you could submit for the record what the 403(b) services—which services the $17 million authorization would cover, both current 403(b) and those in the pipeline, for this fiscal year.

Thank you very much.

[The information follows:]

National Railroad Passenger Corporation, 60 Massachusetts Avenue, N.E., Washington, D.C. 20002 Telephone (202) 906-3000

Amtrak

May 6, 1994

Honorable Al Swift
Chairman
Subcommittee on Transportation and
Hazardous Materials
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for giving Amtrak the opportunity to testify before your Subcommittee on March 23. We appreciate your strong and long-standing support for Amtrak and look forward to working with you on reauthorization legislation.

At the hearing, you had asked Mr. Downs to submit for the record what 403(b) services Amtrak intends to cover with the $17 million we propose to spend on state-supported services. I am submitting that information on his behalf.

We are planning to continue running services as we have in Illinois, Missouri, New York, Michigan, California, Alabama, Wisconsin/Illinois, and North Carolina. In addition, we anticipate beginning services in FY94 that would continue in FY95: Alabama/Louisiana, and North Carolina. Finally, we anticipate initiating several services in FY95. These include services between Washington/Oregon, Washington/British Columbia, and Maine/Massachusetts.

For your information, I have enclosed a chart that details the funding intended for these services, including a detailed breakdown of how the Administration's proposed funding and cost allocation would affect these individual services.

Sincerely,

Tim Gillespie
Vice President
Government and Public Affairs

Enclosures

403(b) . .ALYSIS
CURRENT VS. ADMINISTRATION PROPOSAL
($ Millions)

STATE	CURRENT FORMULA STATE PMT.	CURRENT FORMULA AMTRAK SHARE	ADMINISTRATION PROPOSAL FIRST YEAR - 45% LTA STATE PMT.	ADMINISTRATION PROPOSAL FIRST YEAR - 45% LTA AMTRAK SHARE	ADMINISTRATION PROPOSAL OUT YEARS - 65% LTA STATE PMT.	ADMINISTRATION PROPOSAL OUT YEARS - 65% LTA AMTRAK SHARE	IMPACT ON STATES FIRST YEAR STATE PMT.	IMPACT ON STATES OUT YEARS STATE PMT.
ILLINOIS	1.6	2.1	2.2	1.5	2.9	0.8	0.5	1.3
MISSOURI	1.9	1.0	1.6	1.4	2.2	0.8	(0.4)	0.3
NEW YORK	0.6	1.4	1.1	0.9	1.5	0.5	0.5	0.9
MICHIGAN	0.6	1.3	1.0	0.9	1.4	0.5	0.4	0.8
CALIFORNIA	18.5	5.3	21.3	2.5	26.0	(2.2)	2.7	7.5
ALABAMA	1.0	0.4	0.7	0.7	1.0	0.4	(0.3)	-
WISCONSIN/ILLINOIS	0.3	0.0	0.2	0.2	0.2	0.1	(0.2)	(0.1)
NORTH CAROLINA	0.8	0.2	0.6	0.4	0.8	0.2	(0.2)	-
TOTAL STATES	25.5	11.6	28.7	8.5	36.1	1.1	3.1	10.6
FY94 ADDITIONS								
AL/MS/LA: MOBILE-NEW ORL.	1.4	-	0.7	0.8	0.9	0.5	(0.8)	(0.5)
N. CAROLINA:RALEIGH-CHLT.	1.8	1.0	1.3	1.6	1.8	1.0	(0.6)	-
CALIFORNIA:3RD SAN DIEGAN	0.5	-	0.2	0.3	0.4	0.2	(0.3)	(0.2)
TOTAL FY94 ADDITIONS	3.8	1.0	2.2	2.6	3.1	1.7	(1.7)	(0.7)
FY95 ADDITIONS								
WASHINGTON:SEATTLE-PORT.	1.5	0.3	1.1	0.8	1.4	0.4	(0.5)	(0.1)
WASHINGTON:SEATTLE-VANC.	1.4	0.3	1.0	0.7	1.3	0.4	(0.4)	(0.1)
MAINE:BOSTON-PORTLAND	1.9	2.4	1.9	2.4	2.8	1.5	(0.0)	0.9
TOTAL FY95 ADDITIONS	4.9	3.0	4.0	3.9	5.5	2.3	(0.9)	0.7
TOTAL	$ 34.2	$ 15.6	$ 34.8	$ 15.0	$ 44.7	$ 5.1	$ 0.6	$ 10.5
UNPLANNED ADDITIONS				$ 2.0				
GRAND TOTAL				$ 17.0				

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Mr. SWIFT. The subcommittee will stand—excuse me. If you have questions—have you voted?

Ms. LAMBERT. No, I have not.

Mr. SWIFT. Why don't we go ahead and recess, and then we will come right back.

The subcommittee will stand in recess.

[Brief recess].

Mr. SWIFT. The subcommittee will come to order.

The Chair recognizes the gentleman from Ohio for questions.

Mr. OXLEY. Thank you, Mr. Chairman.

Mr. Downs, on page 24 of your written statement you noted that Amtrak had not requested the $90 million in funding for conversion of the New York City, Farley Post Office Building, that is in the administration's fiscal 1995 budget. I share your concern about the $90 million, which essentially equals the total increases requested by the administration for operating expenses and capital on the entire noncorridor system. It simply could be much better spent rehabilitating a more vital aspect of the Amtrak operations.

I mention this to you not because of the administration's proposal necessarily, but because the feasibility study from which it springs was conducted by Amtrak at the direction of Congress with the specific directive in the law that the conversion plan be "predicated on completing the project without Federal funds appropriated for Amtrak."

I know the study was conducted under your predecessor, but can you enlighten us as to why Amtrak's study was instead premised on acquiring $96 to $133 million of Federal money?

Mr. DOWNS. No.

Mr. OXLEY. Don't have a clue.

Mr. DOWNS. I am not trying to be artful. I am a believer in the project because I saw what happened at Union Station here in Washington. Our ridership went up 20 percent the year that the station opened, so we have had a net long-term benefit.

We have a net benefit out of that by not having to pay a lot of station cost here that we would normally have to pay in a number of other areas. We have had a tremendous net return on that investment.

New York City is probably the hub of the Northeast Corridor, and with the implementation of high-speed train sets, there will be obvious benefits to us about the passenger facilities that are necessary to support that $11.5 billion investment in electrification and high-speed service between New York and Boston.

My fear is that, given the past, as I said earlier, my concern about this project is that I am aware of the budget constraints. I am aware of the difficult squeeze on capital. I have had this conversation with Senator Moynihan, who is the champion of this project, and said that my staff and I believe that this will be a net enhancement not only for Amtrak but for New York City, and it will draw more riders to the system.

It can't come out of the rail operating capital. It can't come out of rolling stock. We don't have that much capital to spare, and if it was a forced choice about rail rolling stock and this capital investment, I have to pick what the railroad needs to operate. The train station, there would be a net add for Amtrak from an operating standpoint, but I can't have it be a forced choice. It is a separate piece, the request from the administration.

Our commitment on that chart is to be funded out of the lease and economic development side of this and the commercialization of the space just as Union Station had a substantial capitalization from the economic development side, but not Amtrak internal capital. We haven't got it to spare, and I couldn't in good conscience tell you that I would choose Amtrak capital, straight Amtrak capital, going to that project over the needs to buy rail passenger cars, as I pointed out, with the age that is going off the chart.

Mr. OXLEY. Thank you.

I understand from the GAO statement submitted today that April 30, 1996, is the expiration date for all of the Amtrak access agreements with the freight railroads outside of the Northeast Corridor. That means that even the 2-year authorization bill submitted by the administration would cover a period of time beyond the expiration date.

I know that the existing law provides that the Interstate Commerce Commission must settle access disputes between Amtrak and its host railroads. Do you see the liability issue as likely to be dropped into the lap of the ICC unless Congress addresses the issue first?

Mr. DOWNS. Well, first, our right to exist and right to operate on those railroads does not expire. The ability to have a unified structure about how we reimburse the incremental cost requirement, those agreements do expire. We would then be in a terrible predicament about the ICC having to determine on a case-by-case practically basis what those incremental costs were, so that in effect the ICC would wind up making decisions like, is the full cost of passenger liability on those lines an incremental cost?

Absent a clarification from the Congress and perhaps a limitation, a cap on those liabilities, we would wind up with that in effect being the forum in which that question would be played out.

Mr. OXLEY. As you know, there were and are the no-fault indemnity agreements between Amtrak and the host railroads, but these are now regarded as unenforceable because of the legal position that Amtrak took after the Chase, Md., accident—that is, the position that public policy prevented holding Amtrak to its contractual indemnity obligations when the host railroad was grossly negligent.

If this is still the Amtrak interpretation of the indemnity agreement, and if not—is this still the position of Amtrak? And if not, is Amtrak doing anything to rehabilitate the effectiveness of such agreements in its dealings with the freight railroad?

Mr. DOWNS. Chase was a difficult position for us because it was a Conrail train operating on our track. We were providing rail passenger service on rail passenger tracks. The issue came up because of an apparent gross negligence on the part of the freight operator about substance abuse by the engineer. I say apparently, but that is how the testing came out.

We were defending Amtrak's best interest as the owner-operator of the rail trackage, not as a rail passenger service on some other railroad. As a matter of course, over the last several years Amtrak has assumed almost all liability for all passenger accidents on all railroads, with the exception of anything that could be construed as the most gross negligence on the part of the operating railroad.

We have had several instances where I might have even disagreed with the decision about who was at fault in a particularly egregious accident. We absorbed that anyway to avoid the issue with the railroads.

The issue is, I think, for the railroads, the up side of liability. If you have 400 people on a train, and there is a terrible accident, they feel their exposure is too great. There are several ways of doing that. One is a cap on liability. The other is pooling for—in effect, a nationwide insurance pool that provides the resources for a single catastrophic incident. We don't have these very often, thank God. We have only had two major accidents in the history of the corporation that involved a substantial loss of life. So that from an insurance standpoint there are mechanisms about national pools that could make sense here to put this issue off the table with the commercial railroads.

I think there are ways of avoiding this as a conflict, but they are not being publicly addressed right now. I think the expectation is that they will be addressed as part of the expiration of the operating agreements with Amtrak, as you pointed out, and that would push—if we had no agreements, push the issue to the ICC.

Mr. OXLEY. Let me try one on you here, and I wouldn't expect necessarily a detailed answer, but it is something that struck us. That was, could Congress in effect override what happened in the liability situation after the Chase accident and make the old Amtrak indemnity agreements contractually binding with no exceptions? And if Congress can, what does Amtrak think of that idea?

Mr. DOWNS. I am in a bit of uncharted territory here.

Mr. OXLEY. I would be glad to have you submit that for the record.

Mr. DOWNS. I am in an area where, frankly, I need advice of counsel and, to better understand the ramifications of giving you an answer, I don't want to give you a too fast answer.

Mr. OXLEY. We would appreciate it, if you would just make that available for the record.

Mr. Chairman, if that would be appropriate.

Mr. SWIFT. Without objection.

[The information follows:]

In response to the question of whether Congress could, and should, make Amtrak's indemnity agreements with the freight railroads binding under all circumstances, the answer is more complicated than a simple yes or no. After the collision at Chase, Maryland, in 1987, Amtrak challenged the existing indemnity arrangement on two grounds: (1) the parties did not intend that it apply to gross negligence and (2) public policy would not allow indemnification for gross negligence. Public policy is ultimately for the legislature to declare, and Congress therefore does have the power to eliminate the public policy barrier to enforcing the indemnity agreements. There may be other grounds, however, on which the existing indemnity agreements might still be held unenforceable in certain circumstances.

Amtrak recognizes the importance of the indemnity issue and is considering a number of possible approaches. The problem is complex and may lend itself to analysis by an independent Agency such as the General Accounting Office.

Mr. OXLEY. Thank you.

The conventional wisdom is that Amtrak's Northeast Corridor operations are a relative cash cow but that the cross-country route loses money hand over fist. Is this stereotype borne out by the numbers? And how does the tremendous capital overhead that goes with Amtrak's ownership of the Northeast Corridor fit into this entire picture?

Mr. DOWNS. It is not clear. The Board has been having some discussions over the last 2 months about true allocated cost. On the Northeast Corridor, we do not fully allocate depreciation and recapitalization to the corridor. We have questions about how much of overhead is allocated to the corridor. On a short-term cost basis, short-term avoidable cost, it more than breaks even, it makes money.

Does it, in effect, support long-haul rail passenger service? That is very unclear as to who supports who in this national network. Costs are so inextricably wound together because of the functional structure of the organization where we have a national marketing and a national engineering and a national maintenance of way, and a national car maintenance budget rather than allocated by lines of business. We are going to attempt to answer that question defensively.

One of the advantages that inner-city passenger service has is that it does not have the full allocated depreciated cost of the corridors, the rail lines. We only have incremental costs. So we don't own it. We pay the incremental cost, and that is it for that part of the system. In effect, on board personnel and rolling stock are our cost on inner-city, plus some marketing and some sales. So it has a much better chance of making its own way.

In a lot of corridors we are booked wall to wall 4 or 5 months of the year. So we have got full revenues. Then we are equipment constrained.

I wish I could give you a better—that is a bit of a convoluted answer, but I can't tell you whether or not the corridors subsidizes inner-city, inner-city subsidizes short haul. It is maybe intentionally unclear right now. But you all have the right to a straightforward defensible answer to that question, and I hope to get it to you within the next number of months.

Mr. OXLEY. We would appreciate that. That would be quite helpful.

If I may, Mr. Chairman, one last question.

In the legislative report you suggested creating a dedicated fund for Amtrak capital by, in effect, reserving Amtrak's payments to the Federal Government for fuel taxes and rail safety user fees, which I find intriguing. I would like to focus on the safety user fees.

As you may know, these fees were intended to make FRA safety activities virtually self-funded for the duration of the 1990 budget agreement. So, any set-aside of Amtrak's fees for its own use, in effect, increases the burden of other railroads, large and small, freight and passenger, to come up with a total amount to support FRA. Have you explored this aspect of your proposal with other segments of the railroad industry?

Mr. DOWNS. No, frankly, I haven't, and if I was probably doing this over again, I would delete—I think we pay about $2 million a year on safety inspection fees. I would probably suggest that it would be better to start with a dedicated fund that simply recaptured our diesel tax.

Mr. OXLEY. What would that amount to?

Mr. DOWNS. About $7 million.

Mr. OXLEY. Seven million dollars?

Mr. DOWNS. Yes.

Mr. OXLEY. So the idea would be to fence off the $7 million in a capital account and I guess allow it to build up to the point where it would be an effective way to——

Mr. DOWNS. Well, if it came with contract authority, you can in effect bond it, and if you get, say, $10 million annually into a fund, you can turn that into $80 or $90 million on a long-term basis. We need about $350 to $400 million to replace all of our Heritage car fleet, which would have a huge impact on improved productivity and reduction in cost. It would more than pay for itself. But we just don't have the capital capability.

The other thing that I mentioned earlier that you could do with this fund is, if we go on the 403(b) program to long-term cost, which is, in effect, capturing depreciation and equipment replacement on State contracts, we could put those depreciation funds into this account to ensure that when it came time to replace equipment that was part of a State operating account, that we would have the money.

So there are multiple uses for that fund that would go a long way toward stabilizing the capital investment foundation for Amtrak, which is where our only future is as recapitalizing the railroad.

Mr. OXLEY. Mr. Chairman, that is an intriguing idea. I am not sure what Public Works or Ways and Means would think about it. But clearly from our perspective in terms of the capital question, it is certainly worthy of exploring.

I thank you, Mr. Downs, and I yield back the balance of my time.

Mr. SWIFT. I thank the gentleman and recognize the gentlelady from Arkansas.

Ms. LAMBERT. Thank you, Mr. Chairman, for holding the hearings. I certainly appreciate all the work that you have done on this and many other issues regarding railroads, and I would like to ask unanimous consent to have my entire statement submitted in the record.

Mr. SWIFT. Without objection.

[The prepared statement of Ms. Lambert follows:]

STATEMENT OF HON. BLANCHE M. LAMBERT

Mr. Chairman, thank you for holding this hearing on the Amtrak Investment Act of 1994. I believe this is a very necessary hearing to help determine the future of Amtrak.

As you know I was a very strong supporter of Amtrak during last year's appropriations battles. I hope that I can expand upon my record from last year. But Mr. Chairman, I am extremely concerned about Amtrak's habit of reducing service predominantly through communities without ready access to a national transportation network.

Take for example what happened in my district last year. Amtrak had a daily train called the Texas Eagle which ran the Chicago-St. Louis-San Antonio/Houston route. The Texas Eagle had somewhat of a dismal performance record when considering on-time status and the like. Furthermore, my constituents either had to travel to Little Rock, or to purchase tickets or buy them over the phone because all of the depots in my district were unattended. Even with all these problems, the trains ran on average above 90 percent of capacity. That amounts to 208,788 passengers on the Houston-St. Louis route and an 8.8 percent increase over the prior year. Even the auto-train carried 500 fewer passengers over the same time period.

As you can see, these are some very impressive statistics. But Amtrak decided to reduce daily Texas Eagle service to tri-weekly service. Why—because former Amtrak President W. Graham Claytor stated "We (Amtrak) must concentrate our limited resources on our more heavily used routes and eliminate those services that operate at a significant loss or serve relatively fewer passengers." I and several others would argue that this was one of the more heavily used routes and served many passengers.

Again, I point to the passenger statistics. I believe other alternatives still exist before we reduce or eliminate train service to communities.

Mr. Chairman, I look forward to examining this and several other issues during our time together with Amtrak this morning. I hope we can have an honest dialogue and begin to solve some of Amtrak's more difficult problems ahead.

Ms. LAMBERT. Mr. Downs, we welcome you and look forward to a working relationship with you. I have several questions in regard to hopefully ways that you can help me better understand and hopefully describe to me Amtrak's commitment to rural areas, such as my home State of Arkansas, and perhaps that is the best question to start out: If you could describe for me what you feel like Amtrak's commitment will be to rural communities—rural States like Arkansas.

Mr. DOWNS. I am a believer that—well, having spent 5 years in Arkansas, I understand the issue about rural economic development in particular. The role that Amtrak plays in States that it serves is often the only public carrier choice left. In many communities, as you are aware, inner-city bus is gone. There is no feeder rail service even from local airports. So unless you are ready to get a pickup truck and drive a couple hundred miles, the only place that you have got in a lot of communities is Amtrak, and I am a firm believer that we are part of the economic development of rural regions as well as major urban areas.

I am struck with the interest in communities in Arkansas, in Oklahoma, in Texas, about restoration of the Eagle for not just kind of local train service nostalgia, but for hardheaded economic reasons about economic development. I am struck by the same interest in places like North Dakota where elimination of train service to a single station brings the entire State to Washington about train service, and it is not because they have a sense of nostalgia about the train and they like to hear whistles in the night, it is because they know that it is part of the life blood of the community; it is economic development. It is often an important part of their marketing themselves to the rest of the world.

I want to be partners in this process with rural America. It is part of the constituency that we talked about earlier that we have not fully developed for Amtrak and explaining to members of this body and the Senate about what value Amtrak brings to America beside kind of a misplaced love of rail passenger service.

I think we bring real value, not just in urban areas where there is a lot of congestion or clean air problems, but in rural areas where we are the only choice left.

Ms. LAMBERT. Well, that is very true. I have been a very strong supporter of Amtrak during last year's appropriations and others, not simply because I am a railroad buff but as well because I do think it lends a tremendous amount to rural communities and economic development and basic transportation needs that we have in our areas.

One of the instances—you did mention the Eagle. The Texas Eagle was an issue for me in my district. Last year, of course, Amtrak had the daily train, the Texas Eagle, which ran from Chicago, St. Louis, San Antonio, Houston, had somewhat of a dismal performance record when you consider on-time status and some of those things. My constituents either had to travel all the way to Little Rock to purchase their tickets or they had to buy them over the phone because all of the depots in my district are unattended.

But even with all of those problems, the train ran above average—above 92 percent capacity. That amounts to about 788,000 passengers on the Houston-St. Louis route and an 8.8 percent increase over the prior year. Even the autotrain carried 500 fewer passengers over the same time period.

In my opinion, those are some pretty impressive statistics as far as a successful rail line in providing transportation and usability. But Amtrak decided to reduce that daily Texas Eagle to service to a tri-weekly service, and basically the question that I asked, and it was answered by your predecessor, President Claytor, he stated that we, Amtrak, must concentrate our limited resources on our more heavily used routes and eliminate those services that operate at a significant loss or serve relatively fewer passengers.

I and several others would argue that this was one of the more heavily used routes, and it served many passengers and seemed to be some what profitable, and I guess in light of that, as you had mentioned, in many rural communities it is sometimes the only mode of transportation. I do have a pickup truck, but sometimes that is not an alternative for others.

In light of that, when you look at Amtrak, and certainly in reviewing your testimony, do we look at or do you look at Amtrak really as a national rail carrier in the lines of, say, an American Airlines, or do we really look at them as a smaller regional supplier like, say, the American Eagle or maybe perhaps the U.S. Air shuttle or some of the others? That is where my concern comes. I would like to know the direction that we are heading there and what your views are.

Mr. DOWNS. First, I think a lot of the decisions that Amtrak made about service were decisions that were—the corporation felt were necessary to defend it from an administration that was telling it, in effect, to go out in the backyard and die. And the cost recovery ratio—you know, the economic self-sufficiency—keep us alive long enough, and we will get off your back in terms of a subsidy or a roll, led to decisions like abandoning full service on the Eagle.

You are not going to hear me talk about cost recovery ratios or economic self-sufficiency. I think there are other stories and other functions that Amtrak carries for the country—for the Nation. It is America's passenger railroad. It provides services that are essential for America, and to say otherwise is to devalue the product that we provide, and it limits us to just continually reducing costs until the system starves to death and the riders leave in disgust about the age or quality or the lack of timeliness or lack of ticket agents or lack of accessibility for the railroad.

We have roles to play. I am not bashful about them, but I am not bashful about asking for the support that would be necessary to provide those services. But I am also not bashful about striking partnerships with States, Arkansas and Texas, for instance, that might want to be a partner in providing different kinds of services at different levels, could provide more capital for restoration of stations, or other kinds of partnerships, like other States like North Carolina are getting into with us. I believe it is our future.

I believe if we drop off big chunks of the system, the support in this body drops off significantly. I don't want a railroad that doesn't have your full support.

Ms. LAMBERT. Well, I agree that partnerships are definitely one of the more important ways that we can go about accomplishing our similar goals.

In particular, on my concerns about the Texas Eagle route and the service in my district that was cut, I do understand budget constraints. I tend to be my grandfather's child, and I am extremely fiscally responsible.

But when I also look at the objectives of trying to be fiscally responsible, it is also important to look at the entire picture, and one of the questions I had that really I did not feel like was answered adequately was, prior to the cuts that were made in service, perhaps last year, was it equally addressed in the reflection through Amtrak of management versus nonmanagement. Were there, you know, areas that were addressed there where additional cuts, perhaps, could be made? Is that something that you have reviewed or do you feel like merits review?

Mr. DOWNS. First of all, my commitment to any Member of Congress is that if you have got a series of questions that you want answered about Amtrak or how we make decisions, I have got to fully satisfy those information needs or expect to get beat up a lot here. I understand that.

Ms. LAMBERT. We don't like to have that reputation.

Mr. DOWNS. But my commitment is that if you have got specific questions about how a set of decisions are made, it is my responsibility to provide you with full information about it, and my commitment is to do that.

Am I comfortable with all of our cost structure and how we are managed, and can I say to you that I can defend everything in this budget right now? No, I can't. My commitment is, this is going to be a better managed arena, better managed, greener, more customer driven organization in the next year than it is now, and the year after that even more so.

I am not going to say that that was the only choice that Amtrak had; there were others; and perhaps in retrospect we shouldn't have made that decision. But I can't tell you how to put that all back together yet. But I would love to have those kinds of conversations.

Ms. LAMBERT. Well, we will certainly look forward to working with you, and just in closing I would like to add that it is important for me to see a reflection as to whether we do intend to look at Amtrak as a national carrier or whether it is going to be regional, and certainly to understand that the service to those who need the transportation or those people whose transportation needs need to be met, whether they be in large metropolitan areas or in the rural communities as well, we are more than happy and willing to work with you, as we look at those budgetary matters and how to service those people and would certainly appreciate your willingness to work with us, if there are, you know, needs for down-sizing or other things in order to keep service available.

Thank you very much, Mr. Chairman. I yield back the balance of my time.

Mr. SWIFT. I thank the gentlelady, and thank you very, very much, Mr. Downs. We very much appreciate your help with the committee, and as we work on this authorization we would like to work with you, with the FRA as well, and see if we can't come up with something that meets the needs and moves Amtrak along. So we will be in touch with you and try to get something done. I would like to do something as early in May as I possibly can, so we will try that.

I was talking with minority counsel about getting together and trying to work this out so we can move fairly quickly on it.

Thank you very much.

Mr. DOWNS. Mr. Chairman, again, on behalf of all of us at Amtrak, I want to personally thank you for your steadfast support, you championing us through thick and thin. In many respects you have been one of the reasons that Amtrak is alive today. So thank you very much.

Mr. SWIFT. I take all compliments whether deserved or not, and I don't think that one is, but I take them very seriously and write my mother about them.

Mr. DOWNS. Thank you, Mr. Chairman.

Mr. SWIFT. Our next witness is Kenneth M. Mead, Director of Transportation Issues, Resources, Community and Economic Development Division, of the U.S. General Accounting Office.

Mr. Mead, you have been here before. You have been extremely helpful to the committee. We anticipate that you will be again.

Your formal statement is already a part of the record and you may proceed as you would like.

STATEMENT OF KENNETH M. MEAD, DIRECTOR, TRANSPORTATION ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY FRANK MULVEY

Mr. MEAD. Thank you, Mr. Chairman.

I think the last time we were here was on the high-speed rail legislation.

I will introduce my colleagues. This is Mr. Wood on my right, Dr. Mulvey on my left, and Debbie Justice on my far left, and, with your permission, I would like permission on the transcript to recognize the other members of our Amtrak team, Paul Bollea, Sharon Dyer, Barry Hill, Rick Jorgenson, Ron Wood, Deborah Justice, Greg Kute, Ed Minoche, Don Neff, Ken Schmidt, Teresa Spisak, Glenn Thomas, Joe Warren, Dan Williams, Ken Libbey, Tom McDonald, Ellen Soltow, and Mike Sullivan.

Mr. SWIFT. Without objection.

Mr. MEAD. We have been doing an overall review of Amtrak's operations for this committee and several other congressional committees and will be issuing a report on that in June or July. Today, I would like to present an overview of our findings on Amtrak's financial condition, the key challenges it faces, and offer just some bottom line observations on what this suggests to us.

I believe in front of you, you have a set of charts. I should note that throughout our review we have gotten excellent cooperation from Amtrak. They are very honest, credible, open in every respect. An overall perspective that I would like to leave with you is that today, really two decades after Amtrak's creation, I think we are at a crossroads and some critical decisions have to be made by not only the Federal Government but by some State governments that are going to affect Amtrak in both the short and long term.

As you know, Congress, over the years, has provided significant funding for Amtrak, as well as you were pointing out earlier for other modes of transportation. I mean Amtrak is not alone in this.

Now, if you look at chart 1—and for the audience that corresponds to page 27 at the end of the testimony—you will see that Amtrak gets Federal funds through an operating grant, a general capital grant, another grant for the Northeast Corridor, and the mandatory payment to the Railroad Retirement Trust Fund.

One of the earlier versions of the administration's bill I think had a fifth category, which would be for the 403(b), but I am not sure whether that is still the case.

Amtrak's financial condition, Mr. Chairman, is critical, and it has deteriorated over the past several years. I don't think this should come as a surprise, for a variety of reasons. If you look at the enormity of the task that Amtrak faces, look at the budget history, particularly during the eighties and early nineties, and the difficult economic and competitive environment that they have been operating in, I think that adds up to some difficult times.

If you could turn to chart 2, you see that Amtrak's revenues have covered a greater portion of its operating expenses. Now, Mr. Downs and FRA both alluded to the attention they are going to pay in the future to the cost recovery or the revenue-expense ratio. I want to lay a couple of things to rest on this revenue—expense ratio. For a number of years it has been reported that it is getting better.

Operating revenues are covering more and more of the expense. The solid line on that chart, which is page 35, incidentally, in the testimony, is what is being reported. This really doesn't tell the whole story. It masks a serious financial condition and an even more serious capital condition.

Just last year a variety of expenses were omitted, and I think the most notable among them is depreciation, which is the capital side, amounting to $370 million. Had that been included, the ratio would have been more like what appears on the dotted line, which is 66 percent. We think that in the future it is important that Amtrak convey relative health, and by saying that we are at 80 or 90 percent recovery when we are not gives a picture of relative health that, in fact, is not so.

Several indicators show that Amtrak's financial condition has deteriorated and that its subsidy requirements have increased. That is on chart 3. What that chart shows is that over the last 8 years the overall grant level has gone from about $660 million to $900 million in 1994. For this year, the President is proposing about $1 billion, and I believe that is exclusive of the Penn Station request, and in recent years the subsidies have not been sufficient to cover the gap between expenses and revenues.

Well, why has this happened? Why is there this gap? We see basically three factors. The poor economy and the recent recession is a legitimate factor to point to, as well as competition by the airlines. I think we have all seen the history there: Fares that are under cost, and old, unattractive, and poorly maintained facilities and equipment. Now that is controllable at Amtrak provided they have enough funds.

Now, all of this has occurred in a climate where Amtrak was under increasing pressure to show progress in covering its expenses. Amtrak, for its part, requested less capital and operating grants than they needed. I can understand why, because for a number of years in the eighties the administration was requesting nothing, and so there was a climate where Amtrak was under pressure to show progress, the administration wasn't requesting funds, and over the years we have had just, I think, a history of disinvestment, and now it is time to deal with that.

Another indicator is on chart 4. I used this one before the House Appropriations Committee last week. It is on page 34 of the prepared statement. This shows where Amtrak's working capital has gone. They have gone from a positive $113 million at the end of 1987 to a negative $105 million at the end of 1993, and, if that chart doesn't change, it is going to be very difficult for Amtrak to meet its expenses, let alone provide quality nationwide service.

Amtrak has—you can characterize them as self-help initiatives. It is not as though Amtrak has just been letting all this happen. They have dealt with their passenger revenue shortfall, or tried to, by increasing other revenues and cutting back planned expenses.

On the revenue side, Mr. Chairman, Amtrak has increased the commuter rail business and transport of U.S. mail. In fact, the revenue from activities other than intercity service now account for nearly a third of Amtrak's overall revenues.

You can look at chart 5, which is on page 38 of the statement, and you will see that for 1993 the passenger revenues were $943 million and revenues from other sources were $460 million. On the expense side, though, Amtrak has undertaken some efficiencies. They have lowered planned expenses, they have reduced staff, and they have also done some things that I don't think are wise in either the short or long term, and that is deferring maintenance. These expense-cutting initiatives can only go so far, though, and I don't think it would be good for GAO to suggest to the Congress that expense cutting at Amtrak or the installation of additional efficiencies of scale are going to solve their financial problem, because it will not.

It is certainly important for Amtrak to be efficient. We would be misleading you if we said that there are efficiencies that are going to cut back on their capital needs, and deferring maintenance is something that is going to aggravate an already very serious problem.

I would like to overview very quickly some of the key challenges we see Amtrak facing. They must be met, in our judgment, if Amtrak is to continue to operate a viable intercity network. First is the modernization of the fleet and acquisition of high-speed trains for the Northeast Corridor, and, of course, the infrastructure growths along that corridor. My prepared statement goes into that in some detail.

The Northeast Corridor has immediate appropriations requirements in the neighborhood of $270 million. It will be very difficult to have high-speed rail in the Northeast Corridor if we don't have high-speed trains, and they will have to be paid for.

I will make an important cautionary note about the Northeast Corridor. Amtrak's assumptions for ridership and cost recovery assume considerable growth, almost a doubling of their trains. The commuter traffic and freight traffic in that area are also expected to grow quite a bit. There is a stretch of track from New Rochelle to New Haven and some other places in the Northeast Corridor that Amtrak doesn't own, and there is going to be some serious logistical considerations that need to be resolved to accommodate all that additional traffic, and we see that as an issue that FRA and Amtrak and others will have to pay a lot of attention to.

A second challenge for Amtrak is the higher maintenance cost for its 1,900 passenger cars. Amtrak inherited much of the fleet that it has from the other railroads when it was formed. But if you turn to chart 6, corresponding to page 39 of the prepared statement, you will see the Heritage cars. They are represented by the shaded portion of that chart. Just the passenger cars alone are on average about 40 years of age. This equipment, as Mr. Downs was saying, cost more to maintain.

I will give you a frame of reference. I would say it costs $300,000 and up to fix one of these older trains; about $2 million for a brand-new one. As Mr. Downs was saying, there aren't companies out there making these trains that were made 40 years ago. So Amtrak's repair stations have to make these parts. It is a very costly undertaking. And about 40 percent of the Heritage fleet, passenger fleet, was overdue for overhaul at the end of fiscal 1993.

Ms. Justice has pictures we would like to share with you, Mr. Chairman, of a place called Beech Grove, Ind., which is the principal maintenance facility outside the Northeast—for all Amtrak trains outside the Northeast Corridor. Now, this place was built in the early 1900's, and I brought these pictures in to give you a visual depiction of why we say this place is in serious need of renovation. Fixing it will cost about $35 million.

One very clear problem is that the trains derail going into the facility because the track is so old, and so people that would normally be spending time repairing and maintaining trains are spending their time putting trains back on the track that have derailed. In our judgment, fixing this facility would be a very good investment.

A fourth challenge that has already been alluded to is that Amtrak is going to be negotiating new operating agreements with the freight railroads by 1996. Ninety-seven percent of track over which Amtrak operates is owned by the freight railroads. Currently Amtrak is paying them about $80 million a year, and, of course, as you know, a key negotiation issue is going to be Amtrak's compensation to the freights.

Labor is another one that is coming up over the next couple of years. Labor costs exceed about $11 billion, or over one-half of their annual expenses, and, I think as you know, about 90 percent of the workforce is unionized.

I would just like to close with some thoughts about what all this means for the Congress and the traveling public and Amtrak. The President's proposed budget of about $1 billion will help. There is no question about that. But it will not resolve the overall capital problem that Amtrak is facing in the short and long term.

If the expectation of Congress is for Amtrak to operate a viable intercity network of its present size and to offer quality service, in at least the immediate term we are going to have to make that investment.

I would just like to conclude by saying that even in Europe where conditions are more conducive to competitive rail travel, they are not making ends meet. Mr. Downs' statement here, and I believe before the House, outlined in pretty good detail some of the infrastructure investments that both Germany and France have in mind in the nineties, and they were well into the billions of dollars.

I think Amtrak finds itself in a bind. You have these expectations for this viable national intercity network, but the money, the investment isn't there, and Amtrak is at a point where they can't keep on for very much longer without reconciling the competition between those two. And I don't see this as just a matter for the Federal Government, I see it also as a matter for the State government.

We will be glad to answer any questions you might have.

[Testimony resumes on p. 132.]

[The prepared statement and charts of Mr. Mead follow:]

Statement of Kenneth M. Mead, Director, Transportation Issues, Resources, Community, and Economic Development Division, General Accounting Office

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify at Amtrak's reauthorization hearing. As you know, Amtrak was created in 1970 and charged with revitalizing intercity rail passenger service. The inherited rail equipment was in a state of disrepair, and most travelers had abandoned rail for air and auto travel. Today, Amtrak is at a crossroads, and we believe that important decisions need to be made that will affect Amtrak in both the short and the long-run. The House Committee on Energy and Commerce and four other Committees asked us to comprehensively review Amtrak's operations. As agreed with the Subcommittee, my statement today presents our preliminary findings on Amtrak's financial condition and the near-term challenges facing the corporation. We will issue our final report later this year. Our overall points follow:

-- Amtrak's financial condition has always been poor and has, in fact, deteriorated over the past three years. This should not come as a surprise, given the size of the task Amtrak has faced, the limited resources available, and the difficult economic and competitive environment in which it operates. Recognizing Amtrak's need for federal support, the Congress has provided both capital and operating assistance. In tight budget times, however, this support has not been adequate to provide high-quality, nationwide service. Moreover, Amtrak has been under pressure since

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the early 1980s to reduce its dependence on federal operating support. Since that time, Amtrak's revenues have covered a greater portion of its operating expenses. By 1993, Amtrak reported that its revenues covered about 80 percent of its operations. This performance measure, however, can be misleading because it does not include all operating expenses. Moreover, this performance measure has masked a deteriorating financial condition and serious capital needs.

-- Several indicators show that Amtrak's financial condition has deteriorated in recent years. Since 1990, Amtrak's federal subsidy has not covered the gap between operating expenses and revenues. During this period, total operating deficits have exceeded federal operating subsidies by $102 million in current year dollars ($110 million in 1994 dollars). This occurred because Amtrak's revenues have been less than projected while its expenses have been higher than expected. Furthermore, over the past 7 years, Amtrak has steadily reduced its working capital by $217 million in current year dollars. In 1994 dollars, this amounts to a $252 million reduction. If this deterioration continues, Amtrak may not be able to pay all its expenses and will not be able to provide quality nationwide service.

-- Amtrak has dealt with the shortfall in passenger revenues by increasing other revenues and cutting back planned expenses. On the revenue side, for example, Amtrak has increased its commuter rail business and transport of U.S. mail. On the expense side, since 1991 Amtrak has lowered planned expenses by $120 million (in current year dollars) by reducing staff, maintenance, and service on some routes. These self-help initiatives, however, will not solve Amtrak's financial problems because they involve relatively few dollars. In fact, certain actions, such as reducing maintenance, will aggravate an already serious problem.

-- Over the next few years, Amtrak will face difficult and costly challenges that must be met if it is to operate a viable nationwide network. These challenges include the need to (1) maintain its aging passenger cars; (2) modernize the Beech Grove, Indiana, repair facility, which services all equipment used outside the Northeast Corridor; (3) modernize its locomotive and passenger car fleet, acquire high-speed trains, and continue rail improvements in the Northeast Corridor; (4) negotiate, by 1996, new operating agreements with the freight railroads, which own about 97 percent of the track over which Amtrak operates; and (5) negotiate labor issues and work rules with Amtrak's union employees.

The President's proposed fiscal year 1995 budget for Amtrak of $987.6 million, which represents a nine percent increase over 1994, should help Amtrak address its growing operating deficit. However, it will not resolve the costly challenges facing Amtrak in both the near- and longer-term. For Amtrak to continue nationwide operations at the present level, enhance service quality and reliability, and improve its overall financial condition, requires substantial operating and capital funding. In European countries where competitive conditions are more conducive to rail travel, intercity passenger service has required substantial public funding. In the United States, only a few well-travelled routes may ever generate sufficient revenues to cover operating costs. Amtrak and the federal and state governments must decide whether Amtrak is to continue its present course, expand into areas such as high-speed rail service outside the Northeast Corridor, or limit its operations to those routes where losses can be minimized. Under any scenario, federal and state support will need to be commensurate with the assigned task.

GOVERNMENT SUPPORT FOR PASSENGER RAIL

In 1970, the Congress created Amtrak to revitalize intercity passenger rail transportation. Before that time, individual railroads provided both passenger and freight rail service. Both passengers and the rail business suffered under this arrangement. Passengers lacked smooth connections between railroads, and the rail industry was losing money operating unprofitable passenger service. The combined losses of the railroads operating during 1970 totaled more than $1.7 billion in today's dollars. In comparison, Amtrak in 1993 received federal support totaling $891.5 million. In 1971, most railroads willingly gave up their passenger service and provided the personnel, equipment, and infrastructure that became Amtrak. Today, Amtrak operates about 25,000 route miles (see app. I).

Recognizing the need for national passenger rail service, the Congress has provided significant funding for Amtrak since 1971. Amtrak receives federal funds through an operating and capital grant, the Northeast Corridor Improvement Project (NECIP) grant, and a mandatory payment by the Federal Railroad Administration (FRA) to the Railroad Retirement trust fund and for the Railroad Unemployment Repayment Tax (see fig. I.2 in app. II). In fiscal year 1994, Amtrak will receive over $900 million in federal subsidies. (See app. III.)

Operating and capital subsidies enable Amtrak to fund its operating deficits and make capital purchases and improvements. The NECIP grant is for improvements--such as bridge replacements, signal upgrades, station and yard repairs, and track electrification--to the railway between Washington, D.C., and Boston. Finally, the Federal Railroad Administration makes mandatory payments on Amtrak's behalf to the Railroad Retirement

Trust Account. These payments are for amounts that Amtrak is required by law to contribute for benefits to retirees and for railroad unemployment insurance.

Federal operating and capital subsidies to Amtrak amount to about $35 per passenger or about $0.125 per passenger mile. In comparison, in the aviation area, the Essential Air Services Program provided $38.6 million in fiscal year 1993 for a subsidy of $55 per passenger and $0.44 per passenger mile. General aviation users also receive a larger federal subsidy than Amtrak riders--about $2.0 billion annually or about $65 per trip. Intercity bus service also receives federal assistance, but it amounts to less than $0.10 per passenger. Mass transit in fiscal year 1992 received about $3.7 billion from the federal government and about $10.0 billion from state and local governments. Together these subsidies amounted to $1.61 per trip or about $0.34 per passenger mile. (See app. IV.)

AMTRAK'S FINANCIAL CONDITION HAS DETERIORATED

Amtrak's financial condition has deteriorated in recent years. Since 1990, Amtrak's federal subsidy has not covered the gap between operating expenses and revenues because actual revenues have been lower than projected while expenses have been higher than projected. At the same time, the federal government has faced a very difficult budget environment.

Operating revenues have been lower than projected since 1991 because ridership and yield have not been as high as expected. This situation has been the result of, among other things: (1) the poor economy and recent recession; (2) increased price and service competition by airlines; and (3) old, unattractive, and poorly maintained facilities and equipment. In total, Amtrak overestimated its passenger revenues by $440 million for 1991 through 1993 in current year dollars ($468 million in 1994 dollars). For the first 4 months of fiscal year 1994, passenger revenues are 6 percent below the actual revenues for the same period last year and total revenues are 3 percent below the projections for fiscal year 1994.

According to Amtrak officials, the corporations optimistic revenue projections resulted from underestimating the length and severity of the recent recession. Also, Amtrak was under increasing pressure to have a greater portion of its revenues cover operating expenses. As a result, Amtrak requested substantially less funding from the Congress than it needed to cover these expenses. This funding shortfall, in turn, has contributed to Amtrak's current financial condition. At the same time, the former Administration proposed much less funding for Amtrak. In addition, Amtrak has incurred additional expenses, including start-up costs for new services, such as extending the Sunset Limited route, and for wage increases.

Although Amtrak undertook activities to bring its expenses in line with projected revenues, its total operating deficits have exceeded federal operating subsidies by $102 million since 1990 in current year dollars ($110 million in 1994 dollars). In fiscal year 1993, Amtrak requested $58 million and received $45 million in additional grants. To cover its operating deficit, Amtrak has drawn down its working capital from $113 million at the end of fiscal year 1987 to a negative $105 million by the end of fiscal year 1993 (see appendix V).[1] In 1994 dollars, this represents a draw down of $252 million.

If Amtrak's financial condition continues to deteriorate, it will be more difficult for Amtrak to cover future deficits and disasters--such as the effects of last year's flood in the Midwest--without additional federal funds. Not only would Amtrak have to cut routes, reduce the frequency of service, and cut amenities, but it would also be unable to restore services that were eliminated to deal with the recent operating deficits.

IMPROVED OPERATING RATIO HAS BEEN MISLEADING

Over time, Amtrak's revenues have covered a greater portion of its operating expenses. Amtrak reported that its revenues for 1993 covered about 80 percent of its expenses. (See fig. VI.1 in app.

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[1]Working capital is the difference between current assets and current liabilities. As such, it is an indicator of a firm's ability to pay current liabilities from current assets.

VI.) This revenue-to-expense ratio, however, has masked Amtrak's deteriorating financial condition. In calculating this ratio, Amtrak has excluded certain expenses including (1) depreciation; (2) the mandatory retirement payment; (3) various taxes paid to the federal or state governments; (4) user fees assessed by the Federal Railroad Administration; (5) expenses relating to accident claims; (6) losses incurred in providing 403(b) service to the states[2]; and disbursements for labor protection, which according to an Amtrak official, are excluded at the direction of the Congress. If these expenses, which totaled about $370 million for fiscal year 1993, had been included, the ratio would have been 66 percent--14 percentage points lower than reported by Amtrak. We believe all relevant costs, both capital and operating, should be included in any performance measurement. Because it excludes certain relevant expenses, Amtrak's ratio does not reflect the ability of the corporation's revenues to cover all costs of operating Amtrak.[3]

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[2]Under section 403(b) of the Rail Passenger Service Act, Amtrak may initiate new service that is financially supported, in part, by a non-Amtrak source. Known as "403(b) service," this service may be requested by a state, group of states, any regional or local agency, or any other person with adequate financial backing.

[3]Performance ratios seldom tell the full story. For example, emphasis on improving the ratio could actually cause Amtrak to take actions that would adversely affect operations. As discussed in appendix VI, Amtrak could actually increase its total operating losses but still show improvements in its revenue-to-expense ratio. The true test of whether new business is beneficial to Amtrak is whether the additional business contributes more to revenues than expenses over both the short and long term.

<u>RECENT ACTIVITIES BY AMTRAK
HAVE HELPED IN THE SHORT TERM</u>

Amtrak's efforts to generate additional revenue and reduce operating costs have helped in the short term but will not be the answer to long-term financial problems. From fiscal years 1991 through 1994, Amtrak cut or intends to reduce planned operating expenses by $120 million (in current year dollars) by decreasing staff, marketing activities, and maintenance. In addition, Amtrak improved its cash position by reducing inventories, requiring advance payments from contractors, and stretching out payments on bills.

Amtrak has also increased revenues from commuter services, mail and baggage express, real estate development efforts, and other activities. Revenues from these activities have grown from $378 million in 1990 to $460 million in 1993 in current year dollars and now account for 33 percent of Amtrak's revenues. Appendix VII compares the growth in passenger and other revenues since fiscal year 1987.

Revenues from commuter rail operations represent Amtrak's second largest source of operating revenue. In fiscal year 1993, they accounted for $245 million, or 17.5 percent of Amtrak's total operating revenues. Amtrak provides commuter services under contracts with regional transit agencies operating in Boston, Massachusetts; Metropolitan Washington, D.C.; Los Angeles, California; and New Haven, Connecticut areas. During years when the number of Amtrak's intercity passengers remained steady or declined, the number of commuter passengers carried by Amtrak has steadily increased. By 1993, Amtrak was carrying 29.3 million commuters compared with 22.1 million intercity riders. Three of Amtrak's seven commuter contracts, which accounted for about 84 percent of the fiscal year 1993 total commuter passengers, will be up for renewal in 1995. Whether Amtrak is able to retain the present level of revenue from its commuter rail operations will depend upon its ability to retain its current contracts, and any increases in revenue will depend upon its ability to win additional contracts.

AMTRAK FACES INCREASED CHALLENGES OVER THE NEXT FEW YEARS

In the next few years, Amtrak will face difficult and costly challenges that must be met if it is to operate a viable intercity network. These challenges include the need to (1) maintain its passenger cars and locomotives; (2) modernize the Beech Grove, Indiana, overhaul facility, which services all equipment used outside the Northeast Corridor; (3) modernize its locomotive and passenger car fleet, acquire high-speed trains, and continue rail improvements in the Northeast Corridor; (4) renegotiate by 1996 its operating agreements with the freight railroads; and (5) renegotiate labor compensation and work rules with the various unions representing Amtrak's employees.

<u>As Amtrak's Fleet Ages, it Will Be More Costly to Operate and Maintain</u>

Amtrak inherited much of its fleet of passenger and baggage cars from other railroads when it was formed. These "Heritage" cars are, on average 34 years old (passenger cars alone are, on average, 40 years old) and comprise about 43 percent of Amtrak's 1,959-car fleet. (See app. VIII.) The cars and their components are not standardized, and Amtrak must often manufacture parts to repair them--a very expensive requirement. Since it began operating its own equipment in 1976, Amtrak has maintained its cars through a program of periodic, preventive maintenance. In 1979, Amtrak established a policy of performing heavy overhauls on its cars every 3 to 4 years. These overhauls (during which a car is stripped bare and is completely rebuilt) can cost about $300,000 for each car. In comparison, a new car costs about $2 million. Except for 20 Superliners that have been delivered since July 1993, all cars require heavy overhauls.

To cope with its deteriorating financial condition, Amtrak cut back on maintenance, and starting in 1989 it began falling behind in overhauling its passenger cars. The overhaul backlog grew to nearly 40 percent of the fleet by the end of fiscal year 1993. At the same time, mandates were imposed on Amtrak to (1) replace refrigeration units in 168 food service cars to ensure food safety; (2) install by October 1996 retention-type toilets on 544 passenger cars, at a cost of $27,500 to $95,000 per car; and (3) fumigate cars more frequently for rodent control. Funds for these projects had to come from the Amtrak capital subsidy or from already stretched operating funds.

Amtrak's Chief Mechanical Officer recognized that the relatively few overhauled passenger cars were in pristine condition while a significant number, which were awaiting overhaul, were looking shabby and breaking down with increasing regularity. To address this situation, Amtrak adopted a new "progressive" maintenance and overhaul program in 1993. Under this program, cars will be inspected and will receive a limited overhaul each year. Basic safety components, such as brakes and wheel sets, will be serviced annually, while other components and furnishings will be replaced only as necessary. Every third year the overhaul will be more comprehensive. Under the new program, however, no cars will be upgraded to the condition resulting from the previous heavy overhaul procedures, but many more are expected to be maintained in better condition than cars now awaiting overhaul.

The progressive program places a much greater burden on Amtrak's overhaul facilities, exceeding the plants' current capabilities. For example, Amtrak's largest overhaul facility at Beech Grove, Indiana, overhauled 117 cars and 50 diesel locomotives in fiscal year 1993. Beech Grove will now be responsible for overhauling 527 cars annually.[4] However, Beech Grove officials stated that the facility has the capacity to handle only 241 cars per year (or one per work day)--less than half the annual requirement. A similar situation exists at the Bear, Delaware, facility. Bear will be responsible for overhauling 629 cars each year. In fiscal year 1994, however, Bear received funding to overhaul only about 200 cars.[5] Amtrak officials said that Bear must increase its workforce by about 90 people and operate 3 shifts 7 days per week to overhaul the 629 cars. Bear will need to increase its production from three cars per week to three cars per day to meets its goal. If the new program is to succeed, greater resources and efficiencies will clearly be needed.

Beech Grove Maintenance Facility
Needs Renovation and Modernization

Poor conditions at Beech Grove have reduced the plant's ability to overhaul and maintain cars. Much of the on-site rail track was installed in the early 1900s and has deteriorated,

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[4]Beech Grove will be responsible for 1-year overhauls on 350 Horizon, Superliner, and Viewliner cars and for traditional overhauls on 177 Heritage cars. The 788 Heritage cars, which are operated outside Amtrak's Northeast Corridor, are Beech Grove's responsibility but will not be maintained under the progressive program. They will continue to receive traditional overhauls until a decision is made to either retire the cars or place them in the progressive program.

[5]Under the progressive program, Bear will perform 1-year and 3-year overhauls on all active Amfleet I and II cars---a total annual responsibility of 629 cars. In fiscal year 1994, however, Bear received funding for heavy overhauls on 43 cars and for 1-year or 3-year overhauls on 148 cars.

resulting in frequent derailments. In fiscal year 1993, 37 derailments resulted in an estimated 76 lost production shifts---about 4 percent of the total available production time. Engineers estimated in 1992 that rehabilitating Beech Grove's track would cost $2.6 million. The conditions at other parts of the facility also interrupt or delay work; for example, leaking roofs force shutdowns in the paint shop whenever it rains. The nearly 100-year-old facility also was not designed for production line overhauls of both locomotives and cars. According to Amtrak's Chief Mechanical Officer, changes to Beech Grove's infrastructure would improve the facility's efficiency and productivity.

In 1990, Beech Grove engineers prepared a 5-phase modernization plan to increase efficiency as well as upgrade plant conditions. Improvements costing about $12 million have already been initiated. The remaining improvements, estimated to cost about $35 million, have not been funded.

Our observations at the Bear facility gave us another perspective on the gains in efficiency and productivity that Amtrak might achieve by renovating the Beech Grove facility. Bear is a relatively new plant, built in 1979 for constructing specialized freight cars. Amtrak purchased the facility in 1985. It can currently handle 17 cars on 3 production tracks at a time and operates more efficiently as a production line than other Amtrak facilities. Cars are brought in at one end of the plant and move through a logical series of steps until they are released, completely overhauled, at the other end. Tasks have been defined at each step along the track, and the parts necessary for these tasks are generally stored nearby. This concept is not currently possible at Beech Grove, where cars must be moved from building to building during the overhaul process, traveling around or through the intervening locomotive shop. The cars traverse the entire Beech Grove complex, moving over old and deteriorated tracks. Derailments occur frequently--interrupting the workflow and contributing to Beech Grove's inefficiency. The Bear facility shows that this lack of efficiency can be overcome and the rewards in productivity can be significant.

Future Federal Capital Subsidies Have Already Been Committed to Purchase New Equipment

Amtrak already commits a sizable portion of its federal capital subsidy to pay for previous purchases, mandated equipment modifications, and capital overhauls. As a result, Amtrak may have much less funding available for new purchases and capital improvements than the Congress may realize. From fiscal year 1991 to 1993, Amtrak made commitments to purchase 245 Superliner and Viewliner cars and 72 new locomotives. This equipment will give Amtrak added revenue-generating capacity and will be much easier to repair and overhaul than the so-called "Heritage" equipment that Amtrak inherited from its predecessors. Unlike the Heritage cars, for which replacement parts have to be specially manufactured, the new cars have standardized parts and modular components to allow for easier replacement. As these cars begin to replace Heritage cars--as Amtrak intends, although it has made no firm decisions yet about retiring the Heritage fleet--the need for manufacturing parts to supply the Heritage overhauls should diminish. Amtrak would then have more resources available to overhaul more cars. Amtrak has agreed to pay $924 million for both the cars and locomotives. Between 1994 and 2017, projected interest expense will amount to at least another $765 million.

Amtrak Is Developing High-Speed Rail

Amtrak believes that it can increase its ridership by offering a high-quality travel alternative that is time- and price-competitive with other modes. To that end, Amtrak has been upgrading the Northeast Corridor, which traverses the nation's most densely populated and heavily traveled region. Since 1976, federal appropriations for this project have totaled $3.1 billion (in current year dollars), allowing Metroliner trains to reach 125-mph service between Washington and New York and continue with improvements to permit 150-mph speeds and 3-hour trip times between New York and Boston around the turn of the century. Amtrak has estimated that it will need about $800 million to complete the project.

However, FRA believes that, in addition to the remaining $800 million (current year dollars) estimated by Amtrak, additional funds will be needed to sustain high-speed operations between New York and Boston. FRA's draft Master Plan for High-Speed Rail Service in the Boston-New York Corridor states that, in the coming decades, about $1 billion (in constant 1993 dollars) will be required to rehabilitate or replace aging bridges, tunnels, or other key facilities. The master plan also states that an additional $582 million (in constant 1993 dollars) will be needed to expand capacity to accommodate anticipated growth in commuter and freight traffic around the turn of the century.[6]

Amtrak agrees that after completing its formal Northeast Corridor Improvement Project towards the end of the century, continued investment will be required--on the order of $100 million to $200 million per year--to rehabilitate and maintain the infrastructure and allow for growth. However, Amtrak also believes that some of the projected costs should be paid by the commuter and freight operators or by the right-of-way owners.[7]

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[6]Additionally, the administration's fiscal year 1995 budget request includes a $90 million grant to Amtrak to redevelop intercity and commuter station facilities in New York. FRA plans to include this project in its final report.

[7]Several segments of the right-of-way between New York and Boston, totaling about 95 miles, are owned by entities other than Amtrak.

The immediate appropriations decision concerns Amtrak's $270 million request for its Northeast Corridor Improvement Project. Included is $54.3 million for high-speed trains, which represents the second installment towards the estimated $500 million total cost to purchase 26 high-speed trains for the corridor. In fiscal year 1994, Amtrak allocated $51.6 million of its appropriation toward high-speed trains. These trains comprise a critical component of Amtrak's overall plans for the Northeast Corridor and capitalize on the significant federal investment in the corridor since 1976. The federal government needs to determine whether Amtrak should finance all or part of the remaining cost. To the extent that Amtrak finances the procurement, interest expenses will increase the required federal operating subsidy.

The traveling public has responded well to high-speed rail between Washington and New York. Since the late 1970s, annual ridership between these cities has increased from 600,000 to 1.6 million, capturing about 45 percent of the air/rail market. Amtrak expects similar results on the New York-to-Boston segment by the year 2010--a considerable improvement over Amtrak's current 15 percent air/rail market share on this segment. Taken as a whole, the Northeast Corridor recovers more of Amtrak's expenses than any other routes in Amtrak's system.

However, the vision for the New York to Boston segment hinges on two major considerations. First, capacity and coordination need to be assured, since Amtrak's plans call for more than doubling the number of trains per day along many segments of the route, while commuter and freight operations that share the route also expect growth. FRA makes the point in its draft that if three-hour service is to be reliably maintained, increased capacity will be required to avoid adverse impact on future freight and commuter operations. FRA also states that increased coordination of plans and schedules among Amtrak, the freight and commuter operators, and the right-of-way owners will be important to avoid delays.

Second, projected ridership must materialize. The planned increase in ridership between New York and Boston assume that, annually, 1.4 million airline passengers will switch to high-speed rail, between New York and Boston and between intermediate city pairs. A key variable underlying this assumption is the extent to which airlines will reduce their fares to retain passengers. Amtrak could respond with lower fares, but fare reductions could adversely affect Amtrak's recovery of costs on the New York-to-Boston route.

To encourage the development of high-speed rail outside the Northeast Corridor, the Congress is considering a proposed High-Speed Rail Development Act. This act would authorize about $1 billion to develop high-speed rail corridors, which the administration envisioned allocating over 5 years. However, to date, the administration's appropriation requests have been modest--$140 million for fiscal year 1994 and $37.1 million for fiscal year 1995. FRA views the $1 billion as seed money to be used by the states, rather than by FRA or Amtrak, to develop high-speed rail systems. States would be required, at a minimum, to match federal funds.

In November 1993, we recommended that because of the high costs involved, any funds appropriated for high-speed rail be strategically focused on a small number of meritorious projects.[8] If these funds were spread over the dozen or so proposed high-speed rail projects, the $1 billion would quickly be exhausted before any project reached completion. Even if the $1 billion were spread over as few as five projects, each would receive just $200 million--a small portion of the $2 billion cost of upgrading a single 200-mile corridor to provide 125-mph service. To complete such a project, $1.8 billion in combined state and private sector funding would be required. State planning officials and private investment analysts we spoke with were generally not optimistic that the states and the private sector could provide such funding.

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[8] High-Speed Ground Transportation: Issues Affecting Development in the United States (GAO/RCED-94-29, Nov. 17, 1993).

Contracts With Freight Railroads and Labor Unions Expire Over the Next 2 Years

Amtrak depends heavily on freight railroads in operating its passenger trains. Freight railroads own about 97 percent of the track over which Amtrak operates, and they provide essential services, such as dispatching trains, making emergency repairs to Amtrak trains, and maintaining stations. Some freight railroads also provide police and communications services and pay injury claims for Amtrak. When Amtrak was formed, it entered into 25-year agreements with freight railroads to compensate them for the incremental cost of providing Amtrak with these services. Under these agreements, Amtrak has paid freight railroads an average of about $80 million annually for the last five years. These agreements expire on April 30, 1996.

Freight railroad officials told us that compensation and liability are two key issues that will be negotiated when Amtrak's operating agreements with freight railroads expire. Freight railroads do not believe that they are adequately compensated for their services and may ask to change the methodology used to calculate costs. They may also seek higher payments from Amtrak for using their facilities and equipment--payments that more closely reflect commercial rates and consider the opportunity cost of property being used by Amtrak. For example, Amtrak pays as little as $1 per year to lease some stations owned by one freight railroad. Freight railroads are also concerned about their liability in settling high-cost claims from passenger train accidents occurring on their tracks and may seek to reduce their risk exposure and/or increase the amount of risk assumed by Amtrak.

In addition, Amtrak will be negotiating new agreements with 14 labor unions between 1994 and 1996. About 90 percent of Amtrak's approximately 25,520 employees are union members. Since labor costs represent a large portion--about 54 percent--of Amtrak's operating costs, these negotiations could lead to substantial changes in future operating costs.

CONCLUSIONS

The President's proposed fiscal year 1995 budget for Amtrak of $987.6 million, which represents a nine percent increase over 1994, should help Amtrak address its growing operating deficit. However, it will not resolve the costly challenges facing Amtrak in both the near- and longer-term. For Amtrak to continue nationwide operations at the present level, enhance service quality and reliability, and improve its overall financial condition, requires substantial operating and capital funding. In European countries where competitive conditions are more conducive to rail travel, intercity passenger service has required substantial public funding. In the United States, only a few well-travelled routes may ever generate sufficient revenues to cover operating costs.

Amtrak and the federal and state governments must decide whether Amtrak is to continue its present course, expand into areas such as high-speed rail service outside the Northeast Corridor, or limit its operations to those routes where losses can be minimized. Under any scenario, federal and state support will need to be commensurate with the assigned task. We will report later this year on Amtrak's longer-term challenges.

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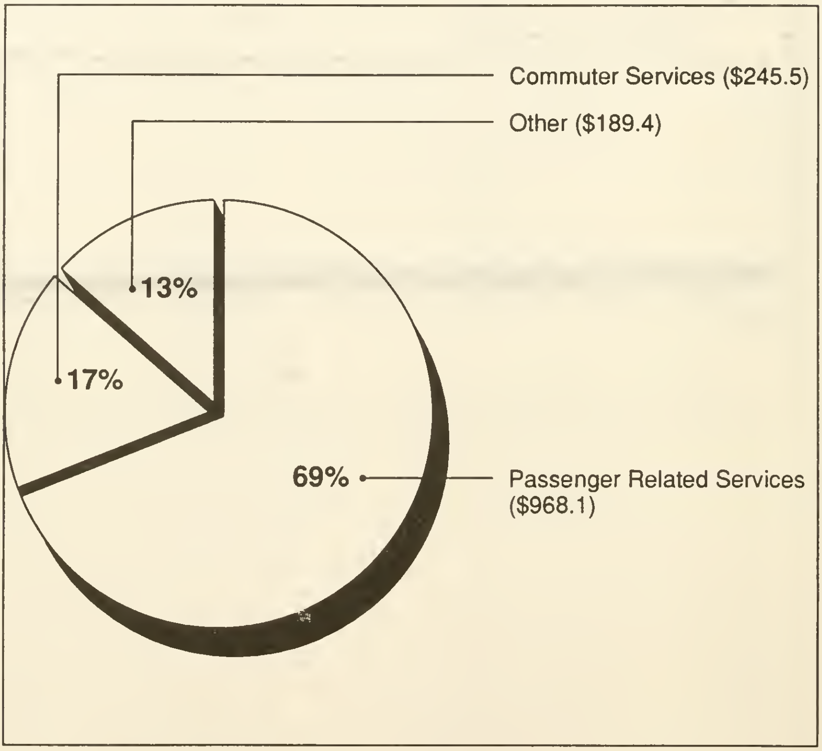
Mr. Chairman, this concludes our testimony. We would be happy to respond to any questions that you or Members of the Subcommittee may have.

AMTRAK'S SYSTEM ROUTE MILES, FISCAL YEARS 1972-93

AMTRAK'S OPERATING REVENUES, FEDERAL FUNDING, AND OPERATING EXPENSES FOR FISCAL YEAR 1993

Figure II.1: Amtrak's Operating Revenues for Fiscal Year 1993

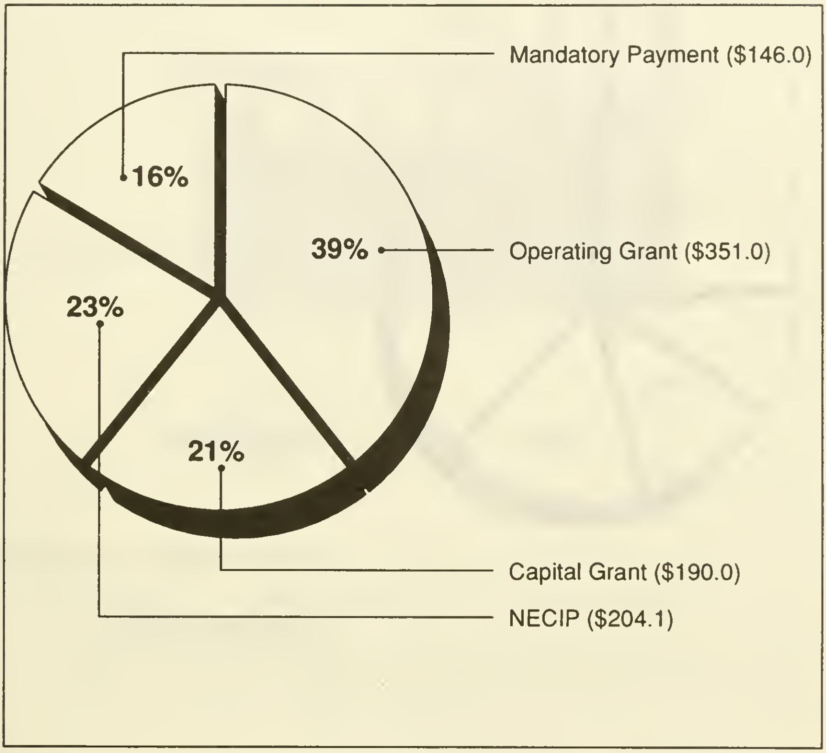
Dollars in millions



Source: GAO analysis of Amtrak data.

Figure II.2: Amtrak's Federal Funding for Fiscal Year 1993

Dollars in millions

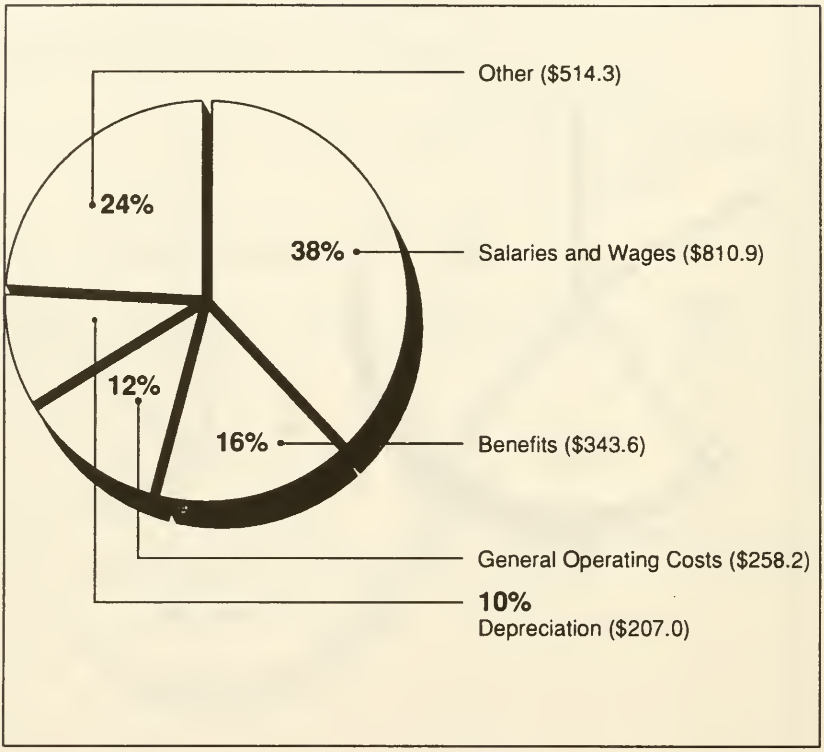


Note: The operating grant includes the original appropriation of $331 million plus a supplemental appropriation of $20 million and the capital grant includes the original appropriation of $165 million plus a supplemental appropriation of $25 million.

Source: GAO analysis of Amtrak data.

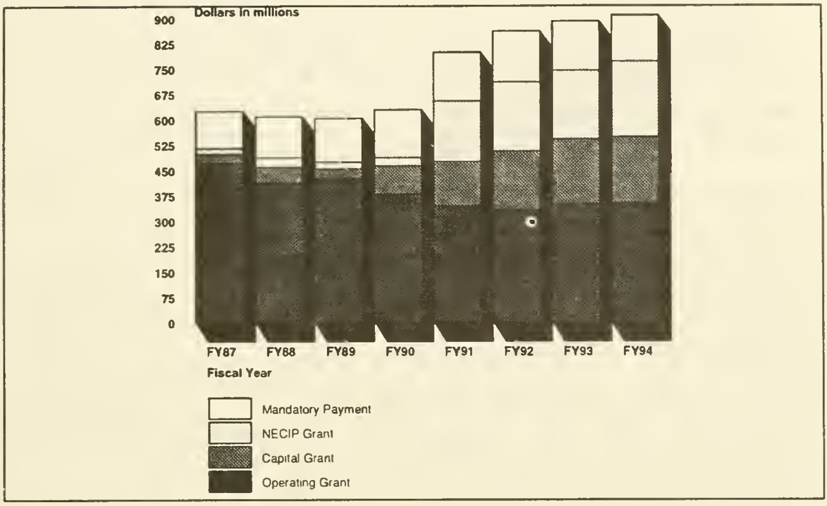
Figure II.3: Amtrak's Operating Expenses for Fiscal Year 1993

Dollars in millions



Source: GAO analysis of Amtrak data.

AMTRAK'S FEDERAL FUNDING, FISCAL YEARS 1987-94



Notes:

1. Capital grants for fiscal years 1987 through 1989 are estimated.

2. Mandatory payments made to the Railroad Retirement Trust Account and the Railroad Unemployment Insurance Account for fiscal years 1987 through 1990 are estimated.

3. All amounts are in current year dollars.

FEDERAL TRANSPORTATION SUBSIDIES

Federal operating and capital subsidies to Amtrak amount to about $35 per passenger or about $0.125 per passenger mile. However, other transport modes also receive subsidies--and in some cases the subsidies are larger than those to Amtrak. While the nation's commercial air travelers generally pay the cost of using of the air traffic control system and the cost of federal assistance to airports through the airline ticket tax and other payments into the Airport and Airways Trust Fund, some air travel is subsidized. The Federal Aviation Administration's (FAA) 1992 cost allocation study estimates that general aviation accounts for about one-fourth of FAA's expenses, but taxes on general aviation cover only about 7 percent of its fully-allocated cost responsibility or less than 2 percent of FAA's costs. This results in a subsidy to general aviation of about $2.0 billion annually. Data are not available on the number of general aviation passengers or passenger-miles. Notwithstanding these limitations, there are roughly 100, ~~000~~ million general aviation operations annually of which about 60 percent are for travel.[1] This suggests a subsidy of about $65 per trip.

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[1]The remaining 40 percent of the operations are local flights that take-off and land~~ing~~ at the same airport. They are usually not considered transportation.

The only direct subsidies received by air travelers are those from the Essential Air Services Program, which guarantees air service to smaller communities. Subsidies under this program amounted to $38.6 million in fiscal year 1993. Based on FAA estimates, the Essential Air Services subsidy is about $55 per passenger or $0.44 per passenger mile.

There are also subsidies associated with highway travel. Although studies by the Federal Highway Administration indicate that intercity auto travelers generally pay their share of the costs of building and maintaining the highways, not all the costs associated with auto travel are covered by user fees. Some local street and road costs are paid out of general tax revenues, and some drivers receive free parking--a subsidy offered by their employers. In addition, there are numerous social costs, such as air pollution and health care, that are not covered. From a strictly federal funds perspective, auto travel would appear to be unsubsidized, but this might mask the true situation.

Intercity bus service can receive federal assistance to the states under Section 18 of the Intermodal Surface Transportation Act of 1991, which was designed to support service on routes that might otherwise be abandoned or to make existing bus service more accessible. This program amounted to $5.2 million for fiscal year 1992. We have no data on the number of passengers benefitting directly from this assistance, but the industry generates about 5 billion passenger miles annually. In addition, part of the federal excise taxes on fuel and tires are refunded to intercity bus operators. The last estimate of the value of this subsidy concluded it was less than $0.10 per passenger in the 1980s.

Finally, while not intercity transport, local transit also receives federal support. In 1992, the federal government provided $964.3 million in operating assistance and $2.72 billion in capital support to the nation's mass transit systems (state and local support amounted to an additional $10 billion.) In that year transit ridership was 40.4 billion passenger miles. Thus, while transit subsidies vary widely depending on the type of operation, on average the federal subsidy to mass transit was about $0.09 per passenger mile. If state and local support are included, the subsidy rises to about $0.34 per passenger mile. Because transit trips are relatively short, the subsidy per trip is relatively low. In 1992, there were 8.5 billion transit trips suggesting a federal subsidy of $0.43 cents per trip and a total subsidy of $1.61 per trip.

The debate over the relative amounts of subsidy received by the different modes of transportation is long-standing. Virtually all modes of transportation receive some form of subsidy, but the amounts, sources, and types of subsidy vary widely. Moreover, any costs, such as environmental costs, not covered by user charges can be considered a form of subsidy. This further complicates the picture because it is difficult to place a monetary value on some of these uncompensated travel costs. Subsidy figures, by themselves, are not always meaningful for public policy decisions. In addition to the subsidy and ridership data, we need to know what public purposes are being accomplished through the aid. In some cases, high levels of public aid might be justified on social benefit/cost criteria, while relatively low levels in other cases might be unwarranted.

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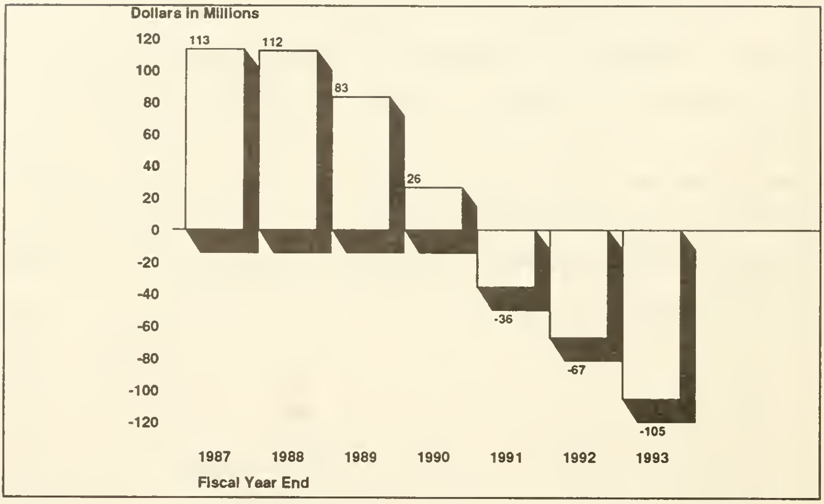
AMTRAK'S WORKING CAPITAL SURPLUS/DEFICIT
FOR FISCAL YEARS 1987-93



Notes:

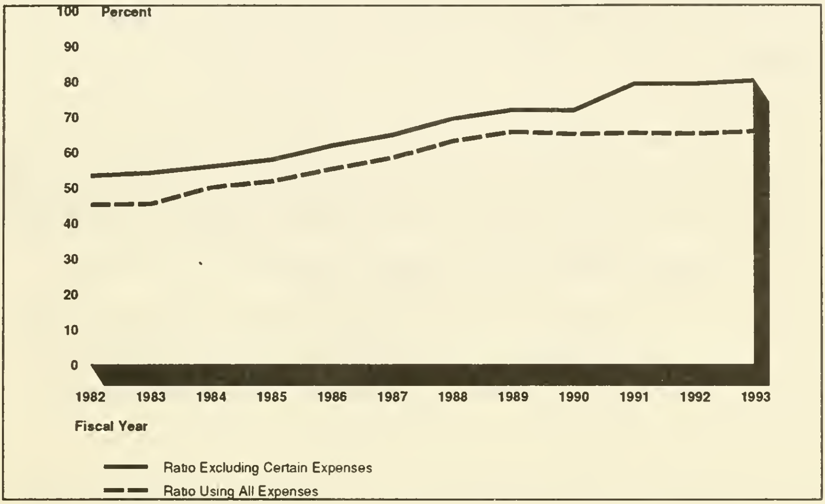
1. Working capital is the difference between current assets and current liabilities. As such, it indicates the ability of a firm to pay current liabilities from current assets.

2. Amounts are in current year dollars. In 1994 dollars, the working capital has declined from \$144 million to a deficit of \$108 million.

Source: GAO analysis of Amtrak data.

AMTRAK'S REVENUE-TO-EXPENSE RATIO

Figure VI.1: Amtrak's Revenue-to-Expense Ratio, Fiscal Years 1982-93



Notes:

1. The revenue-to-expense ratio as calculated by Amtrak excludes expenses for depreciation, labor protection payments, federal and state taxes, user fees to the Federal Railroad Administration, and losses on state 403(b) service.

2. The revenue-to-expense ratios as calculated by Amtrak for fiscal years 1991 to 1993 exclude the mandatory payment to the Federal Railroad Administration for the Railroad Retirement Trust Account and the Railroad Unemployment Insurance Account.

3. The revenue-to-expense ratio as calculated by Amtrak for fiscal year 1993 excludes $10 million in expenses accrued for the recent accident in Saraland, Alabama.

Source: GAO analysis of Amtrak data.

Each year, Amtrak computes a "revenue-to-expense" ratio as a measure of its annual performance as shown in figure VI .1. Amtrak's emphasis on improving this ratio could actually cause it to take actions that have an adverse effect on operations. For example:

-- An improving ratio does not necessarily indicate that the need for federal support is decreasing. The ratio can improve and expenses could actually go up by a greater dollar amount than revenues. For example, the ratio increased from 65 to 66 percent between fiscal years 1992 and 1993; however, the net loss actually increased from $712 to $731 million. In addition, the operating grant went from $331 to $351 million.

-- When expenses exceed revenues, if revenues increase and the ratio remains the same from one year to the next, expenses would have to have increased by a greater dollar amount than revenues. For example, between fiscal years 1989 and 1993, the ratio remained constant at around 65 percent; however, the gap between revenues and expenses increased from $665 million in fiscal year 1989 to $731 million in fiscal year 1993, in current year dollars.

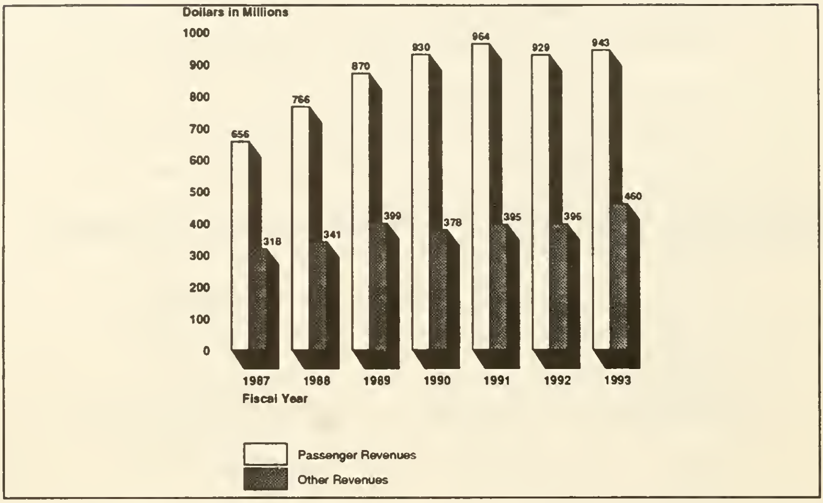
-- The true test of whether new business benefits Amtrak is whether the new business contributes more to revenue than expenses in the short and long term. Table VI.1 shows what the impact would have been on the fiscal year 1993 ratio if Amtrak had added business that brought in $100 million in revenues that actually cost $125 million to provide.

Table VI.1: Effect of Additional Business on Revenue-to-Expense Ratio (Dollars in Millions)

	Fiscal year 1993 actual	With additional business
Revenues	$1403.0	$1503.0
Expenses	$2134.0	$2259.0
Net Loss	($731.0)	($756.0)
Ratio	65.7 %	66.5 %

As table VI.1 illustrates, Amtrak would have been able to improve the ratio by taking on new business that actually increased its net loss by $25 million.

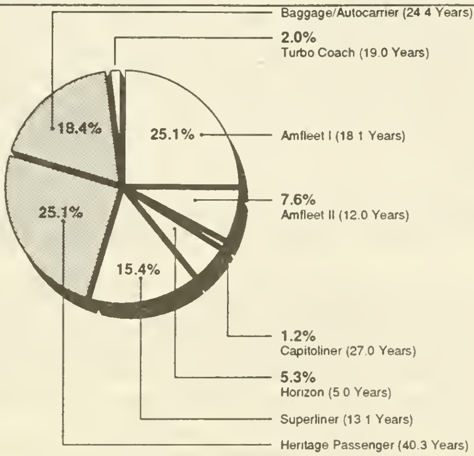
AMTRAK'S PASSENGER AND OTHER REVENUES,
FISCAL YEARS 1987-93



Note: Amounts are in current year dollars.

Source: GAO analysis of Amtrak data.

PROFILE OF AMTRAK'S CAR FLEET



Notes:

1. Heritage cars are shaded.
2. Average age is noted in parenthesis.
3. Capitoliners are no longer actively used by Amtrak.

Source: GAO analysis of Amtrak data.

(343854)

Mr. SWIFT. Well, I thank you very much.

I sometimes like to go down Independence Avenue to about what would be 16th Street and look at the Washington Monument. About a third of the way up the monument the marble changes color. This Congress decided that it wasn't worth finishing it for about almost 100 years, and by the time they decided maybe it was a pretty good idea to finish it, the original marble quarry was gone. It is kind of nice, I think, in this town to have the tallest single thing in the whole city to be, in fact, a monument to penny wise, pound foolishness.

You have been extraordinarily diplomatic. You have described what has happened. You haven't particularly described who is responsible for it; clearly, earlier administrations, but also the Congress.

You know, it is interesting. People in Congress love to talk about government running more like a business, and yet they cannot conceive of government needing to make an investment. They just see spending or not spending. Businesses certainly have spending and not spending issues, and then they have investment issues, and they are different.

Am I incorrect if I were to summarize what you are saying here is, that we have simply failed to make investments that would have been prudent if we wanted Amtrak to be financially as viable as we would hope today?

Mr. MEAD. Yes, sir.

Mr. SWIFT. Let me ask you a couple of more specific kinds of questions then. What you said is, in Europe they are not breaking even either.

Mr. MEAD. No.

Mr. SWIFT. And we have indicated in this hearing that our highway system doesn't "break even" and that our airport system doesn't "break-even" in terms of being without subsidy. Is it, generally speaking, a myth that public transportation anywhere in any significant degree pays for itself anywhere in the world?

Mr. MEAD. To the best of our knowledge, I don't know. I don't know of any. I mean you have pockets. For example, you have the Northeast Corridor where they are covering their operating cost, but I can come back and I can say, well, you have your capital costs and they are not necessarily included, and the picture looks much different.

I can tell you that even in aviation, we have the essential air service program, which I allude to in the statement, where a judgment has been made that people in certain communities require air service. Congress has established a program to finance that. It was recently cut back, but the subsidy, if you will, for that program is greater than that provided for Amtrak on a per person basis.

But I think infrastructure is key. You have to have the capital foundation, which is what your point was, I think. I don't know. Do you know of any?

Mr. MULVEY. It varies very much between users. Some, as Ken alluded to, users like the Metroliner riders probably are less subsidized than other users. Commercial air travelers are less subsidized than general aviation travelers.

When you look at subsidies, you need to take a broad perspective and you have to look not just at the Federal dollars, for that matter, just State and local dollars.

Subsidies exist whenever the users don't bear all the costs of their use of a system. So the user of the Nation's highways, the interstate drivers, they are paying enough in their fuel taxes to pay for the cost and maintenance of the interstate highways. But when you look at all the costs of the roads and the streets and the fire and police protection and the other costs that are occasioned by their use, including safety costs and accident costs, not all of these are covered.

So it depends on how you define subsidies, and the broader you define it the more holistic your treatment, the more you find that virtually every mode receive some subsidy.

Mr. SWIFT. Well, it seems to me you have two questions as a matter of possible policy. One, I think it is perfectly acceptable to question whether you want transportation subsidies. You have got to make a decision.

You are either going to have them or you are not as a matter of national policy in this country. If they want to pay for them in Europe, we could still decide we don't want to pay for them here.

And then you apply whatever your standard is to all modes of transportation. What we have in this country is probably no policy with regard to subsidization, you know, no formal, set out, "one day we all voted on the floor of the House" policy on subsidization.

We de facto have a policy of subsidizing our public transportation in this country. If you want to change that, come talk to me. I am perfectly open to figuring out how we do that across the board.

Mr. MEAD. The other thing you have in this country, Mr. Chairman, is in the case of highways and aviation, and mass transit to a some what lesser extent, you have a reinforced funding established, an institutionalized funding mechanism, and you do not have one that you can look to in rail.

Mr. SWIFT. So it means that we are holding Amtrak, rail passenger service in this country, to an entirely different standard than we hold other forms of transportation.

And thank you for what you have just said, because the mechanism in which that happens is we have trust funds, essentially for the others, and we do not have a trust fund to deal with the capital costs for rail passenger service.

Mr. MULVEY. I think one interesting observation is the way we subsidize, there is a lot of goals we try to accomplish with subsidies such as to promote land use and development. One of the goals of subsidies is equity, and yet our transportation funding patterns seem to give the largest subsidies to those with the highest incomes.

So, Essential Air Service passengers, for example, are probably relatively well-heeled compared to, say, a rider, an intercity bus rider, or an Amtrak rider where the subsidies are relatively less.

The same is true for mass transit. The urban bus rider gets a smaller subsidy than other urban commuters and he probably has the lowest income, while the commuter rail rider gets the largest per passenger subsidy and likely has the highest income. So we have this perverse result in our transportation subsidy policy.

Mr. SWIFT. Well, the fact is I suspect we don't have a policy. We just have things that grew like Topsy and have de facto become the policy. I can't recall in my 16 years here, Congress ever addressing any of this in terms of policy decisions. Maybe that is prudent. I am not exactly sure.

The other thing is I think that there is a misunderstanding of what rail costs versus other transportation modes. I had to get an interchange, a new interchange on the Interstate in my district because of growth. In rush hour this one whole community was just coming to a halt. That cost $3.5 million. You can buy a whole train for $12 million. You know, a 4-car train for $12 million. And so in some cases the costs we are talking about relative to the costs—what did the Denver airport cost?

Mr. MEAD. $3 to $4 billion.

Mr. SWIFT. $3 or $4 billion. What on earth is going on down at National and at what cost.

And I don't want to be misunderstood. I am not begrudgeing Denver or National or air travel. I use it a lot, you know. And I intend to go on using air travel. And I drive on the highways and I like them, and this is not a case of being critical of them. But it is just simply a case of as a matter of public policy we are not applying the same standards to another—an important form of transportation. We need to get over that.

Well, thank you. I am preaching to the choir. And I thank you.

Just a couple or three questions. You said in testimony before the Appropriations Subcommittee hearing last week when you were asked whether Amtrak would ever be able to meet the goal of self-sufficiency by the year 2000, you said it wasn't in the cards. I presumed that what you were referring to was what we have just kind of gone through here. That it was not typically in the cards anywhere. Is that what you were referring to?

Mr. MEAD. Yes, sir. And if I might be even more explicit on this point. I believe it was a mistake for Amtrak or the administration, whoever set the policy, to say that it was a goal of self-sufficiency by the year 2000. I believe that forced a set of decisions, budgetary decisions and a set of behaviors on Amtrak's part over the years that hurt the railroad from a capital standpoint. I don't think that that is a reasonable objective.

Mr. MULVEY. If I might——

Mr. SWIFT. Please.

Mr. MULVEY. Amtrak is referred to in the legislation as a for-profit corporation. But if you go back to the history of the Amtrak legislation. The purpose of making it a for profit corporation was to give Amtrak some freedom from having to hire within the Federal civil service. So to get hiring freedom and to give it hiring flexibility it was created as a nongovernment, "for-profit" corporation, not because anybody truly expected at the time that Amtrak would eventually make a profit. But I think pressures on the corporation have forced it to try to pursue that goal.

Mr. SWIFT. And when we are talking about profit or breaking even or what have you, there are a number of advantages that people who are strong believers in rail traffic would point to, environmental advantages, energy saving and reduced highway and airway congestion. None of those can be factored into what we have just been talking about, in terms of subsidy or whether it pays its own way or—those are extra benefits that don't have a dollar value in the equation we have been talking about; is that correct?

Mr. MEAD. Those are the benefits that justify the subsidy. How much energy savings, how much pollution abatement, how much congestion alleviation are you getting. We are hoping to begin looking at that issue with regard to high-speed rail for Congressman Dingell later on this year. We haven't started that work yet, but we are going to look into it pretty quickly.

Mr. MULVEY. I think that earlier when FRA was up, I believe it was you, made the suggestion that the Department of Transportation really ought to do a more holistic analysis of the costs and benefits. And I think that it is very important that the Department follow through on that suggestion.

It is very important because, as you say, a lot of times we make these decisions and we don't necessarily have a fixed policy in mind, and we are not mindful of what some of the benefits are of these modes.

Mr. MEAD. A cautionary note, though. This has been done before. I mean there have been a number of attempts at looking at the benefits and costs in terms of social, environmental and externality benefits.

And, as I said earlier, there are lots of things that can be included, and the broader you get, the larger the numbers become and you wind up getting flip-flops in your findings, depending upon what is included and what is excluded.

Mr. SWIFT. What I was hoping that we could get out of the Department of Transportation initially was not to try and evaluate these other social benefits but just simply do a comparison on what actual subsidies accrue to each of the other entities so we could get some kind of comparisons there.

I agree with you. You get into the other things and I think they are things we can make judgments about but it is hard to get an undebatable study about those things. We probably get closer to a factual comparison if we stick to the real costs themselves.

Last question. What do you think are the appropriate authorization levels for Amtrak if we are trying to get it back on track? No pun intended.

Mr. MEAD. I will just lay a context for my response.

Mr. SWIFT. Sure.

Mr. MEAD. Amtrak for 1995 is asking for $1.2 billion. The administration is asking for $988 million. Amtrak got $909 million for 1994. Tom Downs said in his budget for capital his request of $337 million left out about $500 million. I think I am correct in that statement.

I would say for your authorizing legislation, Mr. Chairman, that I would ceiling out the operating subsidy around $400 million. I think it is a little low right now, what you have—what is in the administration bill. I think it is $375 million when you combine the 403(b)s, and I would up it to $400 million or $420 million, in that neighborhood, for operating.

For capital, one version I saw was $445 million and I guess I would be with Mr. Downs. I think he needs headroom, at least from the authorizing committee. And the administration handles the Northeast Corridor, if I recall correctly, by saying such sums as are necessary. Well, you can't go wrong there.

I see us looking at 4 or 5 years of between $1 and $1.4 billion appropriations for Amtrak. But then I believe Amtrak would start to get on a firmer capital footing and we should have higher expectations, and deservedly higher expectations, for the performance of the system.

We could be in a better position to make judgments about what the ridership would look like if we had a good capital plan in place.

Mr. SWIFT. Thank you. I think Congress is going to have to decide whether it wants to be responsible for the transportation equivalent of a stump between 15th and 17th on the Mall or whether it wants to build a monument.

The gentleman from New Jersey?

Mr. PALLONE. I have no comments.

Mr. SWIFT. Thank the gentleman.

Thank you very, very much. I think it has been most constructive, most helpful, and we appreciate your testimony.

Mr. MEAD. Thank you, Mr. Swift.

Mr. SWIFT. Our last panel includes Ross Capon, who is Executive Director of the National Association of Railroad Passengers, and Harriet Parcells, Project Director of the Campaign for New Transportation Priorities.

We welcome you both. We remind you that your formal statements have already been made a part of the record, and you can proceed as you wish.

And we will recognize first Ross Capon.

STATEMENTS OF ROSS CAPON, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF RAILROAD PASSENGERS; AND HARRIET PARCELLS, PROJECT DIRECTOR, CAMPAIGN FOR NEW TRANSPORTATION PRIORITIES

Mr. CAPON. Thank you very much, Mr. Chairman. Thank you for your leadership over the years in helping Amtrak get where it is.

And I also want to say what a pleasure it is to follow such positive testimony from the administration. I have sat through many years when we did not have that privilege.

Briefly, the changes in the law that we are favoring, we suggested environmental benefits be added to the findings because as we heard it is all too easy to have lengthy discussions about Amtrak where the word "environment" doesn't even get mentioned.

Second, we are eager to see consumer representation on the Amtrak Board, and my statement includes the language that has been considered previously, and I realize there were specific reasons that related to a Presidential election year that the competition of the Amtrak Board was not changed in the previous authorization bill, and I hope that our suggestion there will get serious consideration this time around.

Third, we join Senator Mitchell in urging this committee to recognize the regional and national significance of the central artery rail link between North Station and South Station in Boston. Boston is the only metropolitan region Amtrak cannot drive through, and we think the benefits to this rail link are manifest.

And, in fact, we like to think we played a key role in getting Massachusetts into this. We actually several years ago filed a lawsuit against the Federal Highway Administration and the Commonwealth of Massachusetts which we think played a helpful role in starting the process that led to general support now in Massachusetts and New England for the rail link.

Fourth, I will comment briefly on the State-supported Amtrak services. We are glad to see that the 7-year phase-out of the Federal share has been dropped from consideration. I would have to say that increasing the minimum State share is not our first choice, but we recognize that the Federal resources are limited and the Amtrak basic system needs to get more support.

We hope that as this is implemented there will be careful consideration given to the transition effect, particularly as it affects States like Missouri where there is a longtime program and the administration proposed language would I believe substantially increase their share.

We are also concerned about—there was a statement made earlier that the new formula would free up resources that would benefit other new 403(b) services, and I think that needs to be looked at very carefully in terms of will that actually happen given Amtrak's financial plight and does it depend, for example, on whether the appropriations process will also carve out moneys specifically for 403(b). So I think the expectations need to be nailed down pretty firmly there.

Finally, in terms of providing adequate resources for Amtrak, I would like to emphasize the little trust fund that Amtrak has proposed. What Mr. Downs did not mention is that $7 million a year that Amtrak is paying in Federal taxes is almost brand-new. Roughly half of it was instituted in 1990 as the end result of the truckers' efforts to rope the railroads in on deficit reduction.

And, as you know, pretty soon all those trucker taxes will be going back into the Highway Trust Fund, but the railroad taxes, both freight and Amtrak, will continue to go into general deficit reduction. That is a big injustice against the railroad industry as a whole, as well as Amtrak.

And then the second part of that was just introduced last year as part of the budget package, and I am still waiting breathlessly to see what will happen when the 2-year exemption of the airline industry expires. Because both of these taxes, all of the $7 million, there is no equivalent paid by the airlines.

The airlines, of course, were not part of that 1990 process, and they were given a 2-year exemption from the new tax that was added last summer, and given what they have been saying about all the exemptions they want from existing taxes, as I say, it will be interesting to see what happens when their 2-year exemption expires.

I would simply second Mr. Downs on the importance of section 402(a), and very briefly point out that the one aspect—Mr. Mead made a big point about the other revenues other than intercity revenues. It is important to note that some of those revenues are mail and express on intercity passenger trains which has always been considered an important part of a passenger train, historically and worldwide.

And second, that a lot of the other revenues are not new. I think they are gross revenues from the commuter contracts. There are lots of costs there as well. So I think that that table needed a little bit of explanation, and perhaps down-played a little bit too significantly the financial contribution that the intercity trains do make.

Thank you very much for your time.

Mr. SWIFT. Thank you very much for your testimony.

[Testimony resumes on p. 149.]

[The prepared statement of Mr. Capon follows:]

Statement of

Ross Capon

Executive Director

National Association of Railroad Passengers

Submitted to the Subcommittee on Transportation
and Hazardous Materials
The Honorable Al Swift, Chairman

Committee on Energy and Commerce

United States House of Representatives

Reauthorization of Amtrak

March 23, 1994

The National Association of Railroad Passengers is grateful for the leadership role this committee has played in the development and improvement of intercity rail passenger service in the U.S. Thank you also for the opportunity to present our views today.

We have a few suggestions regarding possible changes to the law but many more comments which seem appropriate in the wake of the GAO report, the March 17 hearing of the House Appropriations Subcommittee on Transportation and reference by some of its members to the need to identify more Amtrak services for discontinuance.

I. CHANGES IN THE LAW WE FAVOR

1. Congressional Findings: We recommend adding the words "environmentally beneficial" to the series that includes "modern, cost-efficient, and energy-efficient intercity railroad passenger service between crowded urban areas and in other parts of the country."

Amtrak's energy efficiency advantages are clear: on a systemwide basis, Oak Ridge National Laboratory figures indicate Amtrak consumes just 54% of the energy per passenger-mile that domestic airlines consume (Amtrak: 2,609 BTU's per passenger-mile; airlines: 4,811). In addition, from 1982 to 1990, Amtrak energy consumption per passenger-mile fell 2.4% while that for domestic airlines fell only 0.8%. As corridor services are improved, Amtrak's overall energy-efficiency showing likewise should improve further.

It is all too easy to have lengthy discussions about Amtrak's costs with little or no reference to the environment. While energy efficiency is a rough proxy for line-haul air pollution, environmental benefits involve a broader range of issues and deserve specific mention in the findings. Amtrak offers air pollution benefits not captured in the Oak Ridge figures. Downtown transit-accessible stations mean fewer people rely on single-occupant automobiles to access Amtrak than airplanes. The energy-efficient ease with which trains make intermediate stops (compared with airplanes) means many people who drive to the train need not drive as far as to the plane.

Regarding water pollution, railroad beds through which water can drain are far more benign than are paved roads and runways. And we all know the noise pollution issues which have helped stymie construction of new airports.

2. Amtrak's Board of Directors: We remain concerned that there is no consumer representation on the Amtrak Board. We strongly urge the committee to look favorably on the following Senate-passed Amtrak authorization wording (in S. 2608) of two years ago:

> Section 303(a)(1)(E) of the Rail Passenger Service Act (45 U.S.C. 543 (a)(1)(E)) is amended by adding at the end the following: "one of such members shall be specially qualified to represent the interests of rail passengers and shall be selected from a list of three qualified individuals recommended by the National Association of Railroad Passengers.".

Previous experience with a vaguer provision for a consumer representative proved to us that specific reference to our 27-year-old association is necessary to get real consumer representation. Obviously the provision could be changed if our organization ever ceased to exist or ceased to be worthy of mention in the same context as, for example, the Railway Labor Executives Association, which currently provides a list from which the President must select one Amtrak board member.

3. North Station-South Station Central Artery Rail Link in Boston: We are pleased to report that the Massachusetts Joint Legislative Committee on Transportation voted on March 16 in favor of $60 million proposed by the governor as part of the state's share of the rail link. We urge this committee to recognize the regional and national significance of this link and to authorize such sums as may be necessary for its construction. As you may know, $4 million of the FY '93 supplemental capital appropriation was earmarked for the rail link.

Boston is the only metropolitan region Amtrak cannot "drive through." Foreign planners would laugh at the fact that our Northeast Corridor slams into a wall at Boston's South Station. The improved Corridor's competitiveness will be greatly enhanced by enabling Amtrak to provide single-seat rides to Maine, New Hampshire and northeastern Massachusetts. This through service may do as much as higher speeds to increase the Boston-New York rail line's market penetration.

One illustration: the high share of riders on the Paris-Lyons TGV line whose trips involve travel over conventional lines beyond Lyons. In 1990, a European railway official reported that "of the 17 millions passengers who traveled on the TGV South East line in 1988, only 5 million went between Paris and Lyon, the city pair that marks for the moment the end points of the high speed line."

<u>4. State Supported Amtrak Services:</u> We applaud inclusion in the current authorization of funds earmarked specifically for new 403(b) services. We urge the committee to hold firm in continuing this approach.

We have grave reservations about suggestions that there be a seven year phase-out period for the Amtrak (i.e., federal) share of 403(b) funding. Perhaps the single biggest problem with current federal transportation policy is the virtual lack of federal matching funds (except through Section 403(b)) for state investments in rail, including failure of Congress to incorporate the Senate-passed ISTEA language that would have given states the general right to spend their flexible highway funds on intercity passenger rail projects.

We fear a phase-out would erode one good aspect of federal matching-funds policy--Amtrak's share of existing 403(b) services.

We strongly support the expansion of the 403(b) program to include new routes. In most cases, this will depend on Amtrak's ability to contribute a reasonable share of the costs. Therefore, if expansion absolutely depends on the seven-year phaseout, we will understand. Nevertheless, the phaseout looks like bad policy, cut from the same cloth as President Clinton's proposal to reduce already-minimal federal transit operating grants. Instead of the phaseout, we would rather see 403(b) dealt with more generously as part of an overall shift in federal resources.

<u>5. Provide Adequate Resources for Amtrak:</u> We support the funding levels Amtrak has requested. Mr. Chairman, we appreciate your work on behalf of the "Amtrak penny," including your introduction of H.R. 4414 two years ago.

The history of federal highway appropriations (obligation limits) underscores the logic of earmarking a penny of the existing federal highway tax for intercity passenger rail, or of finding some other way to improve the balance between highway and rail spending.

FEDERAL HIGHWAY APPROPRIATIONS AND OBLIGATION LIMITATIONS

		CHANGE FROM		
	(billions)	FY '94	FY '93	FY '82
FY '95 Budget Request	$20.162	+0.9%	+10.5%	+136.3%
FY '94 Enacted	$19.965	---	+ 9.4%	+134.0%
FY '93 Actual	$18.254	---	---	+113.9%
FY '84 Actual	$13.259			
FY '82 Actual	$8.533			

The $175 million difference between the administration's Amtrak-and-high-speed-rail request and Amtrak's request for FY '95 is less than the $197 million highway spending increase proposed for FY '95 and far less than the $1.7 billion increase highways enjoyed from FY '93 to '94.

Federal spending on intercity passenger rail as a percentage of federal highway/aviation/intercity passenger rail spending declined from 7.3% in FY '82 to 3.2% in FY '94 and would drop to 3.1% under the administration's budget (see Appendix I).

Finally, looked at in the painful way that Amtrak's management must confront, the "try-to-catchup" game Amtrak now plays stems from paltry capital funding during the 1980s and the consequent failure in that decade to move expeditiously on upgrading maintenance facilities and replacing obsolete rolling stock.

In particular, in the six years FY 1985-1990, federal grants for Amtrak capital and the Northeast Corridor Improvement Project averaged a total of $97 million a year, 77% below the FY '94 level of $420 million and 82% below the FY '81 level of $537 million.

We do not believe these spending trends reflect what the American public wants. Now that the General Accounting Office is reinforcing the message of our Association and two Amtrak presidents about Amtrak's needs, and we have a generally supportive administration, we hope those needs can be met more fully.

<u>GAO's Portrait is a Bit Too Bleak:</u> We think there are some factors that will rapidly improve at Amtrak which may not be fully reflected in GAO's report. First of all, the total ban of smoking on Amtrak which seems to be approaching is likely to improve the revenues-to-costs ratio. The equipment cleaning costs imposed by smokers will become history, meaning one less

reason for some passengers to swear they will never ride again: current policies often antagonize both smokers and non-smokers.

Second, Amtrak costs have soared and revenues plummetted during severe winter weather because of equipment designs that (we assume) Amtrak is taking steps to avoid on future orders and to solve with retrofits on existing equipment. One example: on Amtrak-purchased Amfleet and Horizon cars, ice and snow get into the areas where the retractable doors must move when open, giving Amtrak a choice between ripping the car apart or waiting until it thaws. To make sure passengers can enter and exit Horizon fleet trains reliably, Amtrak put a Heritage car (with old-fashioned, reliable hinged doors) in some of the Horizon trainsets.

Finally, we question GAO's view that federal corridor development funds must be "focused" on two or three incremental projects. We think the federal government needs to be ready with a reasonable matching share every time a state steps up to the plate with a reasonable project. That is the spirit of the President's original high speed legislation and should be held to even if Amtrak and the Rail Passenger Service Act are the ultimate legislative vehicles used. Completion of the Boston-New York project will demonstrate what is possible; "focussing" of funds as GAO suggests implies to us unfairly locking out some states ready to move forward with balanced transportation.

6. We also support the proposals contained in Amtrak's Legislative Proposal with respect to: dedicated source of funds, improving safety at grade crossings, assigning appropriate environmental responsibility and exempting NECIP from local planning ordinances.

II. CHANGES IN THE LAW WE OPPOSE

1. Section 402(a). We support Amtrak's analysis, in its "FY95 Legislative Program," of the importance of this section and of making no changes that would impact negatively on Amtrak. Much has been written of the significance of the 1996 contract expirations by people apparently unaware of the importance of this section which is not set to expire and certainly should not expire.

2. Amtrak Service Reductions: The service Amtrak currently provides is the minimum acceptable. Indeed, for most of our members, the service is below the minimum acceptable. We strenuously oppose proposals to make additional service cuts beyond those implemented in 1979, 1981 and 1993 or to set up a process to perform more studies on prospects for such cuts.

We are alarmed by suggestions that more cuts might be appropriate because Europe is different from the U.S. No one is suggesting anything approaching Northeast Corridor-type service for those portions of the U.S. which are lightly populated.

Amtrak service already is so sparse that virtually any proposal to cut more would be derided as a political attack aimed at this or that key city or political leader.

Arizona and New Mexico have one train a day in the north and three trains a week in the south....There are three trains a week across West Virginia, Wyoming and southern Idaho, and one train a day across Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, Nevada, North Dakota, Vermont, Wisconsin, and in tiny corner of New Hampshire (Claremont Junction)....Outside of the Chicago-Milwaukee corridor, Wisconsin has only one train a day.... Tennessee has service only in the far west--one train (both ways in the middle of the night) at Memphis and Dyersburg. Kentucky has one train a day at Fulton in the west and three a week in the northeast (South Portsmouth, Maysville and near Ashland).... Oklahoma and South Dakota have no service.

West Virginia: Since this state took such a beating in last week's hearing, it is important to emphasize the vast improvement of the cost-effectiveness of Amtrak service in this state. Certainly few of our members would defend the operation of a mostly-empty turbotrain between Washington and Parkersburg, as happened for a time in Amtrak's early years. As recently as 1981, three different routes crossed West Virginia and enjoyed daily service.

Today, however, all that survives is the thrice-weekly *Cardinal*, which is heavily used. In 1981, this service was transformed from a daily Washington-Chicago train to a thrice-weekly New York-Washington-Chicago train. The reduction in service frequency and the addition of through service to New Carrollton/Baltimore/Philadelphia/Trenton/Newark/New York has insured much heavier utilization per trip--so much so that Amtrak is planning to provide full dining service on the train beginning May 1. Overall, Amtrak projects a 4% improvement in the train's revenue-to-cost ratio from FY '93 to FY '94.

Moreover, discontinuance of the *Cardinal* would leave Cincinnati with no service; Cincinnati would then replace Columbus, Ohio, as the nation's largest metropolitan area without passenger trains. Northwest Kentucky would lose all service (leaving that state only with one middle-of-the-night service daily in Fulton out west), as would some cities in Virginia and Indiana.

More reductions to tri-weekly service is not the answer. Today's daily long-distance services have such strong mail, express and passenger revenues that service frequency reductions would be harmful and would not lead to the types of improvements that Amtrak has projected for the two routes reduced to tri-weekly last year.

ALL of today's trains are well-used. One measure of this is the growth of travel on Amtrak as measured in passenger-miles. (A passenger-mile is one passenger traveling one mile.) Amtrak posted nine consecutive travel increases, with intercity passenger-miles rising from 4.2 billion in FY '82 to 6.3 billion in FY '91. After dropping to 6.1 billion in FY '92, Amtrak bounced back to 6.2 billion in FY '93.

Amtrak serves lower income people. While Kenneth Mead last week effectively made the point that per-passenger subsidies are far higher in the Essential Air Service program than on Amtrak, it must be noted that the EAS program also involves very high fares, insuring that most subsidized passengers have fairly high incomes. However, almost by definition, the average incomes of people who will sit up on overnight trains will be much lower. (The majority of long-distance passengers are coach.)

While Metroliner passengers have high average incomes, they also pay very high fares. Obviously, any successful rail program to relieve airport and airways congestion must attract business and other higher-income travelers.

It is fanciful to assume that the match between resources and service could be improved by cutting service. First, further service cuts to save money would require repeal of labor protection which we think is unlikely and inappropriate (see separate section on labor). Second, if subsidy-reducing cuts were possible, they would further erode support on Capitol Hill for Amtrak, probably resulting in a further subsidy cut.

Today's service is far more cost-effective that what came before Amtrak. Further capital investment will reduce further Amtrak's operating costs, but even last year Amtrak handled about 25% more passenger-miles than the private railroads handled in 1970. According to the GAO, "the combined losses of the railroads operating during 1970 totaled more than $1.7 billion in today's dollars. In comparison, Amtrak in 1993 received federal support totaling $891.5 million. [including NECIP funds]."

In light of all of the above, and the extensive subsidies provided to other modes (see Appendix II), we urge the committee to oppose any proposals to create a procedure for studying new service cuts.

3. Labor Protection. At first glance, one might ask: why should Amtrak workers enjoy protections that most other U.S. workers do not? However, we see this provision as providing "service protection"--one of the few protections afforded users of a neglected form of transportation in the U.S. That is because the only talk we have heard about repealing labor protection comes from people anxious to find ways to reduce further the already-sparse service Amtrak provides. There is a federal interest in seeing Amtrak and some of its unions make further progress on work rule reform, but progress there could only be set back by any serious campaign to repeal Amtrak-related labor protection provisions. We hope no such campaign develops.

Thank you for considering our views.

APPENDIX I.

Appropriations and Obligation Limitations in Appropriation Acts

NOTE: For each year shown, first line is for current year dollar amounts. Second (*italicized*) line is the same amount in 1983 dollars.

($ billions)

	Highways	Aviation	Amtrak/H.S.R.	Rail as percent of road-air-rail total
1994	$19.965	$8.645	$0.912	3.1%
1993	18.254	8.862	0.896	3.2
1992	18.585	8.887	0.860	3.0
1991	15.088	8.137	0.815	3.4
	11.078	*5.974*	*0.598*	
1990	13.560	7.141	0.629	2.9
	10.375	*5.487*	*0.481*	
1989	12.242	6.390	0.604	3.1
	9.873	*5.153*	*0.487*	
1988	11.967	5.714	0.609	3.3
	10.116	*4.830*	*0.515*	
1987	13.035	5.170	0.619	3.3
	11.474	*4.551*	*0.545*	
1986	13.562	4.640	0.603	3.2
	12.374	*4.234*	*0.550*	
1985	14.189	5.184	0.712	3.5
	13.187	*4.818*	*0.662*	
1984	13.259	4.065	0.816	4.5
	12.761	*3.912*	*0.785*	
1983	13.465	4.031	0.815	4.5
	13.519	*4.047*	*0.818*	
1982	8.533	2.930	0.905	7.3
	8.842	*3.036*	*0.938*	
Change 1982-94, current dollars				
	+134.0%	+195.1%	+0.8%	
Change 1982-91, current dollars				
	+76.8%	+177.7%	-11.0%	
Change 1982-91, In 1983 dollars				
	+25.3%	*+96.8%*	*-36.2%*	

—Source: Various Department of Transportation Budgets in Brief.
—National Association of Railroad Passengers, February 1994.

APPENDIX II. SUBSIDIES TO OTHER MODES.

In 1992, highways got $19.6 billion in non-user taxes, including $12.3 billion in general fund appropriations, $4.5 billion in property taxes and assessments, and $2.8 billion in other taxes/fees. The 1992 total in these categories is up 7% from the 1990 level of $18.3 billion and is up 56% from the 1982 level of $12.6 billion.

These figures, taken from the Federal Highway Administration's *Highway Statistics* (table HF-10), exclude highway-related costs of police and fire depts., emergency medical service providers, city/county prosecutors, and tax losses from land paved for automotive purposes.

According to Micheal Renner of the Worldwatch Institute, in "Rethinking the Role of the Automobile" (June 1988), "A full accounting of the manifold subsidies the automobile receives, plus the environmental and health costs it entails, might cool the passion felt for cars....In the U. S., total subsidies may surpass $300 billion each year--an amount equal to all personal auto-related expenditures. A preliminary, conservative estimate puts the subsidy at some $2,400 for every passenger car. If these expenses were reflected in retail fuel prices, a gallon of gasoline might cost as much as $4.50. Furthermore, other, less quantifiable costs of the auto system are disregarded in conventional analyses as mere 'externalities.' An environment tax, assessed either on automobiles or fuels, would help internalize these costs."

James J. MacKenzie of the World Resources Institute reached similar conclusions in his 1992 paper, *THE GOING RATE: What it Really Costs to Drive.*

Railroad passengers paid $2.0 billion worth of federal passenger ticket taxes from 1942 through 1962. [Rail freight shippers paid $3.1 bill. in federal freight waybill taxes 1942-1958]. (These sums would be far larger if stated in 1992 dollars!) The Senate Commerce Committee's Doyle Report ("National Transportation Policy," 6/26/61) cited this tax as "one of the factors under Federal control which favors the growth of private transp. and makes the preservation of public service more difficult."

Federal aviation subsidies through mid-1988 totaled $32.8 billion (adding figures in the next two paragraphs). This excludes spin-off benefits to airlines from the military aerospace research program; the airports' tax-free bonds; and the costs of unnecessary damage to the environment and our trade deficit caused by overdependence on short-distance flights and neglect of high speed rail. (The national Amtrak system averages just half the airlines' fuel consumption per passenger-mile; high-speed trains would do even better!)

[Air passengers also paid the federal passenger ticket tax (originally imposed as a war emergency measure), but the federal government was busily investing in air facilities at almost five times the rate at which air ticket tax revenues were being collected. "Airport and airway development costs incurred prior to the assessment of user charges in 1971 have been treated as sunk costs, none of which have been or will be paid for by air carriers and other system users....these sunk costs total $15.8 billion." --*Study of Federal Aid to Rail Transportation*, U. S. Department of Transportation, January 1977 (under Pres. Ford). (Air passengers paid no federal ticket tax 1963-70.)]

Based on the FAA's estimate "that private-sector users are responsible for about 85% of FAA's spending for aviation programs," the Congressional Budget Office (CBO) concluded that private-sector air users "have received a general fund subsidy of $17 billion, which is equal to the difference between the private-sector share of FAA spending and aviation-related excise taxes since the start of the trust fund." CBO special study, *The Status of the Airport and Airway Trust Fund*, December 1988.

If air users "paid for all the costs" they cause, the air trust fund "would be running a deficit of more than $1 bill. annually." --Victor S. Rezendes, Assoc. Dir.--Transp. Issues, General Accounting Office, May 11, 1989, Testimony before the Senate Appropiations Subcommittee on Transportation.

AIRPORTS "NEED" TAX-FREE BONDS: "It is inconceivable that a modern airport, which under the existing tax code includes such public service accommodations as terminals and their related retail stores, runways, hangars, loading facilities, cargo buildings, parking areas and maintenance bases, as well as appropriately sized inflight meal facilities, hotels and meeting facilities, could be provided on any adequate scale by taxable financing." --Robert J. Aaronson, (then-)Dir. of Aviation, Port Authority of New York and New Jersey, in *Aviation Week & Space Technology*, September 16, 1985.

Mr. SWIFT. Ms. Parcells.

STATEMENT OF HARRIET PARCELLS

Ms. PARCELLS. Yes. Chairman Swift, thank you very much for the opportunity to testify here today, and also we thank the committee for its longstanding support of an improved and expanded intercity passenger rail system.

I am the Project Director of the Campaign for New Transportation Priorities, CNTP, which is a coalition of 53 environmental, labor and consumer groups from across the country that are working together for a more balanced and intermodal transportation system with greater investment in intercity passenger trains and Amtrak and urban mass transit and other energy efficient and clean modes.

And among the groups that I am speaking here on behalf of today are environmental groups such as the Sierra Club and Friends of the Earth, labor groups such as the Amalgamated Transit Union and the Sheet Metal Workers Union of Delaware that is part of our coalition, the Clean Air Council based in Philadelphia, the Gray Panthers of Berkeley representing senior citizens, the National Council of Churches, and there are many transit and consumer groups that are very active at the local and regional level that are part of our network.

We strongly support increased investments in rail to improve the existing Amtrak system and provide expanded service and higher speed rail in key corridors of the country. And our support for increased investment in rail is based on the many important benefits that investments in Amtrak and higher speed rail will yield to the country. These are economic benefits to congested metropolitan areas and to smaller communities throughout the country, environmental benefits of improved air quality and helping to bring about more energy efficient land-use patterns, greater energy efficiency and important quality of life benefits, and these are crucial benefits that don't get reflected by the number crunchers in their cost-benefit analyses.

And we fully agree with your comments about the need to come up with a good comparison of the costs and benefits of different passenger modes. Rail is being shortchanged by the failure to do this.

The realization that we cannot pave our way out of the growing demand for travel, combined with the mandates of the Clean Air Act Amendments of 1990 and improved State and regional planning that is required under ISTEA are bringing about a needed rethinking in the way transportation problems are addressed.

And as a fundamental part of this rethinking is the renewed interest at all levels of government, in the business community, and certainly in the public at large, and the potential of Amtrak and rail transit to help the country achieve a more productive, cost effective and environmentally sound transportation system.

And I was recently up in the Northwest and I couldn't help but be impressed by the broad base of support that exists among the business community, the public, State and local officials to bring about improved rail service and the cooperation that is taking place among the States of Washington and Oregon and British Columbia to make this a reality.

Americans throughout the country have shown their willingness to get out of the frustration of congested highways and airports, and ride the train. But greater investments in Amtrak capital and operations will be crucial to continuing this positive trend.

And to help address Amtrak capital needs we support the establishment of a dedicated source of funds as proposed by Amtrak here today. We believe this would provide the stable source of funding and allow Amtrak to leverage additional capital funds, just as other modes have been able to do, highways and aviation, for a long time, and we greatly appreciate your leadership in the area of a dedicated source of funding and we are on record as supporting H.R. 4414 which you authored.

I would just like to highlight some of the important benefits that investments in rail can bring. First of all, as you know, congestion is costing the economy billions annually, and much of this is concentrated in urban areas and corridors where greater investment in Amtrak could provide a cost effective alternative to costly and land-consuming highway and airport expansions.

We have evidence of the success and the importance of a high-speed reliable rail service in what we see between Washington, D.C., and New York, and we strongly support the electrification of the Northeast Corridor between new Haven and Boston, and also we support inclusion of a rail link in the central artery up in Boston which we believe will deliver substantial regional as well as national benefits and we urge the committee to provide a strong level of funding for these important capital projects.

Trains are energy efficient and they can help reduce U.S. dependence on foreign oil, a compelling reason for greater investment in Amtrak and higher speed rails is that trains are a highly energy efficient means of moving people. Travel by Amtrak today is nearly two times as energy efficient as travel by commercial airline, and travel by higher speed rail holds the potential for far greater efficiencies, on the order of four times the energy efficiency of commercial air travel.

In addition, unlike airports which tend to generate outlying auto-dependent development, investments in rail can help focus development back into our urban downtowns and serve as catalysts for more energy efficient metropolitan area development, and also strengthen the tax base of the Nation's cities.

Since lower energy consumption translates into lower air pollution, investments in intercity rail and within the metropolitan areas in rail transit help reduce harmful air pollutants. Travel by Amtrak and high-speed rail offer substantial reductions in harmful air pollutants of carbon monoxide, volatile organic compounds that are the precursors of urban smog, and of carbon dioxide which is the predominant global greenhouse gas.

Finally, investment in Amtrak, high-speed rail and urban rail transit should be considered one of the most efficient ways to prime the economic pump during the post-Cold War transition from military to civilian investments.

Construction of new rail equipment and development of advanced communications systems and computer software networks would create jobs and bring important economic and environmental benefits to the country.

I would like to say that I believe the extent to which the defense industry turns its skills and knowledge to these beneficial domestic uses will depend in large part on the sense of commitment that the private sector see as coming from the Federal Government towards public transportation.

Our European allies understand the important role that improved rail service can play and are investing billions of dollars in linking together European cities with a modern high-speed rail network. CNTP urges Congress to move forward with legislation and funding for Amtrak and higher speed rail service that will put the United States on a more sustainable and economically competitive track to the future.

Thank you, Mr. Chairman for the opportunity to be here today.

[The prepared statement of Ms. Parcells follows:]

Campaign for New Transportation Priorities

900 Second Street, NE, Suite 308
Washington, DC 20002

Phone (202) 408-8362
Fax (202) 408-8287

Testimony of Harriet Parcells, Project Director
Campaign for New Transportation Priorities

before the
Subcommittee on Transportation and
Hazardous Materials
Chairman, The Honorable Al Swift
House Committee on Energy and Commerce

Hearings on the Reauthorization of Amtrak
March 23, 1994

Chairman Swift and other distinguished Members of the Subcommittee, I want to thank you for the opportunity to testify here today on the reauthorization of Amtrak and to express our coalition's appreciation to the committee for its leadership in improving the nation's passenger rail system.

My name is Harriet Parcells. I am the Project Director of the Campaign for New Transportation Priorities (CNTP), a network of 53 national and local environmental, labor, religious and consumer groups from around the country, working together for a more balanced and integrated transportation system with greater investment in intercity passenger trains, urban mass transit and other clean, energy-efficient modes. CNTP also works for better linkages between transportation and land use planning and changes in the tax code which now favors cars and trucks over more energy-efficient alternatives.

CNTP strongly supports increased investments in rail to improve existing Amtrak service and provide expanded service and higher speed rail service in key corridors of the country. Our support for increased investment in rail has nothing to do with nostalgia. It is based on the many important benefits that investments in Amtrak and higher speed rail will yield for the country: economic benefits to congested metropolitan areas and smaller communities throughout the country; environmental benefits of improved air quality and more energy-efficient land use patterns that can help preserve open space and minimize urban sprawl; greater energy-efficiency and important quality of life benefits for all segments of society.

The realization that we cannot "pave our way out" of the growing demand for travel, combined with the mandates of the Clean Air Act Amendments of 1990 and the improved state and regional planning requirements of ISTEA are bringing about a needed rethinking of the way transportation problems are addressed. A fundamental part of this rethinking is the renewed interest at all levels of government, the business community and the general public in the potential of intercity rail and rail transit to help the country achieve a more productive, cost-effective and environmentally-sound transportation system.

I just returned from a trip to the Northwest, where I visited Vancouver, Washington and Portland, Oregon and could not help but be impressed by the widespread support that exists for improved rail service and the cooperation that is taking place between the states of Washington and Oregon and British Columbia in Canada to make this a reality. The business community views improved rail service as a vital link in economy of the "Cascadia Corridor" and is working closely with state and local officials to make higher speed rail a cornerstone of cooperation and economic ties in the region.

Americans throughout the country have demonstrated their willingness to escape the frustration of congested highways and airports and climb aboard the train: travel on Amtrak rose 48% between 1982 and 1993, from 4.2 billion passenger-miles in 1982 to 6.2 billion in 1993. Greater investment in Amtrak capital and operations is crucial, however, to the continuation of this positive trend.

Investments in Rail are a Cost-Effective Alternative to New Highways and Airports

Congestion is costing the U.S. economy billions annually: highway congestion is estimated to cost $40 billion/year and airport congestion at the nation's 21 largest airports costs some $5 billion/year. Much of this congestion is concentrated in urban areas and corridors where greater investment in Amtrak could provide a cost-effective alternative to highway and airport expansions.

As this Subcommittee knows, Amtrak's high speed, reliable service between Washington D.C. and New York has clearly demonstrated the importance and ridership potential of high quality rail service. Amtrak is the number one carrier in this market, with 43% of the air-rail market (74% when intermediate points are included). Without this vital Amtrak service, conservative estimates suggest there would be a 36% increase in air passengers in the NY-Washington market, exacerbating the already strained capacity of airports in the New York and Washington regions.

Improved rail service would provide a cost-effective alternative to highway and airport expansions in other corridors of the country. The pricetag of the Lake Calumet Airport site in the Chicago region was estimated at $10 billion. Beyond the high cost, there was strong public resistance to the airport on environmental, noise, quality of life and other grounds. Improved rail service between Chicago-Detroit, Chicago-St. Louis and Chicago-Milwaukee would relieve congested Chicago airports of many short-haul air trips that take up airport gates, at a fraction of the cost of a new airport. Improved rail service in the Northwest, along the California coast, in Florida and other key corridors of the country would similarly provide significant congestion and other benefits.

Trains are Energy-Efficient and Can Help Reduce U.S. Dependence on Foreign Oil

A compelling reason for greater investment in Amtrak and higher speed rail is that trains are a highly energy-efficient means of moving people. Travel by Amtrak today is nearly two times as energy-efficient as travel by commercial airline: 2,609 btu's per passenger-mile compared to 4,811 btu's per passenger mile for commercial air travel (Source: Oak Ridge National Labs, "Transportation Energy Databook, Edition 13). Travel by improved, higher speed rail holds the potential for greater energy-efficiency--on the order of 4 times the energy-efficiency of commerical air travel (Source: "In Pursuit of Speed," Transportation Research Board).

Unlike airports which tend to generate outlying, auto-dependent commercial/retail developments, investments in rail can help focus development back into urban downtowns, serving as catalysts for more energy-efficient metropolitan area development and strengthening the tax base of the nation's cities. Restoration of Union Station here in Washington D.C. or Philadelphia's 30th Street Station have brought new commercial and retail development and tax revenues to the city treasuries.

The energy benefits of rail are multiplied by the fact that people who ride trains frequently access and egress the train stations by public transportation.

Greater energy-efficiency in transportation is crucial to U.S. national security and economic competitiveness. Transportation consumes the lion's share of oil in the U.S.--about 63% of all U.S. oil consumption--most of this consumed by the growing fleet of cars and trucks on our roads and highways. The cost to the U.S. economy from its auto and truck dependence is high: in 1992, the U.S. imported 7.9 million barrels of oil/day and sent $51.8 billion overseas to pay for oil imports. Greater investment in rail and other energy-efficient modes would help reduce this costly dependence on foreign oil and enhance the national security of the country.

Trains Help Improve Air Quality

Lower energy consumption translates into lower air pollution. Thus, investments in intercity rail and, within metropolitan areas, by rail transit, help reduce harmful air pollutants. Travel by Amtrak and higher speed rail offers substantial reductions in harmful air pollutants of carbon monoxide, volatile organic compounds that are the precursors of smog and of carbon dioxide, the predominant global greenhouse gas.

A 1992 study of possible improvements to Amtrak's Chicago-Detroit corridor found that current Amtrak service provides significanat air quality benefits and that implementation of high speed electric rail service would significantly increase these benefits. Moreover, the high speed trains are projected to attract 5-14 times more passengers to rail, multiplying the air quality benefits (Source: "On the Right Track," Envitrak and the Natural Resources Defense Council).

Investments in Rail: Economic Conversion and Technology Transfer Potential

The end of the Cold War and the reductions in military spending it makes possible present the U.S. with an opportunity to redirect financial resources and jobs toward important domestic needs. Construction of new rail equipment and development of advanced communications and computer software systems to improve the efficiency of passenger and freight rail networks would create jobs and bring important economic and environmental benefits for the country.

The May 7, 1993, New York Times carried an article in the Business Section entitled, "Arms makers Vie to Build Rail Cars." The article describes how in Southern California, large military contractors have joined forces with established railcar manufacturers to seek work building railcars and developing technologically advanced transportation products that can be used not only in Southern California but throughout the world. Work that can be pursued in partnerships between the transportation industry and military contractors includes: lightweight frames for railcars and buses using the same composite materials that the military contractors use in rocket and missle designs; safer braking and more fuel-efficient propulsion systems for rail cars.

The extent to which the defense industry turns its skills and knowledge to these beneficial domestic uses will depend in large part on the sense of commitment it sees from the federal government toward public transportation.

Investments in Amtrak and higher speed rail will yield substantial economic, environmental and energy benefits. Our European allies understand the important role that improved rail service can play and are investing billions in linking together European cities with a modern, high speed rail network. CNTP urges the Congress to move forward with legislation and funding that will put the U.S. on a more sustainable and economically competitive track to the future.

Thank you Mr. Chairman and Members of the Committee for the opportunity to appear here today.

Mr. SWIFT. Well, thank you both. I think you helped enormously in making some basic points that perhaps we have been remiss in not making more strongly on earlier occasions.

Let's talk a little bit about the energy efficiency and environmental benefits of this. I asked both Ms. Molitoris and Mr. Downs how they are going to quantify environmental benefits, and any reductions in the need for alternative transportation investments because of increased investment in Amtrak, and I would like to ask you the same question.

How do you go about doing that in a credible fashion, so that the public can rely on it and it can be used, frankly, in debate here, as we struggle to try and get a better break for rail passenger service?

I address that to either of you, both of you.

Mr. CAPON. I will give the simplest fact and let Harriet do the hard part.

The Oak Ridge National Laboratory every year puts out a document which indicates the amount of energy per passenger mile. It is a big document with lots of interesting statistics. But one of the tables is "Energy Consumed, Btu's Per Passenger Mile by Mode," and that is the source of Harriet's statement that the Btu's consumed by Amtrak, those are 1990 figures, are actually about 54 percent of what was consumed by the airlines.

In fact, at the bottom of the first page of my testimony, the number of Btu's is shown. Amtrak has 2,600 and the airlines are about 4,800. And the table also shows that during the 8 years, or during the period from 1982 to 1990 Amtrak energy consumption per passenger mile fell 2.4 percent while that for domestic airlines fell only .8 percent.

And, as you know from this morning and from your work, the vast fleet of 40-year-old cars that Amtrak runs is not conducive to great energy efficiency, and the fact that Amtrak is able to turn out those numbers, even while over a quarter of its fleet is DC-3 age, is testimony to what Amtrak could do.

Now, that is—energy efficiency is probably a good proxy for air pollution, but there are other issues, water pollution and the external benefits of—external air pollution effects like the ability to have more of your passengers come to the train by mass transit than by car as compared with the airlines, which, of course, is not reflected in these figures.

And I will let Harriet continue.

Ms. PARCELLS. Well, I think Ross did a lot of the hard and the easy part of the answer, and I would underscore that there is the government's own national laboratory, the Oak Ridge National Lab, does document how much more energy efficient it is to travel per passenger mile by rail as opposed to by air or other modes.

So there is that very hard number, and beyond that there are studies—for example, there was a study that was done looking at improved rail service between Chicago and Detroit, just as an example, and it documented—it looked at both energy savings and the pollution which is linked to the energy efficiency of rail that would result from varying degrees of improvements to the rail service, and they are quite—they show in a table that there are very significant air pollution and energy benefits and that these would be multiplied with improved rail service, and particularly because of the fact that many more people are projected to be attracted to rail when it is a more improved service. And so you would have that many more people off the roads and on the trains and making the energy benefit even greater.

I guess one of the fuzzy areas that is harder but I think it is a very clear energy benefit is the fact that rail does help to refocus development back into our cities as opposed to when we build new airports they tend to—what you find around new airports is auto dependent development, both residential development that is in the suburbs and the office development.

You just need to look out at Dulles and look at what's going on on the Route 28 corridor. Most of that right now is auto-dependent development, and you have also I think the access and egress of passengers to and from the airport tends to be more by auto to airports than you would see in urban located rail stations.

So those things I think are somewhat harder to quantify, but I think they are a very important part of the equation, particularly as quality of life concerns come more to the forefront where people are concerned about loss of open space, sprawl, rail can be an important factor in helping to put development in a more concentrated development.

Mr. CAPON. I think we ought to say a few words about water pollution and toxic runoff, because the fact that water can drain through railroad beds gives the railroad an environmental advantage over airports and highways, something that the—the fact that we live near the Chesapeake Bay is frequently mentioned in the news media. In fact, even in this morning's Post.

Ms. PARCELLS. If I can just add—this is going into the end of it a bit, but it follows from the energy efficiency of rail. The 1992 study of possible improvements between Chicago and Detroit that I mentioned found, for example, that travel by air emits more than 2 times the amount of volatile organic compound pollutants into air than does Amtrak, and that auto travel emits nearly 8 times as much VOC pollutants, and this is measured in terms of grams per passenger mile.

So I think there are some studies that have been done. There are methodologies I am sure that can be used to document energy and air quality benefits. And I strongly support your statement that we need to do a study that really looks at these, generally these benefits that are not in the cost-benefit equation and that really would make rail a winner.

Mr. SWIFT. Thank you. Mr. Capon, you mentioned having a member of the board be a representative of consumers. Would you expand just a bit on what your suggestion is there?

Mr. CAPON. OK, well the suggestion is that one of the members of the board of directors be nominated by the President, selected from a list that our Association would provide in much the same manner as the Railway Labor Executives Association currently provides one.

I believe when this was being considered 2 years ago I was asked to provide a list of the characteristics of the kinds of people that will we would put on this and we would—we certainly would not put a rail fan on the list. We are, as observers of the public session of the board meetings, and as our president is a veteran top lawyer with Coca-Cola Corporation, we are very much aware of the hard decisions that Amtrak has to make and the fact that they are not always decisions that our constituency applauds. So what we are not looking for is someone who would try to throw a monkey wrench into those types of decisions but someone who would ensure that whatever decisions are made are made with a full recognition of the consumer's stake in the decisions.

I mean if you were to tell me that Tom Downs was going to be president forever and that his commitment that he's expressed to the consumer would last at that intensity forever, I might say, well this provision we are suggesting is not quite that important. But we know that things change and that there are times in the past when I think that having a consumer member on the board would have been extremely helpful.

We have suggested that there was a time, I believe early in Amtrak's history when there was nominally in the law a consumer representative. But as we saw it, the people nominated to this slot did not particularly represent consumers, so that is the reason we came to what might seem to be a somewhat self-serving suggestion and we think that, you know, if we ever went belly up as an association the law could be changed as it would be with the RLEA.

Mr. SWIFT. Well, thank you very much. I think this has been a very useful hearing, and I think that you two have been extremely useful in summarizing and wrapping it up. It does seem to me that perhaps more than any other Amtrak hearing we have ever held everybody was moving in the same direction, even though they are coming from different perspectives. FRA and GAO I think have helped to really highlight how it is going wrong, and to indicate in a very constructive way what needs to be done to get it turned around.

So I very much appreciate the contribution you have made to the work of the committee. Thank you very much.

The subcommittee stands adjourned.

[Whereupon, at 12:52 p.m., the hearing was adjourned.]

[The following material was received for the record:]

JACK REED
2ND DISTRICT, RHODE ISLAND

COMMITTEES
EDUCATION AND LABOR
JUDICIARY
MERCHANT MARINE AND FISHERIES
PERMANENT SELECT COMMITTEE
ON INTELLIGENCE

Congress of the United States
House of Representatives
Washington, DC 20515-3902

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☐ GARDEN CITY CENTER
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For Insertion into the Transportation Subcommittee's Official Hearing Record on H.R. 4111, March 23, 1994:

Statement of the Hon. Jack Reed
before the
Subcommittee on Transportation and Hazardous Materials
on the
Amtrak Investment Act of 1994, H.R. 4111

Mr. Chairman, I appreciate the opportunity to submit testimony for the Subcommittee's hearing on H.R. 4111, the Amtrak Investment Act.

As you know, Amtrak's priority capital project is electrification of the Northeast Corridor to reduce travel time between New York City and Boston. While I support the goal of electrification and its environmental and transportation benefits, I am convinced that Amtrak's current electrification plan jeopardizes freight rail service in Rhode Island as well as my state's efforts to develop the former Navy base at Davisville/Quonset Point in North Kingstown, Rhode Island.

Unfortunately, Amtrak's electrification design does not permit adequate access or sufficient vertical clearance for current or expanded levels of freight service.

Amtrak's electrification program requires the modification of almost 50 bridges in Rhode Island. Unfortunately, Amtrak's current modification plan, notwithstanding any Amtrak statements to the contrary, calls for bridge clearances of 16 feet, 8 inches. Not only would this plan compromise existing freight operations, it would preclude the planned introduction of modern double and triple stack carriers from the Port of Davisville since these carriers require clearances of 19 feet, 7 inches. Without a comprehensive bridge clearance improvement project, the long-term economic development of Southeastern New England will be seriously impacted.

Beyond the need for higher bridge clearances, Amtrak's plan to increase the amount of passenger train traffic through electrification will severely limit the access of freight trains to the Northeast Corridor. Indeed, the schedule modeling of freight rail concerns indicate that Rhode Island freight will only be allowed to move from 2 a.m. to 4 a.m. in the morning -- a schedule that business cannot and should not have to operate under.

The solution to this problem is to rehabilitate and construct a third track dedicated to preserving and expanding freight service in Rhode Island. It is estimated that this project would cost $100 million over a number of years, and the state of Rhode Island and its freight carrier aim to fund almost 50% of this project.

I have met with Amtrak's President, Tom Downs, FRA Administrator Jolene Molitoris, and Secretary Federico Pena to discuss this situation. To varying degrees they have recognized that the federal government has a responsibility to be involved in preserving freight rail and not jeopardizing my state's last chance at economic development --- the reuse of the Davisville/Quonset Point Navy base.

In a related matter, you may also be aware that the Federal Railroad Administration is required to draft an environmental impact study of the Northeast Corridor Improvement Project to address issues like Rhode Island freight rail. Although the draft study reflects the growing realization that the Northeast Corridor Improvement Project will affect freight rail and economic development efforts in Rhode Island, I am gravely concerned that the draft statement still does not recognize the imperative need to establish a dedicated, third track for modern freight service as well as future commuter rail opportunities.

The Northeast Corridor is our nation's only high-speed rail system, and I believe that it should serve as a model of how to design and construct any future high-speed rail program. In light of this, the Federal Railroad Administration needs to more adequately address several issues in the draft Environmental Impact Statement, the FRA Master Plan draft, and the portions of Amtrak's current electrification design which are under the FRA's oversight. Simply stated, the goal of the Corridor project should be to do no temporary nor permanent harm.

Rhode Island's current freight rail capabilities and its plans to develop a modern freight rail system must be maintained. It is also important to note that New England's beleaguered economy will lose yet another opportunity to rebuild itself without a modern regional transportation network to increase exports.

In closing, Mr. Chairman, I look forward to working with you and the other members of this subcommittee to ensure that the Amtrak Investment Act recognizes the potential negative impacts electrification may have for Rhode Island. Thank you.

National Railroad Passenger Corporation, 60 Massachusetts Avenue, N.E., Washington, D.C. 20002 Telephone (202) 906-3000

Amtrak

May 20, 1994

Honorable Jack Reed
U.S. House of Representatives
Washington, DC 20515

Dear Representative Reed:

Chairman Al Swift has provided me with a list of questions which you had for the hearing record on H.R. 4111, Amtrak Investment Act of 1994. These responses have been sent to the Subcommittee on Transportation and Hazardous Materials. For your information, enclosed are the responses which will appear in the record.

I appreciate your interest and will be happy to continue to work with you and your staff.

Sincerely,

Tim Gillespie
Vice President
Government and Public Affairs

Enclosures

cc: Representative Al Swift
Representative Michael Oxley

QUESTION: What actions will Amtrak undertake to preserve freight rail service in Rhode Island and permit full development of Quonset Point/Davisville?

ANSWER: With adequate mitigation now under consideration by the FRA, electrification of the rail line and proposed increases in Amtrak and Rhode Island commuter service, should not adversely impact existing freight service within Rhode Island. We understand that the P&W railroad agrees with this assessment.

With respect to construction of freight rail improvements, Amtrak has committed to ensuring that the design of its electrification system will not impede the future construction of the third track between Davisville and Boston Switch. To this end, Amtrak is taking a number of specific actions.

We have directed the electrification contractor to assume eventual construction of the third track along the two existing main line tracks. Thus, the electrification design will employ the use of portal structures where appropriate to span both the existing tracks and the areas required for the third track. This will minimize the amount of property (and associated environmental problems) that must be acquired to actually construct the third track.

Foundations for the portal structures will be based on the track profile projected for the third track. Because portions of the third track will have to be substantially lower than the existing mainline tracks in order to provide sufficient clearances, the foundations will have to be set deep enough to accommodate a finished track height that will be lower than it currently is today.

Track realignments, particularly on bridges, will be designed to assume addition of the third track. This will eliminate the need to realign the tracks a second time when installing the third track.

Bridge plans for the few bridges that Amtrak plans to raise or undercut between Davisville and Boston Switch are being shared with the state and with the P&W so that any incremental vertical or horizontal clearances required for double stacks can be undertaken (at the state's option) in conjunction with Amtrak's bridge work.

With these actions, construction of the third track will be able to proceed after construction of the electrification system.

QUESTION: If Amtrak does not support using a portion of the corporation's appropriation for a third track in Rhode Island, what is Amtrak's rationale?

ANSWER: The ability to move double stack cars to Davisville is an important goal of the state as necessary to develop the full potential of the Port of Davisville. Under the Railroad Revitalization and Regulatory Reform Act of 1976 (4-R Act), however, which created the Northeast Corridor Improvement Project, improvements to improve freight service are ranked as a lesser priority for funding than improvements that will benefit intercity and commuter rail passenger service. The new DOT Transportation Plan identifies in excess of $2.5 billion of improvements between New York and Boston that will be required over the next 20 years to ensure reliable three-hour intercity service and to recapitalize and expand the railroad to handle the projected growth in all rail services -- including freight -- using the rail line. These improvements must be undertaken simply to meet 4-R Act goals and to ensure the viability of the existing rail line. While Amtrak supports construction of a third track in Rhode Island as a means of addressing the state's desire to develop the Port of Davisville, the use of NECIP funds for this project is not consistent with the statutory priorities established in the 4-R Act.

QUESTION: In light of Amtrak's perpetual easement agreements with Rhode Island's freight carrier, what are Amtrak's views on the legal ramifications of proceeding with current NECIP plans without concurrent construction of the third track for freight and commuter service?

ANSWER: Under various agreements with Amtrak, the P&W has a "perpetual" easement to operate freight in Rhode Island on the Northeast Corridor. Amtrak interprets these agreements to require that Amtrak take no unreasonable actions to adversely impact the P&W's ability to carry freight. It is Amtrak's belief that mitigation now under consideration by the FRA -- construction of various sidings -- will in fact eliminate any adverse impacts on freight service resulting from increased intercity and Rhode Island commuter service.

Double stack and tri-level freight cars cannot now be used in Rhode Island because of inadequate bridge clearances. It is Amtrak's opinion that the "perpetual" right to carry freight does not impose on Amtrak a requirement to provide adequate clearances for types of freight cars that the P&W cannot now operate in Rhode Island. P&W will be able to operate its existing freight service even after electrification. Thus, construction of the third track is not necessary to eliminate any unreasonable impact resulting from improvements under the Northeast Corridor Improvement Project.

QUESTION: Are the potential litigation and settlement costs of not building a third track greater than the cost of building a third track?

ANSWER: Amtrak anticipates no adverse impacts on existing freight service resulting from improvement of the Northeast Corridor. Construction of sidings, under consideration by the FRA as mitigation, would ensure the P&W's ability to move freight trains consistent with today's schedules. Bridge clearances will be maintained at a sufficient height to permit the movement of the type of cars currently operated by the P&W. As a result, Amtrak does not expect litigation costs related to this issue.

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National Association of Railroad Passengers

March 25, 1994

The Honorable Al Swift, Chairman
Subcommittee on Transportation
and Hazardous Materials
Committee on Energy and Commerce
Washington, DC 20515

RE: March 23 Hearing on Amtrak Reauthorization

Dear Mr. Chairman:

The description of Amtrak's service to lightly-populated areas on page 6 of my written statement contained two errors.

First, I said Nevada has one train a day. In fact, two Amtrak routes cross that state, each with one daily schedule. The *California Zephyr* from San Francisco and Reno and the *Desert Wind* from Los Angeles and Las Vegas combine at Salt Lake City and run as a single train to Denver, Omaha and Chicago (vice versa westbound).

Second, I said West Virginia now is served only by the thrice-weekly *Cardinal*. This overlooks daily service to Harpers Ferry and Martinsburg provided by Amtrak's Washington-Pittsburgh-Cleveland-Chicago *Capitol Ltd.* This service actually reinforces my general point: Amtrak services have been rationalized in ways that make commercial sense. Today's *Capitol Ltd.*, with strong passenger and mail revenues, replaced Amtrak's former service to Harpers Ferry and Martinsburg--the lightly-used Washington-Parkersburg-Cincinnati *Shenandoah*.

Thank you for including this letter in the record. Thank you again for the opportunity to testify.

Sincerely,

Ross Capon

Ross Capon
Executive Director

cc: The Honorable Michael G. Oxley

CONEG

COALITION OF NORTHEASTERN GOVERNORS

Governor Bruce Sundlun, Chairman
Governor Stephen Merrill, Vice-Chairman
Anne D. Stubbs, Executive Director

April 11, 1994

The Honorable Al Swift
Chairman
Transportation and Hazardous Materials Subcommittee
Energy and Commerce Committee
U.S. House of Representatives
324 Ford House Office Building (Annex 2)
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the Coalition of Northeastern Governors (CONEG), we would like to submit for the record the enclosed testimony on the reauthorization of the National Passenger Rail Corporation and the Northeast Corridor Improvement Program. Both programs, which represent a longstanding partnership between the federal government and the states, are essential to the economic and social well-being of our region. We stand ready to continue to be strong partners in these critical areas.

We also extend our thanks and respect for your personal leadership. Your understanding and vision of the role of passenger rail has helped shape a richer transportation future for our Nation.

Sincerely,

Mario M. Cuomo

Mario Cuomo
Lead Governor
CONEG High Speed Rail Task Force

Bruce Sundlun

Bruce Sundlun
Chairman
CONEG

Enclosure

cc: The Honorable Michael G. Oxley
CONEG Congressional Delegation

Hall of the States • 400 North Capitol Street • Suite 382 • Washington, D.C. 20001 • (202) 624-8450 • Fax (202) 624-8463

TESTIMONY OF THE

COALITION OF NORTHEASTERN GOVERNORS

The Coalition of Northeastern Governors (CONEG) is pleased to share with the members of the Subcommittee our views on reauthorization of federal financial assistance for the National Railroad Passenger Corporation, better known as Amtrak, and for the Northeast Corridor Improvement Project. CONEG is an organization through which the region's nine Northeastern Governors have examined shared regional problems, explored new policies, and undertaken cooperative actions for the past eighteen years.

Transportation in all its facets has been and remains a key issue for the Northeastern states' economic vitality and their environmental well-being. In both our densely populated transportation corridors and more rural areas, an integrated transportation network provides essential mobility for people, goods, and ideas.

The region's transportation system is extensive and operating close to capacity in many areas. Age, heavy use, and severe weather conditions have taken a toll on our highways, bridges, transit systems and aviation facilities. Growing demand and the increased safety risks associated with congestion require cooperative efforts by our states to develop and apply advanced transportation technologies to achieve such objectives as increased capacity, demand management, and more efficient use of existing systems. The Clean Air Act Amendments of 1990, which will require most urban areas of the

Northeast to take major steps to meet attainment standards, only serve to emphasize the importance of implementing programs, such as high speed passenger rail service, which can divert passengers from congested airports and highways.

The Coalition of Northeastern Governors applauds your support for expanding enhanced high speed rail service. We believe that a consistent, incremental and coordinated program, with strong federal and state support, is a responsible and effective strategy to realize the goal of high speed rail systems in the U.S.

This approach to high speed rail has been successful in the Northeast because it is based on a strong sense of reality of the situation: limited resources, better use of existing facilities, and an understanding of the importance of all transportation modes to serving the region's mobility needs efficiently. For example, the goal of diverting passengers between business hubs in the Northeast from air service to high speed rail will allow existing airports and airlines serving the region to operate more efficiently by opening up limited capacity for longer, more cost effective and fuel efficient flights.

The National Railroad Passenger Corporation (Amtrak): An Important Partner

Amtrak is at a critical junction in its corporate life. Starved for capital, it must reinvent itself in a number of significant areas. Among the first challenges that it faces is the establishment of a stable capital formation process. In order to conduct the complex planning that will be required, adequate and stable funding must be provided. This is very important to the states, many of whom have initiated state-funded efforts predicated on a healthy Amtrak. The CONEG Governors have adopted a policy calling for predictable long term federal funding for Amtrak. We note with interest that Amtrak's 1994 Legislative Report recommends depositing the $9.5 million per year that is currently paid in federal fund taxes and other federal fees in a separate dedicated account. We feel this is an important first step. We would like to work with the Congress, Amtrak and the Administration to explore ways to develop a long-term capital formation strategy.

A second challenge for Amtrak is the shared nature of the environment in which the railroad operates outside the Northeast Corridor. Freight railroads concern for indemnification from "any and all" liability pose a real concern for states. Some of our states have constitutional or legal barriers to indemnifying private corporations. Even in states where legal restrictions do not apply, we do not believe the insurance industry would provide to states insurance for damages related to a service over which the state has no ownership or operating control. We suggest that the liability issues could be addressed by a federal program similar to the flood insurance program, with caps on punitive awards.

A key to the provision of improved passenger rail service is the availability of equipment. We are concerned with the view expressed by Secretary of Transportation Peña that adequate private capital will be available to purchase needed equipment. The General Accounting Office in their report, <u>High-Speed Ground Transportation:</u>

Issues Affecting Development in the United States, quote financial analysts to indicate that the potential for return on investment for high-speed equipment would make private investment speculative. Amtrak's capital program does not now -- nor can we expect it to provide -- sufficient non-electric equipment for use in all the corridors serving our states. We have a strong concern that unless the legislation provides authorization for adequate funding for equipment, states may end up investing in track, signals, and other infrastructure, but have no equipment to operate over it.

We appreciate Amtrak's efforts to acquire additional electric high speed rail equipment for use in the NEC. We especially appreciate Amtrak's efforts to link these efforts to state economic development. The railroad supply industry is important to our regional economy.

As stated above, CONEG would welcome the opportunity to participate in a full and frank discussion of a long-term financial strategy for the region's intercity passenger travel needs. With the completion of the Federal Railroad Administration's Master Plan, we have a component of a business plan on which to base a finance strategy. In order to be successful such an effort would require participation by both interested private parties from foreign and domestic financial institutions as well as concerned individuals from around the country.

A Unique Transportation Asset: The Northeast Corridor

The Northeast states attract millions of business and pleasure travelers annually. With the busiest air corridor in the United States and one of the most heavily used highway systems in the world, the region also has a unique transportation asset - a rail corridor (the Northeast Corridor) stretching 456 miles from the Washington D.C. metropolitan area north to Boston, Massachusetts. Feeding off this spine is a network of major rail routes radiating to Harrisburg/Pittsburgh, Pennsylvania; Springfield, Massachusetts (the inland route); Atlantic City, New Jersey; Albany, New York; and potentially Portland, Maine. The Northeast Corridor (NEC) serves approximately 40 million people in the most densely populated region in the nation. As a result, the Corridor is a unique mixed-use corridor serving both major commuter rail authorities as well as intercity rail passenger needs.

While much attention is focused on high speed rail, the CONEG Governors recognize that the region's rail infrastructure is an integrated rail system. Routes throughout this system have an ongoing need for right-of-way improvements and additional or new appropriate equipment options. Actions which address the needs of the Corridor's feeder lines contribute to ridership and revenues throughout the entire Corridor. Improved levels of service and increased revenues throughout the regional system benefit both the traveler in the Corridor network as well as Amtrak's goals of operating self-sufficiency.

Seeking to improve this unique asset, the Northeast Governors have formed a strong intergovernmental partnership of the Northeast states, Amtrak, the Federal Railroad Administration (FRA), commuter service providers, and the Federal Transit Administration (FTA). Working together, this federal-state partnership has helped identify and coordinate needed improvements to service, equipment and fixed facilities in existing rail corridors.

The federal-state partnership, combined with ongoing institutional coordination among all users, is a critical ingredient to the success and cost effectiveness of an incremental approach to achieve high speed rail. Cooperation and coordination can result in a number of benefits, including acceleration of project activity and job creation. In addition, an incremental, coordinated approach to major capital investment programs recognizes the budgetary constraints which face government and operating authorities at all levels.

As states pursue their individual interests in specific projects, the CONEG members have a common concern for maintaining strong federal support for the cooperative state-federal partnership in high speed ground transportation, including the critical issue of adequate funding. The CONEG Governors welcome recent federal funding which has enabled the Northeast states to move forward with planned passenger rail system improvements. Prompt and complete fulfillment of the Northeast Corridor Improvement Program remains an essential task. In addition, maintaining and improving the full range of regional rail needs such as advanced dual-powered locomotives is an ongoing effort.

We look forward to working with the Congress and Administration to achieve the shared goal of improved high speed rail service in this country. Thank you for your time and consideration.

STATE OF NEW YORK
DEPARTMENT OF TRANSPORTATION
ALBANY, N.Y. 12232

JOHN C EGAN
COMMISSIONER

MARIO M CUOMO
GOVERNOR

April 7, 1994

Honorable Al Swift, Chairman
Subcommittee on Transportation
and Hazardous Materials
United States House of
Representatives
Washington, DC 20515

Dear Chairman Swift:

The New York State Department of Transportation is pleased to submit the attached testimony to the Subcommittee on Transportation and Hazardous Materials for consideration as part of the record of hearings on the reauthorization of Amtrak legislation. As a state that has long supported intercity rail passenger service and has invested heavily in capital improvements to support high-speed rail service in the Empire Corridor, we would like to present our views on issues related to Amtrak.

We believe it is necessary to significantly increase capital investment in equipment and infrastructure in order for Amtrak to provide safe, high-quality rail service to our intercity travelers. We fully support increased federal capital funding for Amtrak, especially as it relates to improved equipment for New York's heavily utilized Empire Corridor. This corridor will soon test the first 125 mph passenger service outside the Northeast Corridor, and expansion of high speed service beyond this demonstration will require suitable new passenger equipment.

In addition to improving Amtrak's equipment, it is time to modernize the most heavily used Amtrak station on the national system, Penn Station in New York City. I hope that this Subcommittee will recognize the importance of the Farley Post Office/Penn Station project to Amtrak and support federal assistance for this critical redevelopment effort, as well as related proposals to improve capacity and fire, life and safety related improvements in the greater New York-New Jersey-Connecticut metropolitan region.

Honorable Al Swift
Page two
April 7, 1994

Another issue of importance to New York State is the continuation of the current Section 403(b) program and its traditional cost-sharing arrangements. States that have long supported intercity rail passenger service should be allowed to continue the cost-sharing arrangements that have been developed over time to support this service. Financing additional Section 403(b) services should not come at the expense of reduced federal aid for existing state-supported services.

I would like to clarify an issue related to Amtrak's oral testimony before your committee, which seemed to imply that the states that met with Amtrak in March to discuss the Section 403 (b) program agreed that long-term avoidable cost should be used in subsidy calculations. The states, in fact, agreed that if there is to be consistency in the program, it must be on the basis of short-term avoidable costs.

Thank you for providing us with an opportunity to provide our views on Amtrak reauthorization.

Sincerely,

John C. Egan

Attachment

cc: Congressman Thomas Manton
Congressman Bill Paxon
Congressman Ed Towns

TESTIMONY OF THE NEW YORK STATE DEPARTMENT OF TRANSPORTATION ON AMTRAK REAUTHORIZATION

SUBMITTED TO THE TRANSPORTATION AND HAZARDOUS MATERIALS SUBCOMMITTEE HOUSE ENERGY AND COMMERCE COMMITTEE

The New York State Department of Transportation submits the following testimony to Chairman Al Swift and the subcommittee on Transportation and Hazardous Materials. We request that this statement be included as part of the record of hearings on reauthorization of Amtrak legislation conducted on March 23, 1994.

BACKGROUND

New York State has long been a strong supporter of intercity passenger rail service, and of the national programs developed to provide such services through the creation of Amtrak and the Northeast Corridor Improvement Program. Every year, over 40 percent of Amtrak's passengers begin or end their trip in New York State. Although comprising only 3 percent of the route miles of Amtrak's system, the Empire Corridor alone carries 1.4 million riders per year, over 6 percent of Amtrak's system ridership. It is one of the most profitable Amtrak routes outside the Northeast Corridor. The busiest train station in the nation, Penn Station in New York City, is the origin or destination of one out of every three of Amtrak's passengers.

Since 1975, New York State has invested over $150 million in state funds to improve intercity rail passenger services and provide high speed (110 mph) service from Albany to New York City on the Empire Corridor, the only high speed service outside the Northeast Corridor. The state is committed to further improvements in intercity rail passenger service as demonstrated by Governor Cuomo's announcement last fall of New York State's High Speed Ground Transportation Program, including the upgrading of Empire Corridor service between Niagara Falls and New York City to 125 mph. This effort will begin with the demonstration test of 125 mph operations between Schenectady and Hudson later in 1994 made possible through a recently announced FRA technology demonstration grant.

ISSUES FOR AMTRAK REAUTHORIZATION LEGISLATION

Adequate Federal Funding for Equipment

The need to replace and rehabilitate intercity rail passenger equipment has been well documented by Amtrak. From New York's perspective, the condition of existing equipment has become a problem of major proportion on Empire Corridor service. The turboliner equipment used on this corridor to allow operation at high speed was purchased in 1976. Past shortfalls in Amtrak's capital and operating funding have resulted in deferred maintenance and rehabilitation of this heavily utilized equipment. This has led to ever increasing equipment problems affecting on-time performance and service quality. While less utilized routes have benefited from new equipment, the heavily travelled Empire Corridor trains have deteriorated with no new equipment of comparable speed or quality in sight.

The nine trains per day travelling in the Empire Corridor carry nearly 4,000 riders daily, eliminating these travelers from our congested highways and airports. These riders deserve the same quality equipment and service provided to Northeast Corridor travelers. Further, implementation of high speed service will require new equipment suitable to operate in this corridor. I urge the Subcommittee to provide the necessary authorizations to rehabilitate the existing turboliner fleet and to phase-in new high speed equipment over the next several years suitable for the high speed service planned for the Empire Corridor.

403(b) Service

New York State was one of the first states to share, with Amtrak, in the cost of providing additional rail service under Section 403(b) of the Rail Passenger Service Act. Since 1978, service from New York City to Montreal has been provided through this cost sharing arrangement. We are aware of efforts being proposed to change this successful arrangement, increasing the amounts that states that have long supported this service must pay. The rationale for this proposal is apparently to free up Amtrak operating funds for states now interested in beginning 403(b) services.

We have had an opportunity to review the proposed change in the Section 403(b) program contained in the Administration's Amtrak reauthorization bill (HR 4111), and are opposed to the use on long-term avoidable cost as the basis for subsidy calculations. The use of long term avoidable cost would allow Amtrak to include "soft costs", such as depreciation and fully allocated overhead costs, in the 403(b) cost calculations with states. Including such costs would be of benefit to Amtrak in its quest to increase its benefit to cost ratio, but would be inappropriate charges to states for the cost providing 403(b) services. While we can appreciate the Administrations interest in using the "real" cost of operation in the 403(b) calculations, we believe that because of the past disinvestment in Amtrak's capital over the past decade, short-term avoidable costs are a much more fair and accurate reflection of the actual costs. Furthermore, we believe that it is inappropriate to change the formulation of a successful subsidy program simply to satisfy the interests of states that have never participated in this program but are now interested in providing Amtrak services.

New York supports the addition of new state sponsored rail services through increased federal funding, not at the expense of states that have long supported these important services. The existing cost-sharing arrangements between states and Amtrak for current 403(b) services should be maintained.

State Role in Amtrak Planning

Too often, Amtrak's decisions have been based on increasing its revenue to cost ratio, and not on quality of service to its customers. States like New York, that have long supported Amtrak service and have invested considerable state funding to improve rail passenger service, are often not consulted in decisions affecting Amtrak service in the state. This includes decisions on issues such as equipment repair and replacement, schedules and fares. An improved, cooperative decision making process needs to be developed and utilized involving states, as partners with Amtrak, interested in providing the best possible service to its customers. Any dedicated funding proposal for Amtrak, particularly from existing transportation funding sources such as motor fuels taxes, must include greater state involvement in rail passenger services provided in a state.

Dedicated Funding for Amtrak

Several proposals have surfaced that would provide a dedicated funding source for Amtrak. A dedicated funding source would have the obvious benefit of greatly improving Amtrak's financial stability and allow Amtrak to develop a long term capital and operating strategy. This would result in the timely replacement of equipment and improvement in other capital assets, insure adequate maintenance, and improve overall service to the public.

New York supports a dedicated funding source for Amtrak under several conditions. For states like New York to support a dedicated fund for Amtrak, there must be an increased role for these states in Amtrak's service decisions affecting the state. A cooperative process in rail passenger service decision-making must be developed and applied. There must also be some state control over the use of a portion of these dedicated funds, possibly through provision of a share of these dedicated funds directly to states. This would allow states to have a greater role in making improvements that affect their rail passengers, complementing system level improvements implemented by Amtrak.

Farley Post Office/Penn Station Project

The existing Penn Station in New York City is the most heavily utilized intercity rail station in the nation, with one of every three riders using this station for part of their trip. This station also accommodates a great number of daily rail commuters on

Long Island Rail Road and New Jersey Transit trains. This station's underground configuration restricts the ability to relieve current overcrowding within current limitations.

The decision by the Post Office to abandon much of the Farley building, which is adjacent to Penn Station, presents a unique opportunity to move the intercity travelers served by Amtrak to this facility and allow for expansion of existing commuter rail service at the existing Penn Station. This move will provide Amtrak riders with modernized ticket and waiting space, easier train access and egress, and better pedestrian access to surface streets.

As the most utilized Amtrak facility and centerpiece of Northeast Corridor service, the Penn Station redevelopment project will result in improved service to a significant number of Amtrak users. We request that the Subcommittee support this important project and include an authorization for federal funding to cover a major portion of the total project cost in the Amtrak reauthorization bill.

RECOMMENDATIONS

In developing Amtrak reauthorization legislation, the New York State Department of Transportation strongly recommends that the subcommittee include the following:

- Provide sufficient authorizations to allow Amtrak to rehabilitate and replace its rail passenger equipment as needed, including the immediate rehabilitation of the turboliner equipment and the eventual replacement of Empire Corridor trainsets with dual-powered equipment suitable for high-speed operation;

- Continue the existing, successful 403(b) service arrangements with states, but allow Amtrak to separately request 403(b) funding in its annual budget apart from its regular operating and maintenance budget;

- Develop a new cooperative decision-making process between Amtrak and states involved in rail passenger services;

- Provide a portion of any dedicated funding for Amtrak service directly to those states involved in rail passenger service to allow those states to make necessary improvements.

- Support the Farley Post Office/Penn Station redevelopment project and authorize sufficient federal funds to finance a major portion of the project cost;

- Support critical capacity and fire, life and safety improvements in the New York-New Jersey-Connecticut metropolitan region, which are key to growth in the Northeast Corridor.

STATEMENT OF
RONALD P. MCLAUGHLIN, CHAIRMAN
RAILWAY LABOR EXECUTIVES' ASSOCIATION
BEFORE THE
HOUSE SUBCOMMITTEE ON TRANSPORTATION
AND HAZARDOUS MATERIALS
AMTRAK REAUTHORIZATION
MARCH 23, 1994

The Railway Labor Executives' Association (RLEA) is pleased to have this opportunity to present the views of rail labor today on the subject of federal assistance for the National Railroad Passenger Corporation (Amtrak). The constituent unions represented by RLEA are as follows:

American Train Dispatchers Association
Brotherhood of Maintenance of Way Employes
Brotherhood of Railroad Signalmen
Brotherhood of Locomotive Engineers
Hotel Employees & Restaurant Employees International Union
International Brotherhood of Boilermakers and Blacksmiths
International Brotherhood of Electrical Workers
International Brotherhood of Firemen and Oilers
International Longshoremen's Association
Sheet Metal Workers' International Association
United Transportation Union

Amtrak employs about 25,000 workers, of whom 90% are contract employees, dedicated professionals who love railroading. We welcome Amtrak's new President, Thomas M. Downs, and we are working hard with him to make Amtrak a world-class railroad.

Let me begin by applauding President Clinton's proposed budget for Amtrak. It is a welcome change -- the first Administration budget in over a decade that proposes realistic levels of assistance for Amtrak. We, in rail labor, are very pleased that President Clinton has expressed his commitment to a strong national rail system in his proposed budget, and that this year we will not be debating with the Administration over whether to fund national rail service, but over how much to fund it.

That having been said, we urge the Subcommittee to allocate funding levels for Amtrak that are marginally higher than the President has proposed. We believe that the Administration's intentions are well meaning and we are hopeful that they will consider a modification to make sure services and jobs are not reduced. The actual ridership and revenues for Amtrak have fallen well below projections, due in part to a series of unfortunate and unforeseeable events -- ice storms around the country caused operational problems this winter, power problems caused by bad weather led power stations to cut supplies to Amtrak, forcing cutbacks in train service. On top of this, there were several serious derailments last year which were not the fault of Amtrak or its employees. Tragically, these derailments resulted in deaths or injury of both Amtrak employees and Amtrak passengers. The cumulative result of the bad weather and accidents was a marked reduction in ridership completely unforeseeable when ridership and revenue projections were developed last year.

We have seen that uncorrected revenue shortfalls result in deteriorated service. For example, when revenues fell below projections in FY'91, Amtrak was forced to impose across-the-board cuts in services and in workforce. A continued soft economy -- particularly in the travel sector -- resulted in cuts last year in train services, on-board and station staffing, and resulted in deferred equipment maintenance (which ended up in furloughs for maintenance employees). These short term cost savings erode service, which erodes customer satisfaction, and in the long term hurts business.

We are today urging that the Subcommittee support authorizing funds for Amtrak at the levels it has required: $430-million for operating costs, $337 million for capital, and $8 million for 403(b) services (which are discussed below). We also urge the Subcommittee to fund the Northeast Corridor Improvement Project at $270 million, to help implement high speed rail service between Boston and Washington, DC.

The North Station--South Station Central Artery Rail Link will dramatically enhance the usefulness of federal investments -- past, ongoing and planned -- in Amtrak's Northeast Corridor and in New England's regional rail services. (The latter include existing and planned commuter rail lines in Eastern Massachusetts and Rhode Island as well as service to Dover, New Hampshire and Portland, Maine, projected to start this Fall). The rail link will enable passengers from Washington, New York and southern New England to enjoy a single-seat ride to points north of Boston. Conversely, the rail link will give services from north of Boston, which now terminate at North Station, much improved downtown distribution within Boston.

Although we realize that this Subcommittee is predominately concerned with funding levels, we wanted to bring to your attention other items of interest with regard to Amtrak this year.

We were particularly pleased with President Clinton's proposed increase for capital funding. The Administration's $252 million --- $85 million more than Amtrak received in FY'94 -- is based on the realization that without strong capital funding, Amtrak simply can not survive. For many years, Amtrak has been short-changing its capital improvement. This is because while Congress and this Subcommittee have done their best to support Amtrak, the funding the railroad has received has simply not been enough to maintain operations <u>and</u> invest in capital, so Amtrak's long term interests have been deferred in order to maintain day to day operations. The President's proposal recognizes that strong investment in capital now will result in improved service, expanded passenger base, and in the long term, in reduced operational costs since new rolling stock and facilities are cheaper to maintain than old ones.

Amtrak's need for capital brings up another subject we would like to address in this testimony: Amtrak needs to have a dedicated source of federal capital funds. We have supported setting aside a penny per gallon of the federal fuel tax for Amtrak. We continue to support this idea. Amtrak this year is proposing another, more moderate, approach for a secure source of capital funding as well. Amtrak is by law required to pay the federal government certain funds -- for example, for Federal Railroad Administration user fees, or for the fuel tax. The federal government knows it will be receiving a certain amount each year from the railroad. It makes sense for the government to establish a capital account where there is some degree of certainty that funds will be available for Amtrak to plan more than one year at a time.

A dedicated source of funds would greatly simplify Amtrak's ability to do long term capital planning. It would also make it easier to leverage private funds for capital acquisition. Rail labor strongly endorses establishing a capital fund for Amtrak, and we will be urging Congress to authorize such a fund this year.

We also feel strongly that there should be a statutory clarification requiring all entities that perform railroad work be treated as a railroad. There are some who are escaping contribution into the Railroad Unemployment and Railroad Retirement systems. Currently, some of those entities that contract to operate regional commuter rail service do not pay into these funds, because they classify themselves as non-railroads or intrastate railroads, and thus, are not subject to all laws covering railroads, as is Amtrak, when they run a commuter operation under contract. There are two consequences to this separate treatment: (1) workers who operate commuter trains for private commuter services do not receive the unemployment and retirement protections Congress intended to ensure railroad workers receive; (2) Amtrak is placed at a distinct competitive disadvantage since private operations can undercut Amtrak on labor costs. This distinction ultimately hurts workers, denying them important employee benefits Congress intended railroad workers to receive. These workers are denied protection not because the work they do is any different, but simply because it is in the best interest of their employers to be classified differently. This disparity in treatment of private commuter operations and Amtrak is something the rail labor unions will be working to urge Congress to rectify this year.

Finally, one other change we will be urging Congress to make is the treatment of the 403(b) systems. Section 403(b) of the Rail Passenger Service Act authorizes Amtrak to contract with states for rail service, if the state agrees to subsidize the costs of running these services. 403(b) has provided Amtrak its greatest opportunity to expand service around the country. Currently, eighteen states participate in the 403(b) programs or have taken steps toward initiating agreements with Amtrak to do so. In addition, over 50 trains each day operate because of 403(b) agreements. We support Amtrak in finding new ways to fund 403(b) operations.

Rail labor will be working with Congress to see some of these changes enacted in Amtrak's authorization this year. We will be working with Amtrak, Congress, and with the Administration for sustained investment in passenger rail service, and we appreciate the opportunity to address this Subcommittee.

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